

# WCAS Management Corporation

## Part 2A of Form ADV

### The Brochure

320 Park Avenue  
Suite 2500  
New York, NY 10022-6815  
(212) 893-9500

[www.welshcarson.com](http://www.welshcarson.com)

September 2014

This brochure provides information about the qualifications and business practices of WCAS Management Corporation (“WCAS” or the “Firm”). If you have any questions about the contents of this brochure, please contact Jonathan Rather at (212) 893-9500. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

Additional information about WCAS is also available on the SEC’s website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). An investment adviser’s registration with the SEC does not imply a certain level of skill or training.

## **Material Changes**

There have been no material changes to WCAS's business since the annual update filed on April 1, 2013.

## Table of Contents

<a href="#">Advisory Business .....</a>	<a href="#">3</a>
<a href="#">Fees and Compensation .....</a>	<a href="#">4</a>
<a href="#">Performance Based Fees and Side-by-Side Management .....</a>	<a href="#">5</a>
<a href="#">Types of Clients .....</a>	<a href="#">5</a>
<a href="#">Methods of Analysis, Investment Strategies and Risk of Loss.....</a>	<a href="#">6</a>
<a href="#">Disciplinary Information.....</a>	<a href="#">8</a>
<a href="#">Other Financial Industry Activities and Affiliations .....</a>	<a href="#">8</a>
<a href="#">Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....</a>	<a href="#">8</a>
<a href="#">Brokerage Practices .....</a>	<a href="#">9</a>
<a href="#">Review of Accounts.....</a>	<a href="#">10</a>
<a href="#">Client Referrals and Other Compensation .....</a>	<a href="#">10</a>
<a href="#">Custody .....</a>	<a href="#">10</a>
<a href="#">Investment Discretion .....</a>	<a href="#">11</a>
<a href="#">Voting Client Securities.....</a>	<a href="#">11</a>
<a href="#">Financial Information.....</a>	<a href="#">11</a>

## Advisory Business

WCAS is a corporation formed under the laws of the state of Delaware. Jonathan Rather is the only shareholder who owns more than 25% of WCAS. WCAS (or its predecessors) has been in business since 1979.

WCAS serves as an investment manager to related private investment partnerships or limited liability companies organized to make private equity investments in equity securities or subordinated debt of established businesses (each, a “Partnership”). The Partnerships invest in growth-oriented companies within the healthcare and information/business services industries. WCAS’s investment strategy is to (i) buy growth businesses in our two core industries, (ii) partner with outstanding management teams and (iii) build value through a combination of operational improvements, internal growth initiatives and strategic acquisitions. Investment management services consist of investigating, identifying, and evaluating investment opportunities, structuring, negotiating and making investments on behalf of the Partnerships, managing and monitoring the performance of investments, and disposing of investments..

The Firm’s three equity Partnerships, Welsh, Carson, Anderson & Stowe IX, L.P., through Welsh, Carson, Anderson & Stowe XI, L.P. (each, an “Equity Partnership”), and employee and consultant co-investment vehicle WCAS XI Co-Investors LLC (“Co-Investors”) maintain an aggregate capital of approximately \$8.4 billion, and the subordinated debt partnership, WCAS Capital Partners IV, L.P. (the “Subordinated Debt Partnership”), maintains an aggregate capital of approximately \$890 million as of December 2013.

In providing services to each Partnership, WCAS formulates the investment objective for each Partnership, directs and manages the investment and reinvestment of each Partnership’s assets, and provides periodic reports to investors in each Partnership. Investment advice is provided

directly to each Partnership and not individually to the limited partners of the Partnerships. WCAS manages the assets of each Partnership in accordance with the terms of the governing documents applicable to each Partnership.

## **Fees and Compensation**

For each Equity Partnership, WCAS or an affiliated company receives a management fee for providing administrative services. Management fees are generally payable quarterly in advance, and these are payable for any period that is less than a full quarterly period. Each Equity Partnership is generally charged an annual management fee of 1.5% during the investment period, and 0.75% to 1.0% after the investment period is over. The general partner of each Equity Partnership receives a carried interest allocation of 20% of profits on distributions derived from the disposition of investments or securities after limited partners receive a preferred return of 7% per annum. Co-Investors pays no management fee nor allocates any carried interest to its managing member.

For the Subordinated Debt Partnership, WCAS or an affiliated company receives a management fee for providing administrative services. Management fees are generally payable quarterly in advance, and these are payable for any period that is less than a full quarterly period. The Subordinated Debt Partnership is charged an annual management fee of 1.5% of the net capital drawn down by the Subordinated Debt Partnership. The general partner of the Subordinated Debt Partnership receives a carried interest allocation of 20% of the net capital gains of the Partnership.

Neither WCAS nor an affiliated company receives a management fee or carried interest allocation from Co-Investors.

Pursuant to the Agreement of Limited Partnership of each Partnership, limited partners are not permitted to make voluntary withdrawals. In the event of a non-voluntary withdrawal, WCAS will refund all pre-paid fees that have not been earned.

Portfolio companies may pay a fee to WCAS for services provided by our Resources Group. The Resources Group provides a wide range of pre- and post-acquisition and consulting services to companies in which the Partnerships invest, including performance improvement, corporate advisory and other related services. In some circumstances, the fees reduce the amount of management fees paid by the applicable Partnership. WCAS may receive certain other fees in connection with the services provided to the Partnerships or their portfolio companies (collectively, "Other Fees"). A percentage of the Other Fees may be applied to reduce the quarterly management fee pursuant to the relevant Partnership's Agreement of Limited Partnership. WCAS may receive certain other fees in connection with non-investment advisory services provided to third parties, such as business development, support and consulting services provided to group purchasing organizations such as CoreTrust. Such fees will not be applied to reduce the quarterly management fee pursuant to the Partnerships' Agreement of Limited Partnership as a creditable fee if services were not directly related to a WCAS portfolio company. Portfolio companies may reimburse WCAS for approved expenses (including, without limitation, travel expenses, which may include expenses for chartered or first-class

travel) incurred by WCAS in connection with its performance of services for such portfolio company, and such reimbursements are not applied to reduce the quarterly management fee.

Detailed information regarding the fees charged to and carried interest allocations of each Partnership is provided in such Partnership's Agreement of Limited Partnership and related documents. In addition to management fees and carried interest allocations, limited partners of each Partnership will bear indirectly the fees and expenses charged to such Partnership. Those fees and expenses will vary, but typically will include fees associated with potential investments that are not consummated (i.e. "broken deal" fees), fees associated with making or selling portfolio investments, legal and accounting fees, taxes, commissions and brokerage fees, registration expenses, fees to government regulatory agencies, the cost of directors' and officers' liability insurance and other expenses such as litigation or broker-dealer expenses (each an "Ongoing Expense" and, collectively, "Ongoing Expenses"). Pursuant to each Partnership's Agreement of Limited Partnership, principals and employees of WCAS that co-invest with a Partnership with respect to portfolio company investments bear only their allocable portion of fees and expenses associated with the acquisition and/or disposition of each such portfolio company, and do not bear any Ongoing Expenses of the Partnerships, including without limitation any broken deal fees and any Ongoing Expenses associated with a Partnership's continuing interest in a particular portfolio company. Investors should review all fees and expenses charged by WCAS, its affiliates, and others to fully understand the total amount of fees and expenses to be paid by the Partnerships and, indirectly, their limited partners.

## **Performance Based Fees and Side-by-Side Management**

Each Equity and Subordinated Debt Partnership allocates to its general partner a carried interest of up to 20%. The carried interest may create an incentive for the general partner of the Partnership to make more speculative investments and make different decisions regarding the timing and manner of the realization of such investments than would be made if such carried interest were not allocated to the general partner. WCAS addresses these conflicts of interest through careful review of investment opportunities by its investment professionals, full disclosure of investments to limited partners, as well as investments by its General Partners, employees and consultants alongside the Partnerships, in an effort to properly align the interests of such persons with the Partnerships.

## **Types of Clients**

WCAS provides advisory services to three Equity Partnerships, Co-Investors and the Subordinated Debt Partnership. Each Partnership operates as a pooled investment vehicle. The minimum capital commitment for a limited partner of a Partnership is outlined in such Partnership's Agreement of Limited Partnership and other governing documents; however, the general partner of each Partnership maintains discretion to accept less than the minimum investment. In addition, a Partnership may enter into separate agreements, commonly referred to as "side letters", with certain investors. However, no Partnership will enter into a "side letter" with an investor that alters the economic or liquidity terms under which the investor will invest in a Partnership.

Investors will be required to make certain representations when investing in a Partnership, including but not limited to that (i) they are acquiring an interest for their own account, (ii) they received or had access to all information they deem relevant to evaluate the merits and risks of the prospective investment, and (iii) they have the ability to bear the economic risk of an investment in the Partnership. Each investor will be furnished with a copy of the relevant Agreement of Limited Partnership and related agreements.

## **Methods of Analysis, Investment Strategies and Risk of Loss**

WCAS invests primarily in the United States within its two target industries: information/business services and healthcare. Although the primary investment focus has been on companies located within the United States, WCAS may pursue attractive foreign investments on an opportunistic basis.

WCAS seeks to invest in market-leading information/business services companies that deliver a tangible value proposition to their clients, enjoy attractive organic and acquisition-related growth opportunities, generate recurring revenue with high operating leverage, possess a strong free cash flow profile, and occupy defensible market positions. These companies offer clients value in the form of expanded market opportunity, increased revenues, faster process or cycle times, reduced costs, increased operating leverage, better information exchange and improved quality of products and services.

WCAS also seeks to invest in market-leading healthcare companies that reduce healthcare costs, increase quality of care or service, enable payors and/or providers to improve efficiencies, and demonstrate proven business models with strong unit-level economics. WCAS has found over time that by targeting highly fragmented, complex or inefficient sectors with a combination of capital, strong management and strategic vision, it can create operating models and businesses that deliver substantial value to patients, providers, payors and shareholders.

WCAS's investment strategy is deal size agnostic, and activities include (i) conceiving and creating new market opportunities, (ii) providing capital to meet the needs of growing businesses, and (iii) investing in growth oriented later-stage buyouts and special situations. For both small and large investments, WCAS focuses on producing capital gains and attractive multiples of capital, in addition to strong internal rates of return. WCAS leverages its industry specialization, proprietary deal flow and operational focus, as well as the continuity and experience of its General Partners, to differentiate itself in the competitive private equity market. WCAS investment strategy is comprised of the following key components:

- Industry Specialization in Attractive Sectors
- Consistent and Disciplined Investment Approach
- Portfolio Construction
- Proprietary Deal Flow
- Partnering with Known Management Teams
- Investments Across Various Deal Sizes and Structures
- Focus on Operational Growth
- Control Investor Strategy

- Capital Markets Expertise

Acquiring an interest in one of the Partnerships involves a number of risks. An investment in a Partnership may be deemed a speculative investment and is not intended as a complete investment program. It is designed for sophisticated investors who fully understand and are capable of bearing the risk of an investment in the Partnership. No guarantee or representation is made that the Partnership will achieve its investment objective or that limited partners will receive a return of their capital.

All investing involves a risk of loss and the investment strategy offered by WCAS could lose money over short or even long periods. The description contained below is a brief overview of some different investment risks related to WCAS's investment strategy:

**General Business and Management Risk.** Investments in portfolio companies subject the Partnerships to the general risks associated with the underlying businesses, including market conditions, changes in regulatory requirements, reliance on management at the company level, interest rate and currency fluctuations, general economic downturns, domestic and foreign political situations and other factors. With respect to management at the portfolio company level, many portfolio companies rely on the services of a limited number of key individuals, the loss of any one of whom could have a significant adverse effect on the portfolio company's performance. While in all cases WCAS will monitor portfolio company management, the management of each portfolio company will have day-to-day responsibility for the operations of such portfolio company.

**Lack of Diversification.** WCAS expects that each Partnership will have a portfolio that is nondiversified. Each Partnership will likely make investments in information/business services and healthcare.

**Liquidity Issues.** A Partnership will generally invest in instruments where there is no actively traded market. Moreover, many of a Partnership's investments may be held by relatively few other investors. Under adverse market or economic conditions or in the event of adverse changes in the financial condition of the issuer or of the asset, a Partnership may find it more difficult to sell such instruments when WCAS believes it advisable to do so or may be forced to sell them at prices lower than if the instruments were widely held. Thus, the range of disposal strategies available to a Partnership may be further limited. Finally, dispositions of investments may be subject to contractual and other limitations on transfer, or other restrictions that would interfere with subsequent sales of such investments or adversely affect the terms obtainable upon a disposition.

**Highly Competitive Market for Investment Opportunities.** The activity of identifying, completing and realizing attractive investments is highly competitive and involves a high degree of uncertainty. The Partnerships face competition from numerous competitors in all fields of activity. The Partnerships will be competing for investments with a variety of other investment vehicles, as well as individuals, financial institutions and other institutional investors. Additional funds with similar investment objectives may be formed in the future by other unrelated parties. There can be no assurance that the Partnerships will be able to locate and complete investments

which satisfy their respective investment objectives or that each Partnership will be able to invest fully its available capital.

**Valuation of Assets.** There is no actively traded market for most of the securities owned by the Partnerships. When estimating fair value, WCAS will apply a methodology based on its best judgment that is appropriate in light of the nature, facts and circumstance of the investments. Valuations are subject to multiple levels of review and approval, and ensuring that portfolio investments are fairly valued is an important focus of WCAS.

Prospective investors in a Partnership should review the Partnership's Agreement of Limited Partnership and related documents to understand the risks and potential conflicts of interest. However, the risks and potential conflicts of interests described in a Partnership's Agreement of Limited Partnership are not intended to serve as an exhaustive list or a comprehensive description of all risks and conflicts that may arise in connection with the management and operation of a Partnership.

## **Disciplinary Information**

WCAS and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to a client's evaluation of the company or its personnel.

## **Other Financial Industry Activities and Affiliations**

In certain limited circumstances, General Partners or employees of WCAS may serve as directors of companies that are not in the portfolio of any Partnership or otherwise affiliated with WCAS or serve as an adviser to another investment adviser, if such service does not present a material conflict of interest with WCAS. Currently, two General Partners of WCAS serve on the board of directors of companies that are unaffiliated with WCAS and one General Partner of WCAS serves as an adviser to the investment adviser that manages the endowment of a university.

## **Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

WCAS has adopted a Code of Ethics pursuant to Rule 204A-1 under the Investment Advisers Act of 1940 and which is predicated on the principle that WCAS owes a fiduciary duty to its clients. Accordingly, employees of WCAS must disclose or avoid activities, interests and relationships that run contrary (or appear to run contrary) to the best interest of clients. Therefore, WCAS endeavors to maintain current and accurate records of all personal securities accounts of its employees in an effort to monitor all such activity. Generally, employees may sell or otherwise dispose of securities that are also held by the Partnerships on a pro-rata basis within approved trading windows, provided that the Partnership has sold or distributed at least 25% of its original position and that the transaction has been approved by the Chief Compliance Officer or his designate. In addition, employees must seek pre-approval from the Chief Compliance Officer or his designate before purchasing or selling securities of information/business services and healthcare companies or purchasing and selling interests in limited offerings. WCAS does not allow its employees to receive allocations of initial public



offerings. WCAS's Code of Ethics is available for review and will be provided to any client upon request.

WCAS, its employees and/or a related entity will have an investment in each Partnership. For example, the general partner for each Partnership is 100% owned by the General Partners of WCAS and other professionals working for WCAS. In addition, WCAS and its General Partners will participate in each Partnership's investment program by agreeing to commit a certain percentage of such Partnership's total capital commitments or a certain amount as defined in such Partnership's governing documents. Therefore, WCAS, its employees and/or a related entity participate in transactions effected for each Partnership.

WCAS may from time to time offer certain limited partners, strategic investors or other private equity funds the opportunity to co-invest in particular investments alongside of the applicable Partnership. In each case where co-investors participate in an investment, such co-investors will bear their pro rata share of any expenses associated with such investment. In general, (i) no limited partner in a Partnership has a right to participate in any co-investment opportunity and is offered to co-invest at the sole discretion of WCAS, (ii) decisions regarding whether and to whom to offer co-investment opportunities are made in the sole discretion of WCAS, and (iii) strategic investors and other private equity funds may be offered co-investment opportunities, in the sole discretion of WCAS. Such co-investment vehicles typically do not pay advisory fees or allocate any carried interest to WCAS or entity affiliated with WCAS.

## **Brokerage Practices**

WCAS focuses on making investments in private securities, thus it does not ordinarily deal with any financial intermediary such as a broker-dealer and commissions are not ordinarily payable in connection with such investments. To the limited extent WCAS transacts in public securities, it intends to select brokers based upon the broker's ability to provide best execution for the Partnerships. WCAS is generally authorized to make the following determinations, subject to the Partnership's investment objectives and restrictions, without obtaining prior consent from the relevant Partnership or any of their investors: (i) which securities or other instruments to buy or sell; (ii) the total amount of securities or other instruments to buy or sell; (iii) the executing broker or dealer for any transaction; and (iv) the commission rates or commission equivalents charged for transactions.

In making its decisions regarding the allocation of brokerage transactions for Partnerships, WCAS will consider a variety of factors including but not limited to: (i) the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any); (ii) the operational efficiency with which transactions are effected (such as prompt and accurate confirmation and delivery), taking into account the size of order and difficulty of execution; (iii) the financial strength, integrity and stability of the broker-dealer or counter party; and (iv) the competitiveness of commission rates in comparison with other broker-dealers. Although WCAS generally seeks competitive commission rates and commission equivalents, it will not necessarily pay the lowest commission or equivalent. Transactions may involve specialized services on the part of a broker-dealer, which may justify higher commissions and equivalents than would be the case for more routine services.

WCAS does not participate in any soft dollar arrangements outside of receiving research available to other institutional investors. Research services received from brokers and dealers are supplemental to WCAS's own research effort. To the best of WCAS's knowledge, these services are generally made available to all institutional investors doing business with such broker-dealers. WCAS does not separately compensate such broker-dealers for the research and does not believe that it "pays-up" for such broker-dealers' services due to the difficulty associated with the broker-dealers not breaking out the costs for such services.

## **Review of Accounts**

WCAS focuses on investments in private equity. All investments are carefully reviewed and approved by WCAS's Investment Review Committee which is comprised of every General Partner of WCAS and chaired by one of the Co-Presidents. The progress of all portfolio companies is carefully monitored on a regular basis and is subject to the constant supervision and review by WCAS investment professionals.

WCAS provides quarterly and annual reports to each limited partner and conducts a quarterly conference call to which limited partners may dial-in. The quarterly report includes detailed Partnership financial statements as well as a comprehensive investment memorandum describing the major events and valuation changes that occurred during the quarter as well as an overview of general market conditions. The annual report includes much of the information contained in the quarterly reports as well as an in depth review of every portfolio company held by such Partnership. WCAS also provides audited financial statements annually and holds a semi-annual investor meeting.

## **Client Referrals and Other Compensation**

During a fundraising cycle for a Partnership, WCAS may compensate placement agents who introduce new investors that commit capital. The amount paid to placement agents ranges up to 1.50% of the capital raised, and all placement fees will be fully disclosed to investors referred by placement agents.

WCAS or its affiliates may receive Other Fees. A percentage of Other Fees received by WCAS or any of its affiliates may be applied to reduce the management fee otherwise payable, pursuant to the applicable Agreement of Limited Partnership. Also, a General Partner or other employee of WCAS who serves on the board of directors of a portfolio company may receive cash compensation, options and/or restricted stock in his capacity as a director. All compensation received by a General Partner of WCAS for service on a portfolio company's board of directors must be turned over to WCAS and is also applied to reduce the management fee payable by limited partners.

## **Custody**

All client assets are held in custody by unaffiliated broker/dealers or banks, however WCAS has access to client accounts since it or an affiliate serves as the general partner of each Partnership. Limited partners of the Partnerships have appointed an independent accountant registered with the Public Company Accounting Oversight Board ("PCAOB") to receive statements from the

custodian. WCAS has also appointed an independent accountant registered with the PCAOB to conduct a surprise securities count no less than annually at WCAS's qualified custodians. The Partnerships are subject to an annual audit and the audited financial statements are distributed to each limited partner (or member or owner). The audited financial statements will be prepared in accordance with generally accepted accounting principles and distributed within 90 days of a Partnership's fiscal year end.

## **Investment Discretion**

WCAS generally has discretionary authority to determine, without obtaining specific consent from the Partnership or its limited partners, the securities and amount to be bought or sold. Any limitations on authority are included in the Partnership's Agreement of Limited Partnership and other governing documents.

## **Voting Client Securities**

Most of the portfolio companies held by the Partnerships are private companies which typically do not issue proxies. However, in the event proxies have to be voted, WCAS has adopted proxy voting policies and procedures, and shall be responsible for voting proxies on behalf of the Partnerships. WCAS shall vote client proxies in a way that it believes will maximize shareholder value. In exercising its voting discretion, WCAS and its employees will avoid any direct or indirect conflict of interest raised by such voting decision. WCAS will provide adequate disclosure to the applicable Partnership's limited partner advisory committee if any substantive aspect or foreseeable result of the subject matter to be voted upon raises an actual or potential conflict of interest to WCAS or any of its affiliates. A number of WCAS's investment professionals serve as board members for the Partnerships' portfolio companies. In situations where WCAS votes the proxy for a company in which a member of WCAS serves on the board of directors, WCAS has determined that it does not inherently present a conflict of interest as the purpose for serving on the board is to maximize the return on a Partnership's investment and to ensure that such Partnership's interests are protected.

A record of all proxy votes cast on behalf of the Partnerships will be maintained and available for review. Limited partners should contact Jonathan Rather for a copy of the proxy voting policy or information with respect to a specific proxy vote.

## **Financial Information**

WCAS has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.