

**INVESTMENT ADVISER BROCHURE**

**WATER STREET HEALTHCARE MANAGEMENT, L.P.**

**Water Street Healthcare Management, L.P.  
333 West Wacker Drive  
Suite 2800  
Chicago, IL 60606  
<http://www.wshp.com>**

**January 11, 2012**

**This Investment Adviser Brochure (“Brochure”) provides information about the qualifications and business practices of Water Street Healthcare Management, L.P. (the “General Partner”). If you have any questions about the contents of this Brochure, please contact us at (312) 506-2900. 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 authority.**

The General Partner is an investment adviser registered with the SEC under the Investment Advisers Act of 1940, as amended (the “**Advisers Act**”). However, such registration does not imply a certain level of skill or training.

Additional information regarding the General Partner is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **TABLE OF CONTENTS**

	<b><u>Page</u></b>
<b>Advisory Business .....</b>	<b>2</b>
<b>Fees and Compensation .....</b>	<b>2</b>
<b>Performance-Based Fees and Side-By-Side Management .....</b>	<b>4</b>
<b>Types of Clients .....</b>	<b>4</b>
<b>Methods of Analysis, Investment Strategies and Risk of Loss.....</b>	<b>5</b>
<b>Disciplinary Information.....</b>	<b>10</b>
<b>Other Financial Industry Activities and Affiliations.....</b>	<b>10</b>
<b>Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....</b>	<b>11</b>
<b>Brokerage Practices .....</b>	<b>12</b>
<b>Review of Accounts .....</b>	<b>13</b>
<b>Client Referrals and Other Compensation.....</b>	<b>14</b>
<b>Custody .....</b>	<b>14</b>
<b>Investment Discretion .....</b>	<b>14</b>
<b>Voting Client Securities.....</b>	<b>14</b>
<b>Financial Information.....</b>	<b>15</b>

## ADVISORY BUSINESS

Water Street is a private investment management firm, including several registered investment advisory entities and other organizations affiliated with Water Street Healthcare Partners, LLC (collectively, “**Water Street**”), that manages approximately \$1.15 billion in private fund assets. Water Street commenced operations in May 2005.

The General Partner, a Delaware limited partnership and a registered investment adviser, provides investment advisory services to private investment funds. The General Partner commenced operations in May 2005.

The General Partner serves as the general partner of Water Street Healthcare Partners, L.P., a Delaware limited partnership (together with any parallel and alternative investment vehicles, the “**Partnership**” and together with any future private investment fund managed by the General Partner, the “**Private Investment Funds**”). In its capacity as the general partner of the Partnership, the General Partner has the authority to manage the business and affairs of the Partnership. The Partnership and any other Private Investment Funds are private equity funds and invest through negotiated transactions in operating entities. The General Partner’s investment advisory services to the Partnership consist of identifying and evaluating investment opportunities, negotiating investments, managing and monitoring investments and achieving dispositions for such investments. Investments are made predominantly in non-public companies, although investments in public companies are permitted. From time to time, where such investments consist of portfolio companies, the senior principals or other personnel of the General Partner or its affiliates may serve on such portfolio companies’ respective boards of directors or otherwise act to influence control over management of portfolio companies held by the Partnership.

The General Partner’s advisory services for Private Investment Funds are detailed in the applicable private placement memoranda and limited partnership agreements and are further described below under “Methods of Analysis, Investment Strategies and Risk of Loss.” Investors in Private Investment Funds participate in the overall investment program for the applicable fund, but may be excused from a particular investment due to legal, regulatory or other applicable constraints.

As of December 31, 2011, the General Partner managed approximately \$500 million in client assets on a discretionary basis. Water Street Healthcare Partners, LLC, a Delaware limited liability company, acts as the general partner of the General Partner. The only person with a 25% or more ownership interest in the General Partner is Timothy A. Dugan.

## FEES AND COMPENSATION

In general, the General Partner receives a management fee and a carried interest in connection with advisory services. The General Partner or other Water Street entities or affiliates receive additional compensation in connection with management and other services performed for portfolio companies of Private Investment Funds and such additional compensation will offset in whole or in part the management fees otherwise payable to the General Partner. Investors in the Partnership also bear certain fund expenses.

## Management Fees

The Partnership will pay the General Partner a management fee (the “**Management Fee**”), partially in advance and partially in arrears, equal to 2.0% on an annual basis of aggregate the Partnership investor capital commitments (“**Commitments**”), subject to reductions at the end of the investment period and in certain other circumstances, in each case, as specified in the limited partnership agreement of the Partnership (the “**Partnership Agreement**”). The Management Fee will be payable until all portfolio investments are distributed or until the General Partner’s relationship with the Partnership is terminated for other reasons (as described in Partnership Agreement). Installments of the Management Fee payable for any period other than a full Management Fee period are adjusted on *pro rata* basis according to the actual number of days in such period.

Unless otherwise approved by the Partnership’s advisory board, the Management Fee will be reduced by (i) all of the Partnership’s share of directors’ fees paid by portfolio companies to partners or employees of the General Partner or certain of its affiliates; (ii) a specified percentage of any net transaction fees, financial consulting fees or advisory fees paid to the General Partner or certain of its affiliates with respect to any Partnership investment; and (iii) a specified percentage of any net break-up fees with respect to Partnership transactions not completed that are paid to the General Partner or certain of its affiliates (any such fees that the General Partner or another Water Street entity or person are permitted to retain are herein referred to as “**Supplemental Fees**”). To the extent that such an offset credit would reduce the Management Fee for a given Management Fee period below zero, the credit will be carried forward for future application against payable Management Fees. To the extent any such excess remains unapplied upon dissolution of the Partnership, each partner of the Partnership will receive its share of such unapplied excess, unless such partner elects not to receive its share. To the extent that any other Private Investment Fund or any other entity or individual co-invests alongside the Partnership in any portfolio company investment, any Supplemental Fees will be allocated among the Partnership and the co-investors in proportion to the cost of the investment or potential investment in the portfolio company held (or committed to be held) by each.

As permitted under the Partnership Agreement, the General Partner may waive or agree to reduce the Management Fee. Any such waived or reduced portion of the Management Fee reduces the amount of capital the General Partner would otherwise be required to contribute to the Partnership. The limited partners of the Partnership may be required to make a *pro rata* contribution according to their respective Commitments to fund any contribution that would otherwise be required of the General Partner in connection with any such waiver or reduction as described above and, as a result, the exercise of such waiver may result in an acceleration of investor capital contributions. Waived or reduced Management Fees are not subject to the Management Fee offsets described above.

## Carried Interest

The General Partner will receive a carried interest with respect to the Partnership equal to 20% of all profits in excess of an 8% compound preferred return subject to a General Partner catch-up provision, as more fully described in the Partnership Agreement. The carried interest

distributed to the General Partner is subject to a potential giveback at the end of the life of the Partnership if the General Partner has received excess cumulative distributions.

It is expected that any future Private Investment Funds will have a similar fee structure.

## **Other Information**

The Partnership invests on a long-term basis. Accordingly, investment advisory and other fees are expected to be paid, except as otherwise described in the Partnership Agreement, over the term of the Partnership and investors generally are not permitted to withdraw or redeem interests in the Partnership.

Principals or other employees of Water Street may receive a portion of the Management Fee, carried interest or other compensation received by the General Partner or its affiliates.

In addition to the Management Fee and carried interest payable to the General Partner, the Partnership bears certain expenses. As set forth in the Partnership Agreement, the Partnership bears all expenses to the extent not paid by portfolio companies, including organizational expenses up to the expense cap specified in the Partnership Agreement, legal, auditing, consulting, financing, accounting and custodian fees and expenses; expenses associated with the Partnership's financial statements, tax returns and Schedule K-1s; out of pocket expenses incurred in connection with transactions not consummated; expenses of any advisory board of limited partners; expenses of the annual meetings of the Partnership's limited partners; insurance; other expenses associated with the acquisition, holding and disposition of its investments, including extraordinary expenses (such as litigation, if any); and any taxes, fees or other governmental charges levied against the Partnership, but not ordinary administrative and overhead expenses of the General Partner incurred in connection with managing, originating and monitoring investments, including employees' salaries, rent, utilities and other similar expenses specified in the Partnership Agreement. Brokerage fees may be incurred in accordance with the practices set forth in "Brokerage Practices."

## **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

As described under "Fees and Compensation," the General Partner receives a carried interest allocation on certain profits in the Partnership. Water Street advises a private fund that is not subject to management fees or a carried interest (the "**Co-Invest Fund**"). While this practice could present a conflict of interest, Water Street does not believe this arrangement poses a conflict of interest in practice because the Co-Invest Fund co-invests alongside the Partnership at substantially the same time and on substantially the same terms as the Partnership and disposes of such investments in a similar manner.

## **TYPES OF CLIENTS**

The General Partner provides investment advice to Private Investment Funds, including the Partnership. Private Investment Funds may include investment partnerships or other investment entities formed under domestic or foreign laws and operated as exempt investment pools under the Investment Company Act of 1940, as amended. The investors participating in Private Investment Funds may include individuals, banks or thrift institutions, other investment

entities, pension and profit-sharing plans, trusts, estates or charitable organizations or other corporations or business entities and may include, directly or indirectly, principals or other employees of the General Partner and its affiliates.

The Partnership generally has a minimum investment amount of \$5 million for third-party investors, each of which may be waived by the General Partner. Investors in the Partnership must meet certain suitability and net worth qualifications prior to making an investment. Investors must be (i) “accredited investors” as defined under Regulation D of the Securities act of 1933, as amended and (ii) either “qualified purchasers” or “knowledgeable employees” as defined under the Investment Company Act.

## **METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### **General**

Water Street is a private investment firm focused on making investments in later-stage, middle-market healthcare companies. The General Partner’s investment advisory services consist of identifying and evaluating investment opportunities, negotiating investments, managing and monitoring investments and achieving dispositions for investments. Investments are predominantly of non-public companies although investments in public companies are permitted.

The General Partner’s investment strategy for the Partnership focuses on the acquisition of controlling interests in middle-market companies and divisions of global healthcare organizations that the General Partner believes have strong growth prospects to serve as potential platform companies. The General Partner focuses on investments that require equity capital of approximately \$25 million to \$75 million, although the required capital may be greater or less than such amounts.

The General Partner’s investment strategy consists of the following phases: (i) sourcing proprietary investment opportunities through a direct calling effort and conducting due diligence; (ii) creating customized transaction structures and innovative capital structures for sellers; (iii) growing portfolio companies through strategic combinations; (iv) maintaining active involvement with portfolio companies in an effort to improve operating performance; and (v) exit planning to position a portfolio company for strategic sale.

There can be no assurance that the General Partner will achieve the investment objectives of the Partnership and a loss of investment may be possible.

### **Investment and Operating Strategy**

*Deal Sourcing and Due Diligence.* The General Partner’s deal sourcing program has two components: (i) a calling effort focusing on the 200 largest publicly-traded healthcare companies; and (ii) a targeted calling effort on middle-market companies. The first component serves as a method for the General Partner to discuss creative ways to enhance the operations, market positions and value of the public healthcare company’s low-priority businesses. The second component focuses on building a dialogue with select middle-market companies interested in aggressively growing their businesses. The information gathered through the

corporate calling program helps the General Partner to: (a) better understand trends and competitive dynamics in a segment by talking to key competitors in that segment; (b) identify businesses that can most likely be combined to create a market leader in the segment of interest; and (c) identify likely buyers of that business once successfully developed and begin to pre-sell the portfolio company. Once a potential investment is identified, the General Partner develops an investment thesis and, through a detailed due diligence process, seeks to verify such thesis and investigate the major business risks.

*Create Customized Transaction Structures for Sellers.* As part of its strategic dialogue with healthcare companies, the General Partner encourages owners to maintain ongoing ownership stakes in partnership with Water Street as a means of both: (i) providing corporate parents or private-company owners with the opportunity to benefit from future value creation; and (ii) differentiating the General Partner's discussion and proposed transaction from an outright sale. The General Partner expects to frequently structure its acquisitions as leveraged recapitalizations, allowing owners to achieve partial liquidity, while continuing to have meaningful equity stakes and remain involved in the governance of their companies. This structure is preferred for a larger corporation or entrepreneur that is looking for liquidity but also desires a financial partner to enhance the company's growth opportunities and the ability to participate in value creation.

*Grow Portfolio Companies Through Strategic Acquisitions.* The General Partner seeks to build market-leading companies focused on adding value to end customers through broader product and/or service offerings. Post-acquisition, the General Partner encourages and facilitates significant operating investments in the infrastructure of its portfolio companies to better position such companies for future growth and value creation. Additionally, the General Partner seeks to improve the competitive position and financial performance of portfolio companies through transformational strategic acquisitions. The General Partner focuses on acquisitions that it believes will: (i) offer customers improved product offerings and/or greater geographic coverage; (ii) leverage production and purchasing power to improve gross margins; (iii) leverage distribution strength into profitable and proprietary licensing or distribution relationships; (iv) consolidate selling and marketing efforts to reduce costs, improve margins and improve customer coverage; and/or (v) enhance investments in research and development.

*Maintain Active Involvement in Portfolio Companies.* The General Partner's approach to governance begins with a focus on developing a board of directors (the "**Board**") comprised of operating and financial executives appropriate for each company. Post-closing, the General Partner will establish a detailed governance program that includes a regular calendar of organization planning, strategic planning, corporate development, executive compensation and operations analysis. Each committee of the Board will generally have a clearly delineated charter and objectives in working with the company. Additionally, the General Partner seeks to implement an authorities matrix that explicitly outlines approval authorities for management and ensures that the Board gets involved in decisions of significance for each company. The General Partner will also develop, together with management, a reporting package that is focused on operating metrics that the General Partners believes are critical in monitoring the progress of the company. The General Partner also seeks to supplement its knowledge, experience and contacts with a network of executives that serve as operating partners (the "**Operating Partners**"). The Operating Partners are experienced industry executives, generally former Chief Executive

Officers, who work with the General Partner on an exclusive advisory basis. The Operating Partners may serve as members of the Board or, in some cases, as operating executives of portfolio companies.

*Exit Strategy.* The General Partner seeks to develop companies with the objective of building businesses that will become compelling and dynamic acquisition candidates for a strategic buyer. The General Partner seeks to develop portfolio companies into market leaders that have the financial scale to be meaningful to a strategic buyer and that are run with the discipline and reporting standards of a public company. The General Partner believes that keeping management focused on the standards required for an independent public company improves the strategic decisions made in the development of the company and best positions the business for sale to a strategic buyer. Although the General Partner will analyze whether a portfolio company is appropriate for public offering, the General Partner's primary exit strategy is a cash sale to a strategic buyer.

## **Risks of Investment**

The Partnership and its investors bear the risk of loss that the General Partner's investment strategy entails. The risks involved with the General Partner's investment strategy and an investment in the Partnership include, but are not limited to:

*Business Risks.* The Partnership's investment portfolio will consist primarily of securities issued by privately held companies, and operating results in a specified period will be difficult to predict. Such investments involve a high degree of business and financial risk that can result in substantial losses.

*Investment in Junior Securities.* The securities in which the Partnership will invest may be among the most junior in a portfolio company's capital structure, and thus subject to the greatest risk of loss. Generally, there will be no collateral to protect an investment once made.

*Concentration of Investments.* The Partnership will participate in a limited number of investments and intends to make most of its investments in one industry or one industry segment. As a result, the Partnership's investment portfolio could become highly concentrated, and the performance of a few holdings may substantially affect its aggregate return. Furthermore, to the extent that the capital raised is less than the targeted amount, the Partnership may invest in fewer portfolio companies and thus be less diversified.

*Lack of Sufficient Investment Opportunities.* It is possible that the Partnership will not be fully invested if enough sufficiently attractive investments are not identified. The business of identifying and structuring private equity transactions is highly competitive and involves a high degree of uncertainty. However, the limited partners will be required to pay Management Fees during the investment period based on the aggregate amount of all Commitments to the Partnership.

*Leveraged Investments.* Portfolio company leverage generally magnifies both the Partnership's opportunities for gain and its risk of loss from a particular investment, and could accelerate and magnify declines in the value of the Partnership's investments in the leveraged portfolio companies in a down market. In the event any portfolio company cannot generate



adequate cash flow to meet debt service, the Partnership may suffer a partial or total loss of capital invested in the portfolio company, which could adversely affect the returns of the Partnership. Furthermore, should the credit markets be tight at the time the Partnership determines that it is desirable to sell all or a part of a portfolio company, the Partnership may not achieve an exit multiple or enterprise valuation consistent with its forecasts. Moreover, the companies in which the Partnership will invest generally will not be rated by a credit rating agency.

*Restricted Nature of Investment Positions.* Generally, there will be no readily available market for a substantial number of the Partnership's investments, and hence, most of the Partnership's investments will be difficult to value. Certain investments may be distributed in kind to the Partners.

*Projections.* Projected operating results of a company in which the Partnership invests normally will be based primarily on financial projections prepared by each company's management. In all cases, projections are only estimates of future results that are based upon information received from the company and assumptions made at the time the projections are developed. There can be no assurance that the results set forth in the projections will be attained, and actual results may be significantly different from the projections. Also, general economic factors, which are not predictable, can have a material effect on the reliability of projections.

*Need for Add-On Investments.* Following its initial investment in a given portfolio company, the Partnership may decide to provide additional funds to such portfolio company or may have the opportunity to increase its investment in a successful portfolio company. There is no assurance that the Partnership will make follow-on investments or that the Partnership will have sufficient funds to make all or any of such investments. Any decision by the Partnership not to make follow-on investments or its inability to make such investments may have a substantial negative effect on a portfolio company in need of such an investment or may result in a lost opportunity for the Partnership to increase its participation in a successful operation.

*Non-U.S. Investments.* The Partnership may invest in portfolio companies that are organized or have substantial sales or operations outside of the U.S., its territories, and possessions. Such investments may be subject to certain additional risk due to, among other things, potentially unsettled points of applicable governing law, the risks associated with fluctuating currency exchange rates, capital repatriation regulations (as such regulations may be given effect during the term of the Partnership) and the application of complex U.S. and foreign tax rules to cross-border investments, possible imposition of foreign taxes on the Partnership and/or the limited partners with respect to the Partnership's income, and possible foreign tax return filing requirements for the Partnership and/or the limited partners.

Additional risks include: (a) risks of economic dislocations in the host country; (b) less publicly available information; (c) less well-developed regulatory institutions; and (d) greater difficulty of enforcing legal rights in a non-U.S. jurisdiction. Moreover, non-U.S. companies may not be subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those that apply to U.S. companies.

*Director Liability.* The Partnership will often obtain the right to appoint a representative to the board of directors of the companies in which it invests. Serving on the board of directors of a portfolio company exposes the Partnership's representatives, and ultimately the Partnership, to potential liability. Not all portfolio companies may obtain insurance with respect to such liability, and the insurance that portfolio companies do obtain may be insufficient to adequately protect officers and directors from such liability.

*Uncertain Economic and Political Environment.* The current global economic and political climate is one of uncertainty. Prior acts of terrorism in the United States, the threat of additional terrorist strikes and the fear of a prolonged global conflict have exacerbated volatility in the financial markets and can cause consumer, corporate and financial confidence to weaken, increasing the risk of a "self-reinforcing" economic downturn. The availability of credit for consumers, homeowners and businesses, including credit used to acquire businesses, continues to be restricted. This may have an adverse effect on the economy generally and on the ability of the Partnership and its portfolio companies to execute their respective strategies and to receive an attractive multiple of earnings on the disposition of their businesses. A climate of uncertainty may reduce the availability of potential investment opportunities, and increases the difficulty of modeling market conditions, potentially reducing the accuracy of financial projections. Furthermore, such uncertainty may have an adverse effect upon portfolio companies in which the Partnership makes investments.

*Healthcare Regulation, Reimbursement and Reform.* Various segments of the healthcare industry are (or may become) (i) highly regulated at both the state and federal levels in the United States and internationally, (ii) subject to frequent regulatory change and (iii) dependent upon various government or private insurance reimbursement programs. While the Partnership intends to make investments in companies that comply with relevant laws and regulations, certain aspects of their operations may not have been subject to judicial or regulatory interpretation. An adverse review or determination by any one of such authorities, or an adverse change in the regulatory requirements or reimbursement programs, could have a material adverse effect on the operations of the companies in which the Partnership invests. In recent years, numerous legislative proposals have been introduced or proposed in the United States Congress and in some state legislatures that would effect major changes in the United States healthcare system at both the national and state level. Healthcare systems outside of the United States are also subject to significant change. It is not clear at this time what changes, if any, will occur and what effect such proposals would have on the healthcare industry.

*Healthcare Research and Innovation.* The healthcare industry spends heavily on research and development. Research findings (e.g., regarding side effects or comparative benefits of one or more particular treatments, services or products) and technological innovation (together with patent expirations) may make any particular treatment, service or product less attractive if previously unknown or underappreciated risks are revealed, or if a more effective, less costly or less risky solution is or becomes available. Any such development could have a material adverse effect on the companies in which the Partnership invests.

## **Conflicts of Interest**

During the investment period of the Partnership, all appropriate investment opportunities will be pursued by the General Partner principals through the Partnership, subject to certain limited exceptions. Without limitation, the General Partner principals currently manage several other investments similar to those in which the Partnership will be investing, and may direct certain relevant investment opportunities to those investments. The General Partner's principals and the General Partner's investment staff will continue to manage and monitor such investments until their realization. Such other investments that the General Partner principals may control may potentially compete with companies acquired by the Partnership. Following the investment period of the Partnership, the General Partner principals may and likely will focus their investment activities on other opportunities and areas unrelated to the Partnership's investments, possibly including successor funds.

From time to time, the General Partner may be presented with investment opportunities that would be suitable not only for the Partnership, but also for other Private Investment Funds and other investment vehicles operated by advisory affiliates of the General Partner. In determining which investment vehicles should participate in such investment opportunities, the General Partner and its affiliates are subject to conflicts of interest among the investors in such investment vehicles. The General Partner attempts to resolve such conflicts of interest in light of its obligations to investors in its Private Investment Funds and the obligations owed by the General Partner's advisory affiliates to investors in investment vehicles managed by them, and attempts to allocate investment opportunities among the Partnership, other Private Investment Funds and such investment vehicles in a fair and equitable manner. Where necessary, the General Partner consults and receives consent to conflicts from an advisory committee consisting of limited partners of the Partnership and such other investment vehicles.

Because the General Partner's carried interest is based on a percentage of certain net profits, it may create an incentive for the General Partner to cause the Partnership to make riskier or more speculative investments than would otherwise be the case. Since the General Partner is permitted to retain certain Supplemental Fees (as described under "Fees and Compensation") in connection with the Partnership investments, it could have a conflict of interest in connection with approving transactions.

## **DISCIPLINARY INFORMATION**

The General Partner and its management persons have not been subject to any material legal or disciplinary events required to be discussed in this Brochure.

## **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

The General Partner is affiliated with other Water Street investment advisers registered with the SEC under the Advisers Act. These advisers are Water Street Healthcare Management II, L.P. and Water Street Healthcare Partners, LLC. These affiliated investment advisers serve as general partners of private investment funds and other pooled vehicles or of other affiliated investment advisers and may share common owners, officers, partners, employees, consultants or persons occupying similar positions.

## **CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

The General Partner has adopted the Water Street Code of Ethics and Securities Trading Policy and Procedures (the “**Code**”), which sets forth standards of conduct that are expected of Water Street principals and employees and addresses conflicts that arise from personal trading. The Code requires certain Water Street personnel to:

- report their personal securities transactions;
- pre-clear any proposed purchase of an initial public offering or a limited offering; and
- comply with policies and procedures reasonably designed to prevent the misuse of, or trading upon, material non-public information.

A copy of the Code will be provided to any investor or prospective investor upon request to Jeff Holway, the Water Street Chief Compliance Officer, at (312) 506-2900. Personal securities transactions by employees who manage client accounts are required to be conducted in a manner that prioritizes the client’s interests in client eligible investments.

The General Partner and its affiliated persons may come into possession, from time to time, of material nonpublic or other confidential information about public companies which, if disclosed, might affect an investor’s decision to buy, sell or hold a security. Under applicable law, the General Partner and its affiliated persons would be prohibited from improperly disclosing or using such information for their personal benefit or for the benefit of any person, regardless of whether such person is a client of the General Partner.

Accordingly, should the General Partner or any of its affiliated persons come into possession of material nonpublic or other confidential information with respect to any public company, the General Partner would be prohibited from communicating such information to clients, and the General Partner will have no responsibility or liability for failing to disclose such information to clients as a result of following their policies and procedures designed to comply with applicable law. Similar restrictions may be applicable as a result of Water Street personnel serving as directors of public companies and may restrict trading on behalf of clients, including the Partnership.

Principals and employees of the General Partner and its affiliates may directly or indirectly own an interest in Private Investment Funds, including the Partnership or certain co-investment vehicles. To the extent that co-investment vehicles exist, such vehicles may invest in one or more of the same portfolio companies as the Partnership.

The Partnership and other Private Investment Funds may invest together with other private investment funds advised by an affiliated adviser of the General Partner in the manner set forth in the Partnership Agreement. The General Partner will determine the allocation of investment opportunity in a manner that it believes is fair and equitable to its clients consistent with the General Partner’s obligations.

The General Partner and its affiliates, principals and employees may carry on investment activities for their own account and for family members, friends or others who do not invest in the Partnership, and may give advice and recommend securities to vehicles which may differ from advice given to, or securities recommended or bought for, the Partnership, even though their investment objectives may be the same or similar. The operative documents and investment programs of certain vehicles sponsored by Water Street (the “**Reference Funds**”) may restrict, limit or prohibit, in whole or subject to certain procedural requirements, investments of certain other vehicles in issuers held by such Reference Funds or may give priority with respect to investments to such Reference Funds. Some of these restrictions could be waived by investors (or their representatives) in such Reference Funds.

From time to time, the General Partner may borrow funds on behalf of the Partnership or the Private Investment Funds and contribute such borrowed amounts to the Partnership (or relevant Private Investment Fund, as applicable) as a special capital contribution for investment, to be returned to the General Partner at a later date. Interest in connection with such borrowing is borne by the Partnership (or the relevant Private Investment Fund, as applicable) as the Partnership expense, consistent with the Partnership Agreement (or other governing document) and the expense policy described under “Fees and Compensation.” In borrowing on behalf of the Partnership or a Private Investment Fund, the General Partner is subject to conflicts of interest between repaying its obligations and retaining such borrowed amounts for the benefit of the Partnership or Private Investment Fund, as applicable. The General Partner will effect such borrowings in a manner it believes to be fair and equitable to the Partnership or Private Investment Fund, as applicable, and consistent with the General Partner’s obligations to the Partnership and the Partnership Agreement (or other governing document).

### **BROKERAGE PRACTICES**

The General Partner focuses on securities transactions of private companies and generally purchases and sells such companies through privately-negotiated transactions in which the services of a broker-dealer may be retained. However, the General Partner may also distribute securities to investors in the Partnership or sell such securities, including through using a broker-dealer, if a public trading market exists. Although the General Partner does not intend to regularly engage in public securities transactions, to the extent it does so, it follows the brokerage practices described below.

If the General Partner sells publicly traded securities for the Partnership, it is responsible for directing orders to broker-dealers to effect securities transactions for accounts managed by the General Partner. In such event, the General Partner will seek to select brokers on the basis of best price and execution capability. In selecting a broker to execute client transactions, the General Partner may consider a variety of factors, including: (i) execution capabilities with respect to the relevant type of order; (ii) commissions charged; (iii) the reputation of the firm being considered; and (iv) responsiveness to requests for trade data and other financial information.

The General Partner has no duty or obligation to seek in advance competitive bidding for the most favorable commission rate applicable to any particular client transaction or to select any broker on the basis of its purported or “posted” commission rate, but will endeavor to be aware

of the current level of the charges of eligible brokers and to reduce the expenses incurred for effecting client transactions to the extent consistent with the interests of such clients. Although the General Partner generally seeks competitive commission rates, it may not necessarily pay the lowest commission or commission equivalent. Transactions may involve specialized services on the part of the broker involved and thereby entail higher commissions or their equivalents than would be the case with other transactions requiring more routine services.

Consistent with the General Partner seeking to obtain best execution, brokerage commissions on client transactions may be directed to brokers in recognition of research furnished by them, although the General Partner generally does not make use of such services at the current time and has not made use of such services since its inception.

The General Partner does not anticipate engaging in significant public securities transactions; however, to the extent that the General Partner engages in any such transactions, orders for purchase or sale of securities placed first will be executed first, and within a reasonable amount of time of order receipt. To the extent that orders for Private Investment Funds are completed independently, the General Partner may also purchase or sell the same securities or instruments for several Private Investment Funds simultaneously. From time to time, the General Partner may, but is not obligated to, purchase or sell securities for several client accounts at approximately the same time. Such orders may be combined or “batched” to facilitate obtaining best execution and/or to reduce brokerage commissions or other costs. Batched transactions are executed in a manner intended to ensure that no participating Private Investment Fund of the General Partner is favored over any other Private Investment Fund. When an aggregated order is filled in its entirety, each participating Private Investment Fund generally will receive the average price obtained on all such purchases or sales made during such trading day.

When an aggregate order is partially filled, the securities purchased or sold will normally be allocated on a *pro rata* basis to each Private Investment Fund participating in such buy or sell order in accordance with the amount of securities originally requested for such Private Investment Funds.

Each Private Investment Fund generally will receive the average price obtained on all such purchases or sales made during such trading day. Exceptions to *pro rata* allocations are permissible provided they are fair and equitable to Private Investment Funds over time.

## **REVIEW OF ACCOUNTS**

The investments made by the Private Investment Funds are generally private, illiquid and long-term in nature. Accordingly, the review process is not directed toward a short-term decision to dispose of securities. However, the General Partner closely monitors companies in which the Private Investment Funds invest, and the Water Street Chief Compliance Officer periodically checks to confirm that each Private Investment Fund is maintained in accordance with its stated objectives.

The Partnership will provide to its limited partners (i) audited financial statements annually, (ii) unaudited financial statements for the first three quarters of each fiscal year, (iii)

annual tax information necessary for each limited partner's tax returns, and (iv) descriptive investment information for each portfolio company periodically.

#### **CLIENT REFERRALS AND OTHER COMPENSATION**

The General Partner and/or its affiliates may provide certain business or consulting services to companies in the Partnership's portfolio and may receive compensation from these companies in connection with such services. As described in the Partnership Agreement, this compensation may, in many cases, offset a portion of the Management Fees paid by the Partnership. However, in other cases (*e.g.*, reimbursements for out of pocket expenses directly related to a portfolio company or with the Partnership's advisory board consent), these fees may be in addition to Management Fees. See "Fees and Compensation."

The General Partner has entered into a solicitation arrangement with Credit Suisse Securities (USA) LLC ("**CSS**"), pursuant to which it compensated CSS in connection with referrals that result in a potential investor becoming a limited partner in the Partnership or other Private Investment Fund. Any fees and expenses payable to any such placement agents are borne by the General Partner indirectly through an offset against the Management Fee.

#### **CUSTODY**

The General Partner maintains custody of the Partnership's assets held in the Partnership's name with Merrill Lynch, Pierce, Fenner & Smith Incorporated, located at 600 California Street, 8th Floor, San Francisco, CA 94108.

#### **INVESTMENT DISCRETION**

The General Partner has discretionary authority to manage investments on behalf of the Partnership. As a general policy, the General Partner does not allow limited partners to place limitations on this authority. Pursuant to the terms of the Partnership Agreement, however, the General Partner may enter into "side letter" arrangements with certain limited partners whereby the terms applicable to such limited partner's investment in the Partnership may be altered or varied, including, in some cases, the right to opt-out of certain investments for legal, tax, regulatory or other similar reasons. The General Partner assumes this discretionary authority pursuant to the terms of the Partnership Agreement and powers of attorney executed by the limited partners of the Partnership.

#### **VOTING CLIENT SECURITIES**

The General Partner has adopted the Water Street Proxy Voting Policies and Procedures (the "**Proxy Policy**") to address how it will vote proxies, as applicable, for the Partnership's (and any Private Investment Fund's) portfolio investments. The Proxy Policy seeks to ensure that the General Partner votes proxies (or similar instruments) in the best interest of the Partnership, including where there may be material conflicts of interest in voting proxies. The General Partner generally believes its interests are aligned with those of the Partnership's investors through the principals' beneficial ownership interests in the Partnership and therefore will not seek investor approval or direction when voting proxies. In the event that there is or may be a conflict of interest in voting proxies, the Proxy Policy provides that the General Partner may

address the conflict using several alternatives, including by seeking the approval or concurrence of the Partnership's advisory board on the proposed proxy vote or through other alternatives set forth in the Proxy Policy. The General Partner does not consider service on portfolio company boards by the General Partner personnel or the General Partner's receipt of management or other fees from portfolio companies to create a material conflict of interest in voting proxies with respect to such companies. In addition, the Proxy Policy sets forth certain specific proxy voting guidelines followed by the General Partner when voting proxies on behalf of the Partnership. If you would like a copy of the General Partner's complete Proxy Policy or information regarding how the General Partner voted proxies for particular portfolio companies, please contact Jeff Holway, the Water Street Chief Compliance Officer, at (312) 506-2900, and it will be provided to you at no charge.

#### **FINANCIAL INFORMATION**

The General Partner does not require prepayment of management fees more than six months in advance or have any other events requiring disclosure under this item of the Brochure.