

Item 1 – Cover Page



Essex Woodlands Management, Inc.  
Part 2A of Form ADV: Firm Brochure

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This brochure provides information about the qualifications and business practices of Essex Woodlands Management, Inc. If you have any questions about the contents of this brochure, please contact us at (281) 364-1555. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Essex Woodlands Management, Inc. is a registered investment adviser. Registration of an investment adviser with the SEC does not imply a certain level of skill or training.

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

## **Item 2—Material Changes**

There have been no material changes to Essex Woodlands Management, Inc.’s (“EW”, “we”, “our”, or “us”) most recent annual update filed on March 31, 2017.

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## Item 4—Advisory Business

### Firm Description

Headquartered in Houston, Texas with additional offices in Palo Alto, New York and London, EW is a private equity and venture capital firm that was founded in 2003 to serve as the management company for its private funds. A Delaware limited liability company, EW serves, directly or indirectly, as the manager and investment adviser to the investment funds described herein; affiliates of EW serve as the general partners (each a “General Partner” and collectively, the “General Partners”) of such private funds.

EW manages private investment funds that focus on making venture capital and growth equity investments (the “Partnerships”) in healthcare companies. We invest broadly across the healthcare spectrum in areas such as pharmaceuticals, medical devices, healthcare services and healthcare information technology, among others. EW partners with management teams to accelerate growth and add value through our network of relationships and expertise in the healthcare sector. EW’s investment advisory services to the Partnerships consist of identifying and evaluating investment opportunities and negotiating the terms of purchase and sale of investments. When our investments consist of portfolio companies, our senior principals or other personnel will generally serve on such portfolio companies’ respective boards of directors or otherwise act to influence control over management of portfolio companies held by the Partnerships.

Investment advice is provided directly to the Partnerships and not individually to the underlying limited partners. EW manages the assets of the Partnerships in accordance with the terms of each Partnership’s private placement memorandum, individual limited partnership agreement and/or other governing documents applicable to each Partnership (the “Governing Documents”). The Governing Documents of each Partnership identify the type of securities or other investment instruments in which the vehicle will invest and any investment restrictions or limitations with respect to these securities.

Limited partners generally cannot impose restrictions on investing in certain securities or types of securities, other than through side letter agreements. Limited partners in the Partnerships participate in the overall investment program for the applicable Partnership, but may be excused from a particular investment due to legal, regulatory or other applicable constraints, pursuant to the terms of the applicable Governing Documents. EW may enter into side letters or similar agreements with certain limited partners that have the effect of establishing rights under, or altering or supplementing a Partnership’s Governing Documents. Once invested in a Partnership, limited partners generally cannot impose additional investment guidelines on such Partnership.

Interests in the Partnerships are not registered under the Securities Act of 1933, as amended (the “Securities Act”), and the Partnerships are not registered under the Investment Company Act of 1940, as amended (the “Investment Company Act”). Accordingly, interests in the Partnerships are offered

and sold exclusively to limited partners satisfying the applicable eligibility and suitability requirements, either in private transactions within the United States or in offshore transactions.

Our investment advice is provided to several Partnerships, each as identified in our Form ADV Part 1, Schedule D, Item 7.A.(2). Each Partnership is managed by a General Partner which has the authority to make investment decisions on behalf of the Partnership and is deemed to be registered pursuant to EW's registration in accordance with SEC guidance. While the General Partners maintain ultimate authority over the respective Partnerships, EW has been delegated the role of investment adviser. For a listing of our General Partners, please see our Form ADV Part 1, Schedule D, Item 7.A.(1).

Limited partners also, on occasion, receive opportunities to co-invest in portfolio companies of particular Partnerships. In allocating co-investment opportunities to applicable limited partners, we consider factors such as capital available for investment by the applicable Partnerships, other potential investments then being considered by the applicable Partnerships, investment concentration with respect to the applicable Partnerships, the liquidity needs and obligations of the applicable Partnerships, the strategic value of a particular limited partner co-investing in the opportunity in question and similar items. The decision to open a specific investment to co-investments is made in our sole discretion. EW provides priority access to co-investment opportunities to first closers and large investors for certain Partnerships and may provide priority co-investment access to certain limited partners (e.g., based on the timing or size of their investment in the Partnerships).

EW does not participate in wrap fee programs.

#### Principal Ownership

As of December 31, 2017, we had approximately \$1.947 billion of regulatory assets under management, all of it managed on a discretionary basis

EW is owned by President Martin Sutter; Managing Directors Immanuel Thangaraj and Jeff Himawan; and Treasurer and Director Petri Vainio. For more information about our owners and executive officers, see EW's Form ADV Part 1, Schedule A.

### **Item 5—Fees and Compensation**

Compensation we receive is comprised of fees based on a percentage of assets under management and performance-based carried interest, as well as other fees and expenses paid by the Partnerships and the portfolio companies in which our Partnerships invest. Investors should refer to the Governing Documents of the applicable Partnership for a complete understanding of how EW is compensated for its advisory services. The information contained herein is a summary only and is qualified in its entirety by such documents.

### Management Fees

For the first five years after the formation of a Partnership, management fees are generally assessed at a rate equal to 2% (per annum) of the capital committed to the respective Partnership. After a five years, the management fee rate decreases every year by a set percentage. However, some Partnerships start off at a lower rate, which increases later to a higher rate. The General Partners may, in their sole discretion, waive all or a portion of the management fee payable by a limited partner. Management fees differ from one Partnership to another, as well as among limited partners in the same Partnership. Such differences can arise from the size of a limited partner's commitment, different limited partner classes, provisions of side letter agreements or other negotiated terms. In addition, limited partners who co-invest in an EW investment are not charged a management fee on the co-investment portion of their investment. The precise management fee terms and any applicable fee rate reductions are described more fully in each Partnership's Governing Documents.

All management fees were negotiated with limited partners during the fundraising period of the applicable Partnership and are not subject to negotiation thereafter. Management fees are payable quarterly in advance. The Partnerships are closed-ended investment vehicles intended for a long-term investment. Accordingly, management fees are expected to be paid, except as otherwise described in the relevant Governing Documents, and investors generally are not permitted to withdraw or redeem interests in the Partnerships.

### General Partner's Carried Interest

As described in Item 6 below, the General Partner of each Partnership is entitled to be allocated performance-based carried interest with respect to all of the Partnerships, which is typically 20% of cumulative net profits, subject to a "clawback" provision.

### Other Fees and Expenses

In addition to management fees and the General Partner's carried interest, all limited partners indirectly bear certain operating and organizational expenses of the Partnerships. These fees and expenses will vary, but typically will include organizational expenses, fees associated with making, monitoring 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 broken deal expenses. EW does not receive any favorable legal fee rates or discounts that are not also provided to the Partnership. The Governing Documents for each Partnership set forth the operating and organizational expenses that apply for each Partnership. Limited partners should review all fees and expenses to be paid by the Partnerships and thus, indirectly, by such limited partners. Management and other fees and expenses are paid either as a result of a capital call notice to limited partners, as a portfolio company expense, as a Partnership expense or are deducted from distributions to limited partners.

### Portfolio Company Remuneration

EW receives director's fees or other remuneration (including any options, warrants or other equity securities), the amount of which are paid by the Partnerships (directly, or indirectly by the portfolio companies) and are determined by EW on a transaction by transaction basis, subject to the terms set forth in each Partnership's Governing Documents. Transaction expenses may include, for example, legal fees and consulting fees incurred related to a deal that exceed the previously agreed upon cap at the time the transaction was negotiated. Any remaining portfolio company remuneration shall be used to reduce the management fee. However, the specific transaction expense and management fee offset provisions varies by Partnership (e.g., certain Partnerships benefit from limited or no offset provisions) and the precise terms are described more fully in each Partnership's Governing Documents. In some cases, fees received from portfolio companies may not always offset transaction expenses and EW's management fee. For example, the offsets may not occur for Partnerships that are past their investment period and no longer pay management fees. Each portfolio company typically pays for or reimburses the Firm for the travel of EW employees to visit such portfolio company. Any reimbursement by a portfolio company of out-of-pocket expenses incurred by EW, a General Partner or their respective affiliates will not be offset against the management fee payable by the Partnership.

### Co-Investment Expenses

Co-investors will not bear a management fees nor pay a performance fees, but do share in their pro rata portion of Partnership expenses, as applicable. Additionally, co-investors who have expressed an interest in a co-investment opportunity are responsible for their pro rata share of any broken deal expenses should the co-investment not be consummated. Each co-investment agreement is negotiated with a co-investor on an investor-by-investor basis and is not subject to review by limited partners.

### Allocation of Fees and Expenses

EW will allocate fees and expenses to be borne by the Partnerships and other investors (including expenses incurred in connection with transactions that are not consummated) in accordance with the Partnership's Governing Documents or, to the extent the Governing Documents do not expressly provide for a method of allocation, as determined by EW in good faith and in its fair and reasonable discretion in accordance with its internal policies and procedures.

## **Item 6—Performance Based Fees and Side-by-Side Management**

All Partnerships we advise are subject to the General Partner's carried interest as well as management fees. Carried interest is considered a performance based fee as it is based on a share of capital gains on the assets of a Partnership. A Partnership's cumulative net profits are allocated 80% to all partners (General and limited) in proportion to their capital contributions and 20% ("carried interest") to the

General Partner. Cumulative net losses, if any, generally are allocated to all partners in proportion to their contributed capital. Each General Partner's carried interest is subject to a "clawback" provision. If, as of the end of any fiscal year or after a Partnership has made its final liquidating distribution, the General Partner has received aggregate distributions with respect to its 20% carried interest in excess of 20% of the Partnership's cumulative net profits, the General Partner will return to the Partnership the excess amount.

These performance fee arrangements have been structured subject to Section 205(a)(1) of the Investment Advisers Act of 1940, as amended ("Advisers Act") in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3. The General Partner of each Partnership may, in its sole discretion, waive or reduce the amount of carried interest for a limited partner in a Partnership. Specifically, if principals, employees and their respective family are limited partners, they will generally pay reduced carried interest or none at all. Similarly, as mentioned above, co-investors do not pay carried interest. The Governing Documents for each Partnership set forth the precise calculation of carried interest and detail the foregoing provisions as they apply to such Partnership, which may vary between Partnerships.

An adviser charging performance based fees to some accounts faces a variety of conflicts because the adviser can potentially receive greater fees from its accounts having a performance-based compensation structure than from accounts that charge a fee that does not relate to performance (e.g., an asset-based fee). As a result, the adviser may have an incentive to direct the best investment ideas to, or to allocate or sequence investment transactions in favor of, an account that pays a performance-based fee over an account that does not or an account with a more lucrative performance based fee structure or an account in a position to pay more overall performance based fees based on the overall performance of the account. The fact that we are compensated based on a share of capital gains on the assets of the Partnerships may create an incentive for EW to make investments on behalf of the Partnerships that are riskier or more speculative than would be the case in the absence of such compensation. However, we believe we have limited incentive to favor certain Partnerships since, as described above, all Partnerships we manage are subject to both carried interest and management fees and limited overlap in investment periods and investment opportunities among accounts is expected to occur in practice. Additionally, we believe this incentive is mitigated due to the fact that any losses the Partnerships sustain will reduce each General Partner's carried interest distribution and the fact that carried interest is generally calculated only after limited partners have received as distributions 100% of their capital contributions plus a preferred return.

Partnerships with specified investment objectives which are similar may be managed in a similar way and may invest in the same assets. Investment opportunities which satisfy the investment parameters of more than one Partnership will be allocated in accordance with EW's policies and procedures and in accordance with the applicable Governing Documents. EW's policies and procedures for the allocation of investments are determined by the Investment Committee.



## Item 7—Types of Clients

EW provides advisory services to private pooled investment vehicles through its affiliated parties as described in Item 4 above. Limited partners in these Partnerships include a variety of institutional limited partners, but primarily consist of large, institutional governmental pension funds.

Limited partners that invest in the Partnerships must have a minimum degree of financial sophistication and meet other minimum investment criteria. Limited partners in the Partnerships must be “accredited investors” within the meaning of Regulation D under the Securities Act and “qualified clients” or “qualified purchasers” as defined in the Investment Company Act. Certain EW employees who qualify as “knowledgeable employees” under Rule 3c-5 under the Investment Company Act are also permitted to invest (directly or indirectly) in the Partnerships. Limited partners considering an investment in the Partnerships should consult with their own investment, tax and/or legal consultants prior to investing.

The minimum commitment for a limited partner is outlined in the Governing Documents of each Partnership. The Partnerships generally require a \$100,000 to \$1 million minimum commitment, depending on the Partnership; however, the General Partner of each respective Partnership maintains the discretion to accept less than the minimum investment threshold.

The Partnerships have entered into, and may in the future enter into, agreements (“side letters”) with certain prospective or existing limited partners whereby such investors are subject to terms and conditions that are more advantageous than those set forth in the Governing Documents. Side letter terms and conditions provide for, among other things, most favored nation clauses, reporting, and such other rights as the Partnerships and limited partners may negotiate.

As mentioned in Item 4 above, EW also acts as an investment adviser to certain co-investment vehicles. In particular, we may choose to create a co-investment opportunity if an investment is too large for a Partnership to make on its own, either under the Partnership’s limited partnership agreement or based on the sole discretion of the General Partner, or if we believe it would be in the Partnership’s best interest to bring a co-investor to the deal. The Firm will seek co-investment opportunities from those limited partners who have expressed an interest in side letter agreements for participation in co-investment opportunities. EW will, in its sole discretion, evaluate each co-investment opportunity on a case by case basis. In evaluating a co-investment opportunity, the Firm will consider the following factors, among others that may arise from time to time: (i) the ability and expected interest of the interested co-investor to participate in the co-investment and to meet the desired due diligence, approval and funding timetable; (ii) the dedicated amount of co-investment resources of the interested co-investor; (iii) the specific industry expertise of the interested co-investor as it relates to each potential co-investment opportunity; (iv) EW’s prior experience with the investor, including as a limited partner in a Partnership and in prior co-investment deals, as well as the interested co-investor’s general reputation and experience as a co-investor; and (v) the value added or strategic benefit of the interested co-investor to the deal.

## Item 8—Methods of Analysis, Investment Strategies and Risk of Loss

### Investment Strategy and Analysis

*Strategy.* Our investment strategy involves two fundamental components – diversification and investing in a focused portfolio with concentrated ownership positions. We are dedicated to pursuing “best-of-breed” deals spread throughout the United States, Europe and Asia. We seek venture capital and/or growth equity investments, diversified across sector, stage and geography, including investments in early and late stage venture companies, growth companies and PIPEs within pharmaceuticals, medical devices, biotechnology and healthcare services/IT.

We seek to make proprietary investments in proven companies with typical enterprise values of between \$50 and \$250 million. Target acquisitions may be either public or private. We generally have the ability to invest up to \$100 million per deal – with typical investments ranging between \$20 and \$60 million in equity. Based on the available opportunities, we may take either controlling or minority positions within the portfolio company.

*Deal Sourcing.* EW has direct access to a large number of healthcare investment opportunities and generally relies upon its developed network of professionals for further investment opportunities. Given its large and experienced team, EW generally relies on its network of entrepreneurs, corporate executives, clinicians, academics and service providers with whom EW has worked with in the past. Each of EW’s designated subcommittees is responsible for surveying its designated sector from a market, clinical and regulatory point of view. Based on current conditions, each subcommittee identifies targeted investment areas and sources deals in the target areas.

*Analysis.* Once viable investment opportunities are sourced, an initial screening commences. Upon completing an initial due diligence review, the prospective portfolio company is generally invited to present at a meeting attended in person by EW’s investment professionals. Following the presentation, the investment professionals generally discuss, among other things, the opportunity and focus on the scientific/clinical aspect, regulatory hurdles, market opportunity and quality of the management team. EW’s Investment Committee, comprised of its managing directors and senior advisors, must approve each investment.

Due diligence with respect to prospective investments is intensive. EW generally interviews potential customers and extensively interacts with other industry sources throughout the due diligence process. EW will draw upon its own resource base and supplement the process with contact names provided by the company under review. EW in many cases also maintains a list of market areas in which it is interested. As such, general market research is often completed prior to the identification of a particular investment opportunity.

General due diligence consists of market, technical and managerial reviews. Technical reviews and product due diligence generally focus on technology capabilities and the strength of the company’s

intellectual property rights. A more detailed market study for particular, emerging products may also be required. In addition to conducting reviews from portfolio company-referred sources, EW will generally conduct its own study using experts in the field. In the case of highly technical companies that claim proprietary protection, EW may engage outside patent counsel to review the company's patent portfolio.

EW often exercises oversight of its investments through representation on the portfolio company senior management teams by a member(s) of EW's senior management. EW's monitoring includes operational and financial business strategy performance of the portfolio companies. Portfolio companies are generally required to provide quarterly and ad hoc communications through EW's investment personnel.

### Risk of Loss

Acquiring an interest in any Partnership 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 a 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 strategies we offer could lose money over short or even long periods. The possibility of loss of capital exists. The description contained below is a brief overview of some of the different market risks related to our investment strategies. A more complete description of applicable risks is available in the Governing Documents of each Partnership.

*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, competition 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 carry a significant, adverse effect on the portfolio company's performance. While EW monitors portfolio company management, management of each portfolio company will have day-to-day responsibility of their associated portfolio company.

*Risk of Growth Equity, Venture Capital and Similar Investments.* While venture capital and growth equity investments offer the opportunity for significant gains, such investments also involve a high degree of business and financial risk and can result in substantial losses. Among these risks are the general risks associated with investing in companies at an early stage of development or with little or no operating history, companies operating at a loss or with substantial variations in operating results from period to period, and companies with the need for substantial additional capital to support expansion or to

achieve or maintain a competitive position. Such companies may face intense competition, including from companies with greater financial resources, more extensive development, manufacturing, marketing and service capabilities and a larger number of qualified managerial and technical personnel.

*Service on Boards of Directors and Similar Rights.* The Partnerships typically will have observation or visitation rights or the right to designate directors to serve on the boards of directors of portfolio companies. In addition, affiliates of the General Partners may serve, from time to time, as officers or directors of portfolio companies. The foregoing rights and activities, especially in light of statutes and regulations relating to corporate governance and increased scrutiny of corporate boards, could expose the General Partners, their affiliates and the assets of the Partnerships to regulatory action and/or claims by a portfolio company, its security holders and its creditors. While the General Partners intend to manage the Partnerships in a way that will minimize exposure to these risks, the possibility of successful claims or adverse regulatory action cannot be eliminated, and such events may have a significant adverse effect on the Partnerships.

In their capacity as officers or directors, affiliates of the General Partners will be subject to fiduciary or other duties to the portfolio company, which may adversely affect the Partnerships. For example, the Partnerships may be prohibited from selling publicly traded securities of a portfolio company if the General Partners or any of their affiliates is in possession of material nonpublic information relating to such company.

*Certain Litigation Risks.* The Partnerships will be subject to a variety of litigation risks, particularly due to the substantial likelihood that one or more portfolio companies will face financial or other difficulties during the term of the Partnerships. The Partnerships may also participate in portfolio company financings at implicit valuations lower than the valuations implicit in preceding rounds of financing. Legal disputes, involving any or all of the Partnerships, the General Partners or their affiliates, may arise from the foregoing activities (or any other activities relating to the operation of the Partnerships or the General Partners) and could have a significant adverse effect on the Partnerships.

*Availability of High-Quality Investment Opportunities.* The Partnerships' ability to earn strong returns for their investors and, in turn, EW's ability to continue to attract investors, is dependent upon the ability of EW to provide access to high-quality investment opportunities. There is no assurance that such opportunities will be available during the investment period of any Partnership. The Partnerships compete for investments in portfolio companies with other private equity, venture capital and investment funds, corporations, financial institutions or wealthy individuals. There can be no assurance that the Partnerships will be able to locate and complete attractive investments or that the investments they ultimately make will satisfy all of the Partnerships' investment objectives.

*Liquidity Issues.* The Partnerships will make investments where there is likely to be no actively traded market. Moreover, many of the Partnerships' 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, the Partnerships may find it more difficult to sell such instruments when EW 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 the Partnerships 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.

*Use of Leverage.* The Partnership's portfolio investments are expected to include investments in companies whose capital structures may be leveraged. While investments in leveraged companies offer the opportunity for capital appreciation, such investments also involve a higher degree of risk. The Partnerships' investments may involve varying degrees of leverage, as a result of which recessions, operating problems and other general business and economic risks (as well as particular risks associated with investing in the industries targeted by the Partnerships) may have a more pronounced effect on the profitability or survival of such companies. Moreover, rising interest rates may significantly increase portfolio companies' interest expense, causing losses and/or the inability to service debt levels. If a portfolio company cannot generate adequate cash flow to meet debt obligations, the Partnerships may suffer a partial or total loss of capital invested in the portfolio company. In addition, borrowings by the Partnerships may be secured by the limited partners' commitments as well as by the Partnerships' assets.

*Cybersecurity Risk.* The Partnerships, their portfolio companies, their service providers and other market participants increasingly depend on complex information technology and communications systems to conduct business functions. These systems are subject to a number of different threats or risks that could adversely affect the Partnerships and their portfolio companies, despite the efforts of service providers to adopt technologies, processes and practices intended to mitigate these risks and protect the security of their computer systems, software, networks and other technology assets, as well as the confidentiality, integrity and availability of information belonging to the Partnerships and their portfolio companies. For example, unauthorized third parties may attempt to improperly access, modify, disrupt the operations of, or prevent access to the systems of the Partnerships, their portfolio companies, their service providers, counterparties or data within these systems. Third parties may also attempt to fraudulently induce employees, customers, third party service providers or other users of such systems to disclose sensitive information to gain access to the confidential data. A successful penetration or circumvention of the security of such systems could result in the loss or theft of data or funds, the inability to access electronic systems, loss or theft of proprietary information or corporate data, physical damage to a computer or network system or costs associated with system repairs. Such incidents could cause the Partnerships or their portfolio companies to incur regulatory penalties, reputational damage, additional compliance costs or financial loss.

### Conflicts of Interest

The EW Code requires Firm principals and employees to place the interests of the Partnerships first, and on an annual basis each principal and employee must certify that he or she has read and understands the EW Code and has complied with its provisions. If any matter arises that EW determines in its good faith constitutes an actual conflict of interest, EW may take such actions as may be necessary or appropriate, within the context of any applicable Partnership's Governing Documents to address the conflict. The offering documents for each Partnership typically includes a description of what we believe to be the most significant conflict of interest associated with an investment in any Partnership. Some of these conflicts are summarized below, however, this summary does not attempt to describe all of the conflicts of interest associated with an investment in the Partnerships. Limited partners should carefully consider the conflicts of interest described herein and in the offering documents prior to investing in a Partnership.

*Portfolio Company Board Service.* As a result of the Partnerships' significant and often controlling interests in portfolio companies, EW and/or its affiliates typically have the right to appoint portfolio company board members, or to influence their appointment, and to determine or influence a determination of their compensation. EW principals and employees may serve on the boards of Partnership portfolio companies. Serving in such capacity may give rise to conflicts to the extent that an employee's fiduciary duties to a portfolio company as a director may conflict with the interests of a Partnership in general; however, as the Partnerships will generally be significant shareholders of such companies, it is expected that such interests will generally be aligned. Additionally, any fees earned for sitting on such portfolio company boards by employees of EW are offset against management fees.

*Partnership and Portfolio Company Expenses.* A portfolio company may reimburse EW for expenses incurred by EW in connection with its performance of services for such portfolio company, and such reimbursements are not subject to the fee offset provisions of the Partnerships. EW determines the amount of reimbursements in its own discretion, subject to agreements with sellers, buyers and management teams, the board of directors of or lenders to portfolio companies, and/or third party co-investors in its transactions, and the amount of such reimbursements may not be disclosed to limited partners. EW may not necessarily seek out the lowest cost options when incurring (or causing a Partnership or its portfolio companies to incur) such fees or expenses.

EW generally will, in its discretion, contract with third parties to perform services for EW or one of its portfolio companies in connection with the provision of services to the Partnerships. When engaging a third party to provide such services, EW will select the third party it believes is appropriate for the situation and such selection will not be based on cost alone.

*Transactions with Partnership Limited Partners.* EW may enter into transactions with certain Partnership limited partners such as, for example, limited partners who are also business partners, such as insurance agents, investment banks, broker-dealers, legal counsel or others who provide services (inducing

mezzanine and/or other lending arrangements) to the Firm, its Partnerships and portfolio companies. The terms of these transactions are negotiated on an arm's-length basis; however, EW is subject to a conflict of interest when determining such terms because EW may benefit from retaining such limited partners' investment in the Partnerships.

*Investment Allocation.* EW's exercise of its discretion in allocating investment opportunities with respect to a particular investment among limited partners, including the Partnerships, potential co-investors and EW limited partners, may not, and often will not, result in proportional allocations among such persons, and such allocations may be more or less advantageous to some such persons relative to other such persons. While EW will determine how to allocate investment opportunities using its best judgment, considering such factors as it deems relevant, but in its sole discretion, there can be no assurance that a Partnership's actual allocation of an investment opportunity, if any, or the terms on which that allocation is made will be as favorable as they would be if the conflicts of interest to which EW may be subject, discussed herein, did not exist.

During a period when one Partnership is reaching the end of its investment period and EW is in the process of forming a new Partnership, considerations of fairness to existing limited partners dictate that EW consider allocating a specific investment to the prior Partnership or between Partnerships. These considerations include such factors as the overall mix of Partnership investments and the ability of the existing Partnership to draw additional capital. These circumstances could present a conflict of interest because EW may have an incentive to favor allocating the investment to the newer Partnership.

*Expense Allocations.* Subject to any relevant restrictions or other limitations contained in the Governing Documents, EW will allocate fees and expenses in a manner that it believes in good faith is fair and equitable to its Partnerships under the circumstances and considering such factors as it deems relevant, but in its sole discretion. In exercising such discretion, EW may be faced with a variety of potential conflicts of interest. As a general matter, expenses incurred on behalf of multiple Partnerships will be allocated among such Partnerships. In all such cases, subject to applicable legal, contractual or similar restrictions, expense allocation decisions will generally be made by EW or its affiliates using their best judgment, considering such factors as they deem relevant, but in their sole discretion. Limited partners are typically allocated (or otherwise bear) their pro rata share of such fees and expenses, which may be calculated based on capital commitments, invested capital, available capital, or other metrics as determined by EW in its sole discretion. The allocations of such expenses may not be proportional.

A conflict of interest could arise in EW's determination of whether certain costs or expenses that are incurred in connection with the operation of the Partnerships meet the definition of Partnership operational expenses for which the Partnerships are responsible, or whether such expenses should be borne by EW. The Partnerships will be reliant on the determinations of EW in this regard. From time to time, it is possible that subsequent review of allocations could result in an identification of expenses that should have been allocated in a different manner, in which case measures would be undertaken to correct such circumstance, which might include a reversal of the original expense

allocations, if possible, or such other equitable adjustment believed by EW to be the most appropriate corrective measure. EW does not receive any favorable legal fee rates or discounts that are not also provided to the Partnerships.

*Projections.* Projected operating results of a company in which a Partnership invests normally will be based primarily on financial projections prepared by such company's management, with adjustments to such projections made by EW in its discretion. In all cases, projections are only estimates of future results that are based upon information received from the company and third parties 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 impact on the reliability of projections.

*Valuation.* There is not expected to be an actively traded market for most of the securities owned by the Partnerships. When estimating fair value, the General Partners will apply a methodology it determines to be appropriate based on accounting guidelines and the applicable nature, facts and circumstances of the respective investments. However, the process of valuing securities for which reliable market quotations are not available is based on inherent uncertainties and the resulting values may significantly differ from values that would have been determined had an active market existed for such securities and may significantly differ from the prices at which such securities ultimately may be sold. The Firm has established a valuation policy, which it follows when performing portfolio company valuations. EW does not intend to retain the services of a third party valuation consultant to assist in performing portfolio company valuations. There is a risk in that the valuations of EW are performed internally by its own team and such valuations are not reviewed by an independent third party; however, all valuations are subject to an annual review as part of each Partnership's annual financial statement audit. The exercise of discretion in valuation by the Firm may give rise to conflicts of interest, including in connection with determining the amount and timing of distributions of carried interest and the calculation of management fees.

*Advisory Board.* Each of EW's Partnerships has an advisory board, which is established under the respective Partnership's Governing Documents. Each Partnership's advisory board is comprised of select limited partners of each Partnership, as well as EW principals and outside advisers. A conflict of interest may exist in that not all limited partners are asked to join a Partnership's advisory board.

*Tax Considerations.* Each Partnership's limited partners include persons or entities resident in various jurisdictions, including the United States and other countries, who may have conflicting investment, tax and other interests with respect to their investments. The conflicting interests of individual limited partners may relate to or arise from, among other things, the nature of investments made by each Partnership, the structuring of the acquisition of portfolio companies and the timing of the disposition of investments. Such structuring of portfolio companies may result in different after-tax returns being realized by different limited partners. As a consequence, conflicts of interest may arise in connection



with decisions made by EW that may be more beneficial for one limited partner than another limited partner, especially with respect to limited partners' individual tax situations. EW considers the investment and tax objectives of each Partnership as a whole, and not the individual investment, tax or other objectives of any particular limited partner.

### **Item 9—Disciplinary Information**

There are no legal or disciplinary events with respect to us or our management that are material to a current or prospective client's or limited partner's evaluation of us or the integrity of our management.

### **Item 10—Other Financial Industry Activities and Affiliations**

Neither we, nor our employees, have any relationships or arrangements with third parties that are material to our provision of advisory services to our clients.

As mentioned above in Item 4, several affiliates of EW serve as General Partner and/or investment adviser to the Partnerships and are deemed to be registered with the SEC subject to EW's registration. These affiliated investment entities operate as a single advisory business together with EW and serve as the General Partner, affiliate or managing members of private investment funds and other pooled vehicles and share common owners, officers, partners, employees, consultants or persons occupying similar positions. These affiliated entities do not have employees of their own. For more information about these General Partners and/or investment advisers, please see our Form ADV Part 1, Schedule D, Item 7.B.(1).

Essex Woodlands Health Ventures UK, Ltd. is the UK equivalent of a limited liability company that is wholly owned by EW and provides administrative and investment advisory services to EW in Europe as it relates to the Partnerships. Essex Woodlands Health Ventures UK, Ltd. is authorized and regulated by the UK Financial Services Authority. Essex Woodlands Health Ventures UK, Ltd. is not required to be registered under Advisers Act.

### **Item 11—Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

#### Code of Ethics/Insider Trading

We have adopted a written Code of Ethics (the "Code") designed to address and avoid potential conflicts of interest as required under Rule 204A-1 of the Advisers Act (the "Rule").

This Rule requires us to adopt a code of ethics that sets forth a standard of business conduct and compliance with federal securities laws by all of our employees. Our Code contains policies and procedures designed to ensure that employees conduct personal securities trading in such a manner as to avoid conflicts of interest or abuse of the employee's position of trust and responsibility.

Our Code requires, among other things, that employees:

- Act with competence, dignity, integrity, and in an ethical manner, when dealing with limited partners, the public, prospects, third party service providers and fellow employees;
- Place the interests of limited partners along with the Partnerships, and the interests of EW, above one's own personal interests;
- Adhere to the fundamental standard that employees should not take inappropriate advantage of their position;
- To the extent practicable, report to the Chief Compliance Officer ("CCO"), and disclose or otherwise mitigate, any conflicts of interest that are material to limited partners and the Partnerships;
- Conduct personal securities transactions in a manner consistent with the Code;
- Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions and engaging in other professional activities; and
- Abide by the requirements contained in the Advisers Act, and rules thereunder, as well as other applicable provisions of the federal securities laws.

Our Code requires employees to:

- Pre-clear certain personal securities transactions;
- Report personal securities transactions on at least a quarterly basis; and
- Provide us with a detailed summary of certain holdings (both initially upon commencement of employment and annually thereafter) over which such employees have a direct or indirect beneficial interest.

A copy of our Code will be provided to any current or prospective client or limited partner upon request by contacting us at (281) 364-1555.

EW's employees are generally permitted to trade in their personal accounts the same securities and other investment instruments traded and held in Partnership accounts as long as the employees do not improperly use confidential or proprietary information (e.g., knowledge of Partnership holdings and transactions, material nonpublic information inadvertently received by EW or its employees, etc.) when making their personal trading decisions. Employee transactions in such securities could theoretically occur at or about the same time as EW transactions, but are subject to compliance reporting and monitoring requirements designed to detect and prevent potential conflicts of interest and other potential compliance-related concerns. In addition, employees may buy securities in transactions offered to but rejected by the Partnerships.

Allowing employees to trade in the same securities as the Partnerships presents various potential conflicts of interest. For example, employees could theoretically attempt to time their personal

transactions to benefit from any potential impact Partnership transactions might have on the price of a security or otherwise attempt to obtain a more favorable purchase, sale, short or cover price than the Partnerships obtain. In addition, employees and the Partnerships could potentially take opposing positions (*i.e.*, an employee account takes a long position when a Partnership takes a short position, or vice versa) and thus the employee could potentially experience a conflict between acting in his/her own best interest versus the Partnership's best interest. Finally, employees could devote excessive time/use limited resources towards managing their personal trading accounts and thus neglect the Partnerships. As mentioned above, the CCO or his designee, among other things, monitors employee transactions relative to Partnership transactions to detect and prevent improper personal securities transactions and potential conflicts of interest.

#### Participation or Interest in Client Transactions

Employees of EW may have a material investment in our Partnerships. Therefore, we are considered to participate in transactions effected for the Partnerships. We do not believe this arrangement presents any material conflicts of interest since our interests and our employees' interests are aligned with the interests of limited partners in such Partnerships.

EW will not affect any principal or agency securities transactions for Partnerships without the proper consent of the relevant General Partner or advisory board, as applicable. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated fund and another client account. In the context of EW's business, a principal transaction would most likely refer to the practice of warehousing an investment for the formation of a future Partnership or selling a portfolio company from one Partnership to another. An agency transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer. This situation does not apply to EW.

### **Item 12—Brokerage Practices**

We focus on making investments, through the Partnerships, in both private and public securities. To the extent a Partnership acquires private securities, we do 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 extent a Partnership transacts in public securities, we seek to achieve best execution and in doing so attempt to select brokers based upon our analysis of the broker's ability to provide best execution for the applicable Partnerships. We are authorized to determine:

- Which securities or other investment instruments to buy or sell;

- The total amount of securities or other investment instruments to buy or sell;
- The executing broker or dealer for any transaction; and
- The commission rates or commission equivalents charged for transactions.

Although best execution is typically referred to in the context of public securities, EW's obligation to seek best execution extends to the implementation of private investments: acquisitions and dispositions of portfolio companies. EW attempts to ensure that the Partnerships pay no more than the perceived fair value for portfolio companies or other investments as well as reasonable fees for services consumed to complete the transactions. From time to time, the Partnerships may receive distributions of such private company securities. In some cases, securities of such private companies may ultimately be registered for sale to the public. As mentioned above, EW has discretion to sell on behalf of the Partnerships any private company or public company securities held by the Partnerships. More specifically, in making decisions regarding the allocation of brokerage transactions for the Partnerships and determining best execution, we consider a variety of factors in addition to cost including, but not limited to, the following:

- General expertise and background of the service provider or counterparty involved with the transaction;
- The type and size of the transaction involved;
- The transaction price;
- The stability or solvency of the service provider or counterparty;
- Settlement capabilities;
- Time required to complete the services requested;
- The reasonableness of any applicable fees or costs to complete the transaction; and
- Research services provided or other arrangements relating to transaction.

While we reserve the right to consider the factors described above, provided that we have a reasonable belief that we will achieve best execution, in practice we typically use the execution services of the broker-dealer that currently custodies the public securities held by the Partnerships when a decision has been made by the Investment Committee to sell such securities.

Certain transactions may involve specialized services on the part of a broker-dealer, which may justify higher commissions (or other equivalent costs) than would be the case for more routine services. We generally seek competitive commission rates (or other equivalent costs), but we will not necessarily pay the lowest commission (or other equivalent costs).

We do not participate in any formal soft dollar arrangements with broker-dealers or other counterparties whereby a portion of the commissions charged are designated as soft dollar "credits" that can be used by EW to acquire products and services. However, we do receive research from broker-dealers or other counterparties. To the best of our knowledge, these services are generally

made available to all institutional investors doing comparable business with such broker-dealers or other counterparties. Research services furnished may include written information and analyses concerning specific securities; companies or sectors; market, financial and economic studies and forecasts; statistics and pricing or appraisal services; and discussions with research personnel. The research includes primarily proprietary research, but could also include research created or developed by a third party. Research services received from broker-dealers or other counterparties supplement our own research efforts. EW benefits from the research products or services because EW does not have to produce or pay for the research.

EW may have an incentive to select a broker-dealer or other counterparty based on EW's interest in receiving the research or other products or services, rather than on the Partnerships' interest in receiving the most favorable execution on investment transactions. However, it should be noted that EW does not believe that the Partnerships incur transactions fees or costs (including any applicable commissions or markups or markdowns) higher than those charged by other broker-dealers or counterparties in return for research benefits.

The research benefits are generally used to service all of the Partnerships and are not necessarily used to benefit the Partnerships in proportion to the amount of business conducted with the broker-dealers or other counterparties that provide the research.

Investment staff and the CCO review transaction details to monitor EW's efforts to seek to achieve best execution and to detect and prevent potential compliance concerns in this area.

The Partnerships generally do not invest in the same portfolio companies at or around the same time. Therefore, as a general practice, we generally do not aggregate the purchase or sale of securities for multiple Partnerships.

### **Item 13—Review of Accounts**

Investments held by the Partnerships are reviewed on a continuous basis by our investment team. The investment team meets regularly to discuss the Partnerships' portfolios, investment ideas, economic developments, current events and other issues related to current portfolio holdings and potential investment opportunities. All Partnership investments are reviewed and approved by our Investment Committee and all dispositions must also be reviewed and approved by the Investment Committee.

We provide each limited partner with written reports on the affairs of the Partnerships. The reports include quarterly unaudited financial statements and an annual report that is audited by an accounting firm registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board ("PCAOB"). The annual reports include audited financial statements and capital account statements, as well as tax information. All reports are sent to limited partners in writing either electronically through EW's investor portal, or via hard copy, as per each limited partner's stated

preference. EW also has contact with limited partners (quarterly calls, personal visits, telephone, email) throughout the year as conditions warrant.

In the course of conducting due diligence or otherwise, investors periodically request information pertaining to their investments. EW responds to these requests, and in answering these requests provides information that is not generally made available to other investors who have not requested such information. While EW does not have an obligation to update any such information provided, the Firm endeavors to provide the information requested in the most current form available. Additionally, upon request, certain investors may receive additional information and reporting that other investors may not receive.

#### **Item 14—Client Referrals and Other Compensation**

As mentioned in Item 5 above, EW, a General Partner or their employees receive director's fees, or other remuneration (including any options, warrants or other equity securities). Such fees generally shall be used first to offset any transaction expenses advanced by EW and not reimbursed by a Partnership. Transaction expenses may include, for example, legal and consulting fees incurred related to a deal that exceed the previously agreed upon cap at the time the transaction was negotiated. Any remaining portfolio company remuneration shall be used to reduce the management fee. However, the specific transaction expense and management fee offset provisions varies by Partnership (e.g., certain Partnerships benefit from limited or no offset provisions) and the precise terms are described more fully in each Partnership's Governing Documents. In some cases, fees received from portfolio companies may not always offset transaction expenses and EW's management fee. For example, the offsets may not occur for Partnerships that are past their investment period and no longer pay management fees. Any reimbursement by a portfolio company of out-of-pocket expenses incurred by EW, a General Partner, or their respective affiliates will not be offset against the management fee payable by the Partnership.

EW typically engages the services of a registered broker-dealer to serve as placement agent for Partnership units when raising a new Partnership. EW generally pays the placement agent a percentage of the amount of capital raised by the placement agent. Placement agent fees are payable by the Partnerships and any such fees paid offset the management fee on a dollar-for-dollar basis, although related expenses incurred pursuant to the relevant placement agent or similar agreement, including but not limited to placement agent travel, meal and entertainment expenses, typically are borne by the relevant Partnership. All placement agents retained by EW are registered broker-dealers.

#### **Item 15—Custody**

The Advisers Act Rule 206(4) (the "Custody Rule") requires that pooled investment vehicles which we advise either undergo an annual audit pursuant to generally accepted accounting principles ("GAAP") or be subject to a surprise custody examination by a PCAOB-registered auditing firm. Even though all assets of the Partnerships are held in custody by qualified custodians who are unaffiliated

broker-dealers or banks (other than certain privately offered securities to the extent permitted under the Advisers Act), we are considered to have custody over the Partnerships' assets because of our affiliation with each Partnership's General Partner and our ability to deduct fees from Partnership accounts.

To comply with the Custody Rule and to provide meaningful protection to limited partners, each Partnership is subject to an annual financial statement audit by an independent public accountant registered with, and subject to regular inspection by, the PCAOB. The audited financial statements are prepared in accordance with GAAP, and are distributed to each limited partner in a Partnership within 120 days of such Partnership's fiscal year end in accordance with the Custody Rule. EW receives monthly statements from each of our qualified custodians on behalf of the Partnerships. For more information about our qualified custodians, please see our Form ADV Part 1, Schedule D, 7.B.(1).

### **Item 16—Investment Discretion**

The Governing Documents of each Partnership provide that we or an affiliate, as the ultimate General Partner of such Partnership, have exclusive and complete authority and discretion in managing the business and affairs of such Partnership, subject only to specific and express limitations provided therein. Thus, without obtaining specific consent from a Partnership or its limited partners for each transaction, we have discretionary authority to transact in securities for the Partnerships. We are authorized to determine:

- Which securities or other investment instruments to buy or sell;
- The total amount of securities or other investment instruments to buy or sell;
- The executing broker or dealer for any transaction; and
- The commission rates or commission equivalents charged for transactions.

The terms upon which we serve as an investment manager of a Partnership are established at the time each Partnership is established and are generally set out in the Governing Documents entered into by EW with respect to the relevant Partnership. A limited partner may impose limitations on EW's authority through a side letter agreement and the Firm may choose to accept reasonable limitations or restrictions at its discretion. All limitations and restrictions placed upon a limited partner's investment must be presented to us in writing and agreed to by EW and such limited partner. Other limited partners are not provided with consent rights regarding such side letter agreements. No limited partners to date have limited our discretion to provide investment advice.

### **Item 17—Voting Client Securities**

By virtue of the Partnership Governing Documents, EW has the authority to vote client proxy statements on behalf of its Partnerships. The majority of "proxies" received by EW will be written shareholder consents or similar instruments for private companies. As such, EW has adopted proxy voting policies and procedures pursuant to SEC Rule 206(4)-6. Our proxy policy seeks to ensure that

we vote proxies in the best interest of the Funds, including where there may be material conflicts of interest in voting proxies. Our investment and legal teams are responsible for identifying the proxies upon which we will vote, voting the proxies in the overall interests of the applicable Partnerships and their limited partners (as described below), and submitting the proxies promptly and properly.

In determining the overall interests of the Partnerships and their limited partners, consideration will be given to both short-term and long-term implications of the proposal to be voted on when considering the optimal vote. In voting proxies, we will seek to avoid material conflicts of interest between our interests, on the one hand, and the interests of the Partnerships and their limited partners, on the other. EW generally believes its interests are aligned with those of the limited partners through the principals' beneficial ownership interests in the Partnerships and is not required to seek limited partner approval or direction when voting proxies. If we detect a material conflict of interest in connection with a proxy solicitation, our Investment Committee will consider the vote under consideration, discuss the perceived conflict of interest and decide on how to vote the proxy. We will record the decision and then vote the proxy accordingly. It should be noted that limited partners cannot direct EW's vote in a particular solicitation.

EW does not consider service on portfolio company boards by EW personnel or EW's receipt of nominal board fees to create a material conflict of interest in voting proxies with respect to such companies.

Upon request, we will provide limited partners in any of the Partnerships with information about how the proxies relevant to such Partnership and limited partners were voted. Our complete proxy voting policy and procedures are available to limited partners upon request by contacting us at (281) 364-1555.

### **Item 18—Financial Information**

EW does not require prepayment of more than \$1,200 in fees per client six months or more in advance. Additionally, EW has never filed for bankruptcy and is not aware of any financial condition that is expected to affect or impair its ability to manage the Partnerships or meet contractual commitments to the Partnerships or their underlying limited partners.