



## **Part 2A of Form ADV Brochure**

**As of June 15, 2012**

This Brochure provides information about the qualifications and business practices of Enhanced Capital Partners, Inc. (the “Registrant”, or together with its relying advisers, “ECP”). If you have any questions about the contents of this Brochure, please contact Ms. Nicole Ellender, Chief Compliance Officer, at (504) 569-7903. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

ECP is an investment adviser registered with the SEC under the Investment Advisers Act of 1940. Registration of an investment adviser does not imply any level of skill or training.

Additional information about ECP is also available on the SEC’s website at:

[www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

This Brochure is not intended for distribution to, or use by, any party other than its investment advisory clients.

## ITEM 2 – MATERIAL CHANGES

This is an amended filing dated June 15, 2012, for ECP's Form ADV Part 2A Brochure. While ECP's business and operations have not changed, this brochure reflects substantial revisions, both material and non-material. This amended brochure further describes the firm's advisory services to reflect advisory services to private funds and its practices with respect to safekeeping of fund assets.

ECP, with additional related person investment advisers (together, the "Relying Advisers"), serves as investment manager for one or more investment limited partnerships or limited liability companies under common control. The Registrant and the Relying Advisers together filing a single Form ADV Part 1 in reliance on the position expressed in the American Bar Association Interpretive Letter dated January 18, 2012. Information regarding the Relying Advisers is described in Item 4 of this brochure, as well as in Form ADV Part 1, publicly available on the SEC's web site, [www.sec.gov](http://www.sec.gov). Direct and Indirect owners and executive officers of ECP and its Relying Advisers are described in Item 4 of this amended Brochure, as well as on Schedule A and B of Form ADV Part 1, available on the SEC's web site [www.sec.gov](http://www.sec.gov).

The Registrant is under common control with Enhanced Management Company, LLC, an SEC registered adviser. ECP and EMC share office space and a supervised person.

This Brochure identifies owners (including relying advisers), affiliations (related persons and relying advisers), fee and compensation arrangements, and potential or actual conflicts, and therefore should be read in its entirety.

The material revisions encompass the following topics: Item 4 Advisory Business; Item 5 Fees and Compensation; Item 6 Performance-Based Fees and Side-By-Side Management; Item 7 Types of Clients; Item 8 Methods of Analysis, Investment Strategies and Risk of Loss; Item 10 Other Financial Industry Activities and Affiliations; Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading; and Item 13 Review of Accounts.

The date of our last annual update was March 31, 2012.

Currently, our Brochure may be requested by contacting Ms. Nicole Ellender, Chief Compliance Officer, at (504) 569-7903.

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## **ITEM 4 – ADVISORY BUSINESS**

### ***Nature of Advisory Business***

ECP is a Delaware corporation, incorporated in 2008, which succeeded by merger to the business of Enhanced Capital Partners, LLC, a Delaware limited liability company organized in 1999. It registered with the SEC as an investment adviser for the first time in 2012.

ECP is a diversified asset management firm that provides investment advisory and administrative services to investors interested in financing small businesses located in areas that have been underserved by traditional sources of capital. ECP does so in connection with public-private partnerships, limited partners and investors in funds that are enhanced by state tax credits. While ECP has some equity holdings in certain portfolio companies, ECP primarily provides debt capital with a core focus on capital preservation. ECP has built its small business investment platform by raising funds through state- and federally-sponsored investment programs, including the Small Business Investment Company program. ECP consists of three business units: State Focused Investment Funds, Small Business Investment Company Fund and its tax credit finance group which includes its New Markets Funds, which are described below.

### ***State Focused Investment Funds***

ECP's core business is managing funds raised through state-focused investment programs ("State Investment Funds"). State legislatures design each program to create jobs, increase tax revenues and establish a local investment community infrastructure by attracting qualified managers to invest in businesses in such state. Each State Investment Fund has strict statutory investment mandates/restrictions with respect to the types of businesses in which a State Investment Fund may invest.

### ***Small Business Investment Company Fund***

Enhanced Small Business Investment Company, LP ("SBIC Fund"), is an SBIC fund that focuses on debt investing in portfolio companies and continues ECP's historical focus on sourcing opportunities in geographies that traditional capital providers have underserved. The SBIC Fund makes secured loans to small businesses that fall below the size thresholds of most institutional investors or are overlooked due to their location in underserved areas. The SBIC Fund focuses on investing in technology/software, healthcare and business services industries, among other sectors, and makes debt commitments that typically range between \$3 million and \$12 million. The investments made in this fund must follow the investment parameters and restrictions as set forth in Title 13, Chapter I, Part 107 of the Code of the Federal Regulations and Title 13, Chapter I, Part 121 of the Code of Federal Regulations.

### ***New Markets Funds***

ECP also manages funds focused on investing in businesses in low-income communities pursuant to the mandates and restrictions of the Federal New Markets Tax Credit Program ("New Markets Funds"; the State Investment Funds, SBIC Fund and New Market Funds shall

collectively be referred to as the “Funds”). The Federal New Markets Tax Credit Program falls under the Community Development Financial Institution Fund with the US Department of the Treasury.

### ***Ownership/Management***

Enhanced Capital Partners Employee Stock Ownership Trust owns 100% of Enhanced Capital Partners, Inc. In addition, Enhanced Capital Partners, Inc. has a number of relying advisers. The relying advisers, with the exception of the SBIC Manager as discussed below, are generally 100% owned by a holding company which is in turn 100% owned by Enhanced Capital Partners, Inc. In one case, Enhanced Capital Partners, Inc. owns 50% of the relying adviser. Additional information about each of the relying advisers can be found in our Form ADV Part 1, available on the SEC’s website ([www.sec.gov](http://www.sec.gov)).

Mr. Andrew M. Paul is the beneficial owner of approximately 30% of ECP’s Employee Stock Ownership Trust and is the Chairman of the Board of ECP and is the Chairman of the Board and a member of the investment committee for each State Investment Fund. Mr. Paul has been actively involved in private equity and venture capital investing for over 25 years.

Mr. Michael A.G. Korengold is the President, Chief Executive Officer and member of the Board of Directors of ECP and has been with ECP since 2000. Mr. Korengold also serves as a member of the investment committee and an officer of each State Investment Fund, SBIC Fund and New Market Funds. Mr. Korengold has over 10 years’ experience investing in portfolio companies for the Funds.

The SBIC Fund is managed by Enhanced Capital SBIC Management, LLC (the “SBIC Manager”). ECP owns approximately 32% of the SBIC Manager. The remaining ownership is as follows (approximate and rounded): Mr. Barry Osherow: 32%, Mr. Andrew Paul: 16%, Mr. Michael A.G. Korengold: 16%. ECP is not a managing member of the SBIC Manager, however the SBIC Manager, along with ECP, conducts a single advisory business subject to a unified compliance program and is therefore included in this brochure.

Mr. Barry Osherow is a Managing Director of ECP and a Managing Member of the SBIC Manager. Mr. Osherow has been with ECP since 2008 and serves as a member of the investment committee of each State Investment Fund and the SBIC Fund. Mr. Osherow has 15 years’ experience as a finance executive in providing debt, investment banking and operational management.

ECP’s investment team consists of approximately 26 full- and part-time investment and corporate support professionals. ECP’s headquarters are in New York, with additional offices and funds in Louisiana, and Connecticut, and offices in Florida and Wyoming. Additionally, ECP has funds located in Alabama, Colorado, District of Columbia, Tennessee and Texas.

Investment advice to each of the Funds is provided on a discretionary basis and is tailored to their individual needs and investment criteria, as set forth in each Fund’s limited partnership agreement, private placement memorandum and/or investment management agreements or in

accordance with a Fund's statutory mandates or restrictions for a particular program. As of March 31, 2012 ECP has \$319,644,248 of discretionary assets under management.

## **ITEM 5 – FEES AND COMPENSATION**

### **General Information Regarding Fees**

In addition to the distributions ECP receives as an owner in the Funds, ECP receives management fees in connection with the investment management and administrative services it provides to the Funds and may also receive carried interest allocations.

### **Management Fees**

#### ***State Investment Funds***

Each State Investment Fund pays the investment manager of such fund a management fee between 2-3% of the total capital raised for that particular fund. The amount of the management fee is set forth in applicable statute or regulations governing the program for a State Investment Fund and is therefore not negotiable. There is no set schedule or requirement for when the management fee is payable, but as of the date of this Brochure will be payable less than semi-annually or quarterly, in advance, commencing on the closing date and is deducted from each State Investment Fund's operating account. If cash is not available to pay such management fee at the time it is due, the management fee will accrue until such time as cash is available. Typically, management fees of the State Investment Funds are allowable for 7 years. The management fees do not include custodial fees or certain accounting or legal fees associated with the maintenance of the fund. There are no brokerage or mutual fund fees associated with the State Investment Funds.

#### ***SBIC Fund***

The SBIC Fund pays the SBIC Manager an annual management fee beginning as of the initial closing and continuing throughout the term of such fund. The management fee was negotiable for the initial limited partners of the SBIC Fund, however all additional limited partners added after the initial close are subject to the fees set forth in the limited partnership agreement. The management fee is payable in quarterly installments in advance and is deducted from the SBIC Fund's operating account. Subject to any subsequent modification by the limited partners and the general partner, the management fee is 2% of the limited partners' funded and unfunded capital commitments, plus drawn SBA leverage, until February 28, 2017. After such date, the management fee will be 2.0% paid annually on invested capital only. The management fees do not include custodial fees or certain accounting or legal fees associated with the maintenance of the SBIC Fund. There are no brokerage or mutual fund fees associated with the SBIC Fund.

#### ***New Markets Funds***

The New Markets Funds typically pay the manager an upfront structuring and transaction fee at closing, in an amount up to 5% of the Qualified Equity Investment (as defined in the Federal

New Markets Tax Credit Program) amount. Additionally, the New Markets Funds pay the manager an annual asset management fee up to 1% of the Qualified Equity Investment amount. Management fees for such closed funds were negotiable. Management fees are paid annually in arrears. Accounting and legal fees associated with the maintenance of the New Market Funds are a part of the management fee and are not additional expenses. There are no brokerage or mutual fund fees associated with the New Market Funds.

### **Other Compensation**

ECP and its affiliates may earn monitoring fees and other compensation from portfolio companies, purchasers, sellers and other parties to transactions involving ECP Fund portfolio companies as compensation for services. Such services may include advice on structuring, negotiating and arranging financing for transactions in which the Funds participate. Fees may also be earned in connection with unconsummated investment transactions. ECP employees may serve on the board of directors of the portfolio companies and receive board of director fees. Certain expenses are born by the respective Funds as stipulated in each Fund's limited partnership or limited liability company agreement. Such expenses may include legal, accounting, tax, consulting, research, due diligence, expenses incurred with respect to investment transactions not consummated (to the extent that such expenses are not reimbursed by entities in which the Funds invests or proposes to invest), custody, and expenses of the Advisory Committee among others and are allocated to each Funds respective expenses. Current investors are referred to the relevant limited partnership, limited liability company agreement or other relevant closing documentation for a complete description of all expenses that may be incurred by the particular Fund.

ECP pays all normal operating expenses such as compensation and benefits of ECP officers, directors and employees, rent, utilities, insurance (other than premiums for insurance covering indemnified parties), office supplies, office equipment, travel, entertainment and other normal operating expenses that relate to the services provided to the Funds.

## **ITEM 6 – PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

### **Performance-Related Compensation**

#### ***State Investment Funds***

ECP receives a profits interest from one of its State Investment Funds equal to 20% of the profits generated by that Fund's investments. Such performance related compensation is subject to hurdles and claw-backs. The Fund's transaction documents contain the method by which the performance related compensation is calculated. Profits interest distributions are calculated in compliance with Rule 205-3 of the Advisers Act. The profits interest fee arrangement may create an incentive for ECP to invest in riskier or more speculative instruments. Another State Investment Fund (TN) pays ECP 25% of all distributions. Other State Investment Funds compensate ECP through its Fund ownership and, thus, ECP receives additional compensation based on performance.

### ***SBIC Fund***

The SBIC Manager will receive carried interest allocations from the SBIC Fund of 20% of realized profits generated from portfolio company investments. Such performance related compensation is subject to hurdles and claw-backs. The Limited Partnership Agreement of the SBIC Fund contains the method by which the performance related compensation is calculated. Carried interest distributions paid to the members of the general partner are calculated in compliance with Rule 205-3 of the Advisers Act. Carried interest fee arrangements may create an incentive for the SBIC Manager to invest in riskier or more speculative instruments, although given that ECP, its owners and/or related persons also co-invest in the Fund, interests of the Fund and its manager are aligned which substantially reduce this incentive.

### ***New Markets Funds***

The manager of the New Markets Funds does not receive performance based fees. This may create risk regarding allocation of investments to Funds which pay higher fees.

### **Parallel Investments**

Certain members, partners, employees, and affiliates of ECP may co-invest in portfolio company investments. All such co-investments will be made at the same time and on the same terms and conditions as are applicable to the Funds and will be divested as and when the Funds do so and on the same terms and conditions. Neither ECP nor its affiliated entities receive any fees as the result of a parallel investment fund or relationship.

## **ITEM 7 – TYPES OF CLIENTS**

ECP provides investment advisory services directly to the Funds, subject to the direction and control of a board of managers, managing member or general partner of a Fund, as applicable.

Investors in the State Investment Funds consist of insurance companies and governmental subdivisions or agency. Investors in the New Markets Funds are typically banking institutions or one of their wholly owned subsidiaries. As of the date of this Brochure, the State Investment Funds and the New Market Funds are closed to investor commitments.

Investments in the SBIC Fund are generally only available to institutional investors and certain high net worth investors that are “accredited investors”, “qualified clients”, or “qualified purchasers” within the meaning of the U.S. Securities Act of 1933, as amended and the U.S. Investment Company Act of 1940, as amended, respectively. The investors in the SBIC Fund are generally fund of funds, corporate investors, high net worth individuals, family offices and charitable endowment accounts. Subject to waiver, the minimum capital commitment of the SBIC Fund is \$1,000,000.



## **ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### **Investment Strategies**

As discussed in Item 4, although ECP maintains an equity portfolio, ECP primarily provides debt capital with a core focus on capital preservation and job growth. ECP leverages its established network to source proprietary deal flow and avoid competitive transactions for its Funds. The Funds invest across various industries, however, the Funds focus on sectors where it has had the greatest degree of success, namely: technology/software, healthcare and business services industries, among other sectors. Additionally, each of the State Investment Funds, SBIC Fund and the New Markets Funds has specific investment criteria and restrictions that must be followed pursuant to a statutory mandate applicable for each Fund.

Generally, ECP seeks transactions with the following characteristics:

- Appropriately structured transactions with modest leverage, significantly contractual amortization, ability to secure assets, solid documentation and covenants.
- High collateral coverage with a substantial margin of safety. Collateral may consist of hard assets (inventory, A/R, equipment, real estate), intangible assets (licenses, intellectual property, brands) or enterprise value of the borrower.
- Situations where junior capital investors (including equity, junior mezzanine investors or holders of seller notes) have an economic incentive to ensure our repayment.
- Multiple exit options, including repayment through contractual amortization, liquidation of collateral, refinancing from either equity or debt capital and in some cases, a personal or fund guarantee.

Additionally, ECP evaluates each investment utilizing common criteria. Those criteria include whether the company has a viable business, qualified company management, possible rate of return as a result of the investment, market potential of the company, and the company's potential to be a market leader.

### **Risk of Loss**

An investment in the Funds involves a significant degree of risk, relating both to the types of investments contemplated by the Funds and the Funds' ability to achieve their respective investment objectives. There can be no assurance that the Funds' investment objectives will be achieved or that an investor will receive any return of capital. An investor should have the ability to sustain the loss of its entire investment in the Funds. An investment in the Funds requires a long-term commitment, with no certainty of return. Since the Funds may only make a limited number of investments, and since the Funds' investments generally will involve some degree of risk, poor performance by a few of the investments could affect the total returns to the investors. There can be no assurance that the Funds will be able to generate returns for the investors or that returns will be commensurate with the risks of the investments within the Funds' investment objectives. Current investors are requested to refer to the Funds' Private Placement Memorandum for a complete description of risks associated with investing in the Funds.

## **ITEM 9 – DISCIPLINARY INFORMATION**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of ECP or the integrity of ECP's management. None of ECP, its Relying Advisers or its collective management has been subject to any legal or disciplinary events required to be discussed in this Brochure.

## **ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

ECP is also affiliated with an SEC investment adviser, Enhanced Management Company, LLC ("EMC") by virtue of being under common control. ECP and EMC occasionally invest in common portfolio companies. However, unlike ECP, EMC primarily makes equity investments in portfolio companies and, therefore, the terms and conditions of EMC'S equity investments might vary from the terms and conditions of debt or equity investments made by ECP. ECP ensures that investment opportunities are allocated fairly.

In addition, Andrew Paul performs services for both EMC and ECP, and is compensated for the services performed by the entity receiving the services. ECP and EMC have common office space, but expenses are allocated to the appropriate entities.

## **ITEM 11 – CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

ECP is subject to a Code of Ethics (the "Code") in accordance with Rule 204A-1 of the Advisers Act. ECP has adopted a Code of Ethics which sets forth appropriate ethical standards of business conduct that ECP requires of its employees, including compliance with its fiduciary duty and applicable federal and state securities laws. The Code sets out standards of business and personal conduct for each employee and addresses conflicts that arise from personal trading by such persons and provides for disciplinary sanctions for Code violations.

The policies and procedures set forth in the Code recognize that as an investment adviser, ECP is in a position of trust and confidence with respect to its clients and has a duty to place the interests of its clients before the interests of ECP and its employees, which duty includes an obligation to address or mitigate both conflicts of interest and the appearance of any conflicts of interest. The Code sets out standards of business and personal conduct for each employee and addresses conflicts that arise from personal trading by such persons and provides for disciplinary sanctions for Code violations. The Code also recognizes that as an investment adviser registered under the Advisers Act, ECP has a further obligation to comply with the provisions of the Advisers Act as well as the other U.S. federal securities laws.

The Code requires employees to (i) act with integrity, honesty, competence, and in an ethical manner when dealing with the public, regulators, clients, investors, prospective investors and

their fellow employees, (ii) adhere to the highest standards with respect to any potential material conflicts of interest with clients, and (iii) preserve the confidentiality of information that they may obtain in the course of ECP's business and use such information properly and not in any way adverse to the interests of clients, subject to the legality of using such information.

As a general practice if a Fund and a related person of the Company is seeking to invest in the same issuer at the same time, an investment of a related person will only be allowed if disclosures concerning any conflict of interest is made, in advance, to the Chief Compliance Officer and the investments of the related person are executed after, or simultaneously with, the Fund transactions.

Additionally, ECP has adopted inside information barrier policies and procedures to provide for the proper handling of confidential information (i.e., nonpublic information received or created by ECP in connection with its activities) to prevent violations of laws and regulations prohibiting the misuse of such information and to avoid situations that might create an appearance of such misuse.

Under the Code and Firm policy, employees are prohibited from trading in securities of any company while in possession of material, non-public information regarding the company. Therefore, employees of ECP are required to disclose all brokerage or securities accounts in the individual's name or over which the employee has any direct or indirect beneficial ownership, including accounts over which investment discretion is exercised either directly or indirectly.

The Code restricts employees' ability to conduct activities outside the firm that may conflict with the interests of clients, requires preapproval for gifts and entertainment in excess of certain values that may be received and/or provided by employees, and provides for the imposition of sanctions for Code violations.

A copy of ECP's Code of Ethics is available to our clients upon written request to the Chief Compliance Officer.

## **ITEM 12 – BROKERAGE PRACTICES**

ECP does not currently affect transactions in securities through broker-dealers. ECP invests in private companies primarily through debt. ECP does not receive compensation, soft dollars, research or any remuneration from any broker-dealer.

## **ITEM 13 – REVIEW OF ACCOUNTS**

ECP follows a disciplined investment process. The process consists of six distinct phases: (1) qualification of a Fund's statutory parameters of deals sourced, (2) initial screen, (3) management presentation, (4) validation of the business, (5) formal due diligence and legal documentation, and (6) final investment committee presentation and approval. Throughout its process, ECP is committed to a disciplined, thorough evaluation of every qualified investment.

The investment professionals meet weekly to review potential transactions and to discuss recent portfolio performance, and after preliminary investment committee approval, ECP begins advanced due diligence, with any red flags discussed with the members of the investment committee through the process. ECP's diligence focuses on five key areas: (1) Industry / Marketplace, (2) Unit Economics, (3) Financial Model, (4) Management Assessment, and (5) Confirmatory Legal Diligence. ECP, when needed, uses third party accounting, environmental, industry consultants, research analyst and background check firms, to help in the due diligence process.

### **Reports**

The portfolio investments are monitored closely by the investment professionals. The Funds and portfolio investments are reviewed and monitored with respect to historic and anticipated performance, market developments and compliance with the investment mandate of the relevant Fund on an ongoing basis, both informally and formally through scheduled weekly meetings attended by all investment professionals.

The nature and frequency of regular reports to investors in the Funds depends on the terms of the governing documents of the Funds. Investors in the Funds are requested to refer to the Fund's offering documents or operating agreements regarding reports they are to receive.

## **ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION**

ECP does not compensate anyone for client referrals. Other compensation is discussed in item 5.

## **ITEM 15 – CUSTODY**

ECP is deemed to have custody of client assets by virtue of the fact that it or a related person serves as a general partner, managing member or manager of a private fund. The SEC's custody rule sets forth certain requirements for the safekeeping of client assets. Pursuant to the rule, ECP has independent accounting firms that are both registered with and subject to regular inspection by the Public Company Accounting Oversight Board ("PCAOB"), and the audited financial statements are distributed to each investor in the Fund (or their independent representative) within 120 days of the fiscal year end of each Fund. Fund assets are maintained with a qualified custodian.

## **ITEM 16 – INVESTMENT DISCRETION**

ECP or the general partner, managing member or manager of the Funds, as applicable, generally have discretionary authority with the Funds to buy and sell securities or other investments on behalf of the Funds and to determine the amount of such investments to be bought and sold, subject to such restrictions as may be specified in the statutory regime of a Fund or limited

partnership agreement. The terms upon which ECP, a wholly owned subsidiary or the SBIC Manager serves as investment manager of a Fund are established at the time each Fund is formed.

#### **ITEM 17 – VOTING CLIENT SECURITIES**

Generally, ECP's investments are in private funds and not publicly traded securities. In certain circumstances, however, if a private security becomes publicly registered, ECP may be authorized with proxy voting responsibility. Accordingly, ECP has adopted Proxy Voting Policies and Procedures. ECP's proxy voting policy is to vote proxies in the best interest of the Funds and their investors. Consideration is given to both the short and long term implications of the proposal to be voted on when considering the optimal vote. If a conflict arises, the board is required to approve the proxy vote.

An investor in the Fund may obtain a copy of ECP's proxy voting policies and procedures and information on how ECP voted proxies on behalf of such party on written request to ECP's Chief Compliance Officer.

#### **ITEM 18 – FINANCIAL INFORMATION**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about ECP's financial condition under certain circumstances. ECP has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to investors, and has not been the subject of a bankruptcy proceeding.