



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

**As of March 31, 2013**

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 Nicole Fiorenza Antoon, 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.

601 Lexington Avenue, 55th Floor | New York, NY 10022 | tel 212-207-3385 | fax 212-207-9031 [www.enhancedcapital.com](http://www.enhancedcapital.com)

## **ITEM 2 – MATERIAL CHANGES**

The purpose of this section is to provide details of material changes since the last annual update of this Brochure dated March 31, 2012, and last updated June 15, 2012. This Brochure should be read in its entirety. If you are receiving this Brochure for the first time, however, these changes may not be relevant to you.

This Brochure has been materially amended since our last update. While ECP's business and operations have not changed (other than the firm's continued growth), this brochure reflects substantial revisions based on the advice of outside legal counsel that certain entities which had previously been classified as private funds should be classified as separate accounts, proprietary accounts or entities with respect to which no advisory services were performed. These changes are reflected in the following items: Item 4 - Advisory Business; Item 5 – Fees and Compensation; Item 6 – Performance-Based Fees and Side-By-Side Management; Item 10 - Other Financial Industry Activities and Affiliations; Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading; and Item 15 - Custody.

In the future, when ECP amends its Brochure for its annual update and the amended version contains any material changes from the last annual update, ECP will identify and describe those changes on this page.

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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 certain clients focused on financing small businesses located in areas that have been underserved by traditional sources of capital. With respect to both its Client Funds as well as its other funds, ECP participates in state and federal investment programs which, in some cases, are enhanced by state and federal tax credits or other incentives. ECP has built a small business investment platform by raising funds through state- and federally-sponsored investment programs including the federal Small Business Investment Company (“SBIC”) program regulated by the U.S. Small Business Administration, the federal State Small Business Credit Initiative regulated by the U.S. Department of Treasury, and regulated state investment programs similarly seeking to channel capital to small businesses for job creation and positive economic impact. ECP performs advisory services for clients in two of its business units: State Focused Investment Funds and the Small Business Investment Company Fund.

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

ECP manages funds raised through state-focused investment programs (“State Investment Funds”) which have been created by state legislatures, state pension funds and the federal government. These programs are intended to channel investment capital into targeted businesses and thereby create jobs, increase tax revenues and establish a local investment community infrastructure by attracting qualified managers to invest in businesses in such state. Each legislatively enacted State Investment Fund has strict statutory investment mandates/restrictions with respect to the types of businesses in which a State Investment Fund may invest. As of the date of the last update to the Brochure, all State Investment Funds had been classified as private funds. However, following advice received from outside legal counsel, ECP has re-classified these entities as proprietary accounts, with the exception of two funds, Enhanced Jobs for Texas Fund, LLC (the “Texas Fund”) and Council & Enhanced Tennessee Fund LLC (the “Tennessee Fund”), which have been re-classified as separate accounts. The majority of changes to Part 1 of Form ADV and this Brochure reflect these reclassifications. Neither the fundamental investment strategy of the State Investment Funds (including the Texas Fund and the Tennessee Fund) nor ECP’s business in managing the State Investment Funds has changed. The Texas Fund and the Tennessee Fund constitute the only clients for whom ECP provides investment advisory services within its State Investment Funds business unit.

The Texas Fund received an allocation of capital to invest pursuant to the Texas Small Business Venture Capital Program administered by the Texas Department of Agriculture (the “Department”) pursuant to a Performance Agreement between the Texas Fund and the Department (the “Performance Agreement”). The Texas Small Business Venture Capital Program is administered by the Department pursuant to the State Small Business Credit Initiative

Act of 2010 (the “SSBCI Act”) implemented by the United States Department of Treasury. The Texas Fund makes primarily debt investments and, potentially, a limited number of direct equity investments, into companies located in or with a substantial nexus to Texas. The investments made by the Texas Fund must follow the investment parameters and restrictions of the SSBCI Act and the Performance Agreement. Each investment by the Texas Fund must be matched at the time of investment with another investment on the same terms and conditions that is of an equal or greater amount. This co-investment can be from a related party of the Texas Fund or a third party investor.

The Tennessee Fund received an allocation of capital to invest pursuant to Tennessee’s Small Business Investment Company Credit Act (“TNInvestco Act”) administered by Tennessee’s Department of Economic & Community Development. The Tennessee Fund makes primarily equity investments in businesses (with an emphasis on early stage businesses). The investments made by the Tennessee Fund much follow the investment parameters and restrictions of the TNInvestco Act. The Tennessee Fund is co-managed by Council Capital, a non-related company that invests in growth and early stage growth companies and is based in Tennessee. All investment decisions are made jointly by ECP and Council Capital.

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

Enhanced Small Business Investment Company, LP (“SBIC Fund” and, together with the Texas Fund and the Tennessee Fund, the “Client Funds”, and together with the other State Investment Funds, the “Funds”), is a participant in the Small Business Investment Company program, as administered by the U.S. Small Business Administration. The SBIC Fund makes primarily debt investments in businesses that meet 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 (the “SBIC Regulations”). The SBIC Fund seeks to make 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, the Texas Fund and the Tennessee Fund constitute the only clients for whom ECP provides investment advisory services.

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

Enhanced Capital Partners Employee Stock Ownership Trust owns 100% of Enhanced Capital Partners, Inc. In addition, ECP has two relying advisers: the SBIC Manager (which is discussed below) and the relying adviser for the Tennessee Fund, which is co-owned by ECP and Council Capital, mentioned above.

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 2001. Mr. Korengold also serves as a member

of the investment committee and an officer of each State Investment Fund, SBIC Fund and New Market Fund (discussed below in Item 10). 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 50% of the SBIC Manager. The remaining ownership is as follows (approximate and rounded): Mr. Barry Osherow: 25%, Mr. Andrew Paul: 12.5%, Mr. Michael A.G. Korengold: 12.5%. 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 most of State Investment Funds and the SBIC Fund. Mr. Osherow has 15 years' experience as a finance executive in providing debt, investment banking and operational management.

Mr. Paul Kasper is a Managing Director of ECP and has been with ECP since 2008. Mr. Kasper also serves as a member of the investment committee for many of the State Investment Funds and of the SBIC Fund.

With respect to all of ECP's business operations, ECP's firm- wide 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, Connecticut, Florida and Wyoming. All of ECP's books and records, together with its accounting, compliance and fund administration are located in New Orleans, Louisiana. Additionally ECP has State Investment Funds located in Alabama, Colorado, the District of Columbia, Mississippi, New York, Tennessee, Texas and Wyoming and participates in state New Market Programs (as defined in Item 10 below) in Florida, Oregon, Maine, Alabama and Nebraska.

Investment advice to each of the Client Funds is provided on a discretionary basis and is tailored to their individual needs and investment criteria, as set forth in each Client Fund's limited partnership agreement, performance agreement, private placement memorandum and/or investment management agreements and in accordance with a Client Fund's applicable statutory mandates or regulatory restrictions for a particular program. As of December 31, 2012, ECP had \$102,084,534 of discretionary Client Fund assets under management.

## **ITEM 5 – FEES AND COMPENSATION**

### **General Information Regarding Fees**

In addition to the distributions ECP receives as a direct or indirect owner of the Client Funds, ECP (or an affiliate) receives management fees in connection with the investment management and administrative services it (or such affiliate) provides to the Client Funds and may also receive carried interest allocations (see Item 6).

## **Management Fees**

### ***Texas Fund***

The Texas Fund pays an annual management fee of 2% of the total capital allocated to the Texas Fund (the Texas Fund was allocated \$10,000,000) and is payable quarterly, in advance, commencing on the closing date through fund maturity and is deducted from the Texas 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. The amount of the management fee was negotiable at the time that the Performance Agreement was negotiated and executed. 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 Texas Fund.

### ***Tennessee Fund***

Currently, the Tennessee Fund pays a management fee of 2% of the total capital allocated to the Tennessee Fund (the Tennessee Fund was allocated \$14,000,000). Beginning in 2014 through fund maturity, the management fee will be 2% of cost or FMV of the portfolio company investments. Historically, the management fee has been paid annually in advance; however future payments will be paid in advance less than semi-annually. The management fee is deducted from the Tennessee Fund's operating account. The management fee is paid to ECP and Council Capital. 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. The amount of the management fee is set forth in the statute governing the program for the Tennessee Fund and is therefore not negotiable and, to the best of our knowledge and belief, other participants in the TNInvestco Program receive the same compensation. The management fee does 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 Tennessee Fund.

### ***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 to which all limited partners are parties. 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% 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.

## **Other Compensation**

ECP and its affiliates may earn monitoring fees and other compensation from portfolio companies, purchasers, sellers and other parties to transactions involving portfolio companies as compensation for services. Such services may include advice on structuring, negotiating of the Client Funds and arranging financing for transactions in which the Client 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 Client Funds as stipulated in each Client Fund's limited partnership agreement, performance agreement, limited liability company agreement or determined in accordance with applicable statute or regulations. 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 a Client Fund invests or proposes to invest), custody, and expenses of the Advisory Committee of the SBIC Fund among others and are allocated to each Client Funds respective expenses. Current investors are referred to the relevant limited partnership, limited liability company agreement, applicable statute or other relevant closing documentation for a complete description of all expenses that may be incurred by the particular Client 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 Client Funds.

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

### **Performance-Related Compensation**

#### ***Texas and Tennessee Funds***

ECP receives a profits interest from the Texas Fund equal to 20% of the profits generated by the Texas Fund's investments after a repayment of all drawn capital. ECP receives a profits interest from the Tennessee Fund equal to 25% of all distributions following the full investment of the Tennessee Fund and assuming compliance with the statutory and regulatory requirements. Such performance-related compensation is subject to hurdles and claw-backs. Each fund's transaction documents or applicable statute contain the method by which the performance-related compensation is calculated. The profits interest fee arrangement may create an incentive for ECP to invest in riskier or more speculative instruments.

#### ***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 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 invest in the SBIC Fund, interests of the SBIC Fund and its manager are aligned which substantially reduces this incentive.

### **Parallel Investments**

With respect to the Client Funds, 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 Client Funds. Neither ECP nor its affiliated entities receive any fees as the result of any such co-investing.

## **ITEM 7 – TYPES OF CLIENTS**

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

Investors in the Texas Fund and Tennessee Fund consist of governmental subdivisions or agencies. As of the date of this Brochure, these funds are closed to new 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 pension funds, funds of funds, banks, corporate investors, high net worth individuals, family offices and charitable endowment accounts.

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

### **Investment Strategies**

ECP seeks to leverage its established network to source proprietary deal flow and avoid competitive transactions for its Client Funds. The Client Funds invest across various industries. In addition, each of the Client Funds has specific investment criteria and restrictions that must be followed pursuant to a statutory mandate applicable for each Client Fund. Generally, ECP will seek the following favorable attributes when evaluating investment opportunities:

- *Business Viability.* Elements of an economically viable business must be evident such as financial stability and a high degree of potential to achieve overall projected results. Industry growth prospects must also be favorable.

- *Dedicated and Competent Management.* The prospect's management must share ECP's objectives for current income and capital appreciation. Additionally, the management team should be experienced and highly motivated.
- *Market Potential.* Each prospect must exhibit a high degree of potential to achieve its forecasted sales volumes due to identifiable competitive advantages, dominant market position, proprietary product or service, technological superiority, history of product quality and service or other similar market advantages.
- *Rate of Return.* The investment must possess a high probability of achieving ECP's desired rate of return through a combination of current income and/or capital appreciation.

### ***Texas Fund***

The Texas Fund generally provides senior term debt and subordinated/mezzanine debt to micro-cap and lower middle market private companies in Texas that are underserved by traditional sources of capital, specifically located in low-income census areas (poverty rates greater than 30%); non-metropolitan counties; strategic investment areas; and targeted population transactions. Investments range in size of \$250,000 to \$2,000,000, with a maturity between two and five years. The prospective portfolio company and use of proceeds for such investments must comply with the SSBIC Act. The Texas Fund concentrates on investment capital in bilateral term loans, which generally offer the following favorable attributes:

- Strong value cushion to protect ECP's capital (i.e. low loan-to-value exposure);
- Interest income, fee income and principal payments on a contractual basis that do not vary with company performance or external market valuations;
- High level of current cash income on the investment;
- Opportunity for thorough due diligence as part of the loan origination process;
- Financial maintenance covenants, and other protective covenants;
- High recovery rates in event of default and strong rights in a bankruptcy; and
- Good visibility into the financial and operating performance of the company post-closing, including detailed private financial reporting and board observation rights.

### ***Tennessee Fund***

The Tennessee Fund makes growth-oriented minority interest equity investments into Tennessee based companies across a range of different industries. The Tennessee Fund seeks to be actively involved post-investment, consider opportunities at multiple stages of the company growth cycle, and frequently syndicates deals with other investors. The Tennessee Fund's key investment criteria are (1) strong management team; (2) attractive and proven unit economics; (3) large market opportunity; (4) scalable business model; and (5) satisfying the Tennessee Fund's statutory requirements. Investments typically range in size of \$250,000 to \$1,500,000.

### ***SBIC Fund***

The SBIC Fund provides senior term debt and subordinated / mezzanine debt to companies seeking capital for ownership transitions, business expansions, leveraged buyouts, recapitalizations and refinancings. The SBIC Fund generally targets companies with revenue

greater than \$10 million and EBITDA greater than \$2 million, with the following company and deal characteristics:

#### *Company Characteristics*

The SBIC Fund takes a diversified approach to portfolio construction and limits exposure to any particular sector. The SBIC Fund's investment professionals have significant experience financing technology, healthcare, and business services businesses, which are expected to comprise a significant portion of the portfolio. The SBIC Fund invests in companies across the United States, with an emphasis on ECP's existing footprint in the Gulf Coast, East Coast, and Northeast.

The SBIC Fund seeks companies with the following attributes: stable cash flows, strong management teams, thorough and adequately capitalized business plans with clearly defined growth strategies, realistic and feasible exit strategies to generate attractive risk adjusted returns, defensible market positions, sound reputations with customers, suppliers and employees, sponsor and unsponsored companies, and low loan to value and leverage ratios.

#### *Deal Characteristics*

The SBIC typically structures investments as the senior most term debt in a company's capital structure or as subordinated debt, though with lower leverage ratios than many conventional mezzanine investors. Loans are structured with three to five year maturities, typically with amortization of principal and interest during the life of the loan and investments range in size from \$3 to \$20 million.

#### **Risk of Loss**

An investment in the Client Funds involves a significant degree of risk, relating both to the types of investments contemplated by the Client Funds and the Client Funds' ability to achieve their respective investment objectives. There can be no assurance that the Client 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 Client Funds. An investment in the Client Funds requires a long-term commitment, with no certainty of return. Since the Client Funds may only make a limited number of investments, and since the Client 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 Client Funds will be able to generate returns for the investors or that returns will be commensurate with the risks of the investments within the Client Funds' investment objectives. Current investors are requested to refer to the Client Funds' Private Placement Memorandum, Performance Agreement, the SSBCI Act, the TNInvestco Act and the SBIC Regulations, as applicable, for a complete description of risks associated with investing in the Client 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 engages in other business activities in addition to managing the Client Funds. ECP manages the other State Investment Funds, as described above in Item 4, all of which (other than the State Client Funds) have been reclassified as proprietary accounts since the date of the last update of this Brochure.

ECP also participates in investments in businesses located in low-income communities pursuant to the mandates and restrictions of the Federal New Markets Tax Credit Program and various state New Markets Tax Credit Programs (“New Markets Funds”). The Federal New Markets Tax Credit Program is administered and regulated by the Community Development Financial Institution Fund with the US Department of the Treasury, while the state New Market Tax Credit Programs are administered and regulated by the applicable state governmental agency or department. As of the date of the last annual update, all New Markets Funds had been classified as private funds, but have been reclassified in accordance with advice from outside legal counsel. Investors in the New Markets Funds are typically banking institutions or one of their wholly owned subsidiaries and insurance companies. The New Markets Funds typically pay the manager an upfront structuring and transaction fee at closing, in an amount up to 5-10% of the Qualified Equity Investment (as defined in the Federal New Markets Tax Credit Program) amount. In addition, the New Market Funds typically pay the manager an annual asset management fee up to 0-1% of the Qualified Equity Investment amount. 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. The manager of the New Markets Funds does not receive performance based fees.

The New Market Funds have been reclassified and are no longer considered advisory clients of ECP, since ECP does not manage the assets of these entities (either for third parties or on a proprietary basis). However, the investment focus of the New Markets Funds has not changed and they continue to be an important part of ECP's business activities.

ECP is also affiliated with an SEC investment adviser, Enhanced Management Company, LLC (“EMC”) by virtue of being under common control of Andrew M. Paul. ECP and EMC may invest in common portfolio companies. EMC makes primarily 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 subleases space from EMC and, pursuant thereto, shared office space expenses 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 Code is reviewed and revised, if needed, on an annual basis.

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 Client 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 Client 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 effect transactions in securities through broker-dealers. 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 Client Fund's statutory parameters for 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**

Portfolio investments are monitored closely by the investment professionals assigned to such fund, as well as members of ECP's fund administration team. 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 most 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, including applicable statutory and regulatory reporting requirements. Investors in the Funds are requested to refer to the Fund's offering documents or operating agreements, as well as applicable statute or regulations, regarding reports they are to receive.

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

ECP does not currently compensate anyone for client referrals. Placement agents were engaged during 2012 to assist in soliciting investors for the SBIC Fund. Placements agents were responsible for referring less than 5% of the investors of the SBIC Fund. One agreement was with Alternative Asset Investment Management Securities, LLC, with registered broker member representatives at Round Table Financial Group, LLC and provided for compensation of three percent (3%) of any commitments sourced and was terminated on February 4, 2013. The other agreement was with Deutsche Bank and provided for compensation of one percent (1%) of any commitments sourced.

Other compensation is discussed in item 5.

#### **ITEM 15 – CUSTODY**

ECP is deemed to have custody of the assets of the Client Funds, and 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 Client Fund (or their independent representative) within 120 days of the fiscal year end of each Client Fund. Client Fund assets are maintained with a qualified custodian. Due to the reclassification of certain private funds, the SEC may require that, in addition to performing scheduled annual audits, auditors conduct surprise exams of the State Client Funds, which are not "private funds" as such term is defined under the Advisers Act.

#### **ITEM 16 – INVESTMENT DISCRETION**

ECP or the general partner, managing member or manager of the Client Funds, as applicable, generally have discretionary authority with the Client Funds to buy and sell securities or other investments on behalf of the Client 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 Client Fund or limited partnership agreement. The regulatory body governing the programs for the Texas Fund and the Tennessee Fund must agree in advance of any investment made that the potential portfolio company and investment in that portfolio company meets the qualification criteria of the applicable statute and/or regulations. Additionally, all investment decisions for the Tennessee Fund are decided jointly with Council Capital. The terms upon which ECP, a wholly

owned subsidiary or the SBIC Manager serves as investment manager of a Client Fund are established at the time each Client Fund is formed.

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

Generally, ECP's investments are in private companies 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 Client 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 Client 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.