

INVESTMENT ADVISER BROCHURE

EC MANAGEMENT SERVICES, INC.

**300 West Sixth Street, Suite 2230
Austin, Texas 78701-3913**

<http://www.escalatecapital.com/>

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This brochure supplement provides information about certain persons involved in investment activities of EC Management Services, Inc. (“Escalate Management”). If you have any questions about the contents of this Brochure, please contact Larry Bradshaw at (512) 651-2109. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state authority.

Escalate Management is an investment adviser registered with the SEC under the Investment Advisers Act of 1940, as amended. However, such registration does not imply a certain level of skill or training.

Additional information regarding Escalate Management is also available on the SEC’s website at www.adviserinfo.sec.gov.

MATERIAL CHANGES

This Brochure contains material changes to the prior brochure dated June 30, 2014 (our “**Prior Brochure**”). Immediately below is a description of such material changes. Such discussion sets forth only material changes to our Prior Brochure.

This Brochure reflects the following material changes to the Prior Brochure: (1) conforming changes to the amounts of regulatory assets under management of Escalate Management, Fund I GP (as defined below) and Fund II GP (as defined below) and (2) the insertion of information regarding Fund III and Fund III GP (each as defined below) in connection with the closing of Fund III.

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ADVISORY BUSINESS

EC Management Services, Inc. (“**Escalate Management**”) is a registered investment adviser that commenced operations in May 2005 and that manages approximately \$270,694,605 in private fund assets on a discretionary basis as of September 2014.

Escalate Management and its affiliated investment advisers Escalate Capital Management I (“**Fund I GP**”), Escalate SBIC Capital Management, LLC (“**Fund II GP**”, and Escalate SBIC Capital Management III, LLC (“**Fund III GP**” and, together with Fund I GP and Fund II GP, collectively, the “**General Partners**” or the “**Affiliated Advisers**,” and the General Partners together with Escalate Management, collectively, the “**Advisers**” or “**Escalate**”) provide investment advisory services to the following private investment funds: Escalate Capital I, L.P. (“**Fund I**”), Escalate Capital Partners SBIC I, L.P. (“**Fund II**”), and Escalate Capital Partners SBIC III, LP (“**Fund III**” and, together with Fund I and Fund II, each, a “**Fund**” and, collectively, the “**Funds**”), as more fully described below.

Each General Partner is registered under the Investment Advisers Act of 1940, as amended, (the “**Advisers Act**”) in accordance with SEC guidance. The General Partners together with Escalate Management operate as a single advisory business and this Investment Adviser Brochure (this “**Brochure**”) describes the business and practices of Escalate Management and of each General Partner.

Fund I GP commenced operations in May 2005 as the general partner of Fund I and, as of September 30, 2014, manages approximately \$27,371,555 in private fund assets on a discretionary basis. Fund II GP commenced operations in June 2010 as the general partner of Fund II and, as of September 30, 2014, manages approximately \$157,823,050 in private fund assets on a discretionary basis. Fund III GP commenced operations in September 2014 as the general partner of Fund III and, as of September 30, 2014 manages approximately \$85,500,000 in private fund assets on a discretionary basis. None of the Advisers manage any assets on a non-discretionary basis. Each of Fund I GP, Fund II GP and Fund III GP has delegated management of Fund I, Fund II and Fund III respectively, to Escalate Management pursuant to the respective Fund’s Limited Partnership Agreement (defined below).

Fund I executes its investment strategy primarily by investing its assets in and through Fund II, and from time to time by making investments directly in portfolio companies, as more fully described below. Fund II and Fund III each operates as a small business investment company (an “**SBIC**”) pursuant to a license (the “**SBIC License**”) granted by the U.S. Small Business Administration (the “**SBA**”) under the Small Business Investment Company Act of 1958 (the “**SBIC Act**”), and obtains financing from the SBA in the form of debentures to complete investments (the “**SBA Financing**”).

The Funds make mezzanine investments (directly or indirectly) in privately-held growth companies through negotiated transactions. Escalate Management’s investment advisory services to the Funds consist of identifying and evaluating investment opportunities, negotiating investments, managing and monitoring investments and achieving dispositions for such investments. These advisory services are further detailed in the applicable limited partnership agreement of each Fund (each, a “**Limited Partnership Agreement**”) and are further described

below under “Methods of Analysis, Investment Strategies and Risk of Loss.” Investors in the Funds participate in the overall investment program for the applicable Fund.

The principal owners of Escalate Management are William A. Schell and J. Ross Cockrell. The principal owners of Fund I GP are EC Management I, L.P. and AV-EC Partners I, L.P. No member of Fund II GP owns more than 25% of this Adviser. The principal owners of Fund III GP are William A. Schell and J. Ross Cockrell.

FEES AND COMPENSATION

In general, Escalate Management receives management fees (the “**Management Fees**”) in connection with its advisory services. Escalate Management, the General Partners and/or their affiliates may receive certain additional fees in connection with management and other services performed in relation to portfolio companies of the Funds and such additional fees will offset in whole or in part the Management Fees otherwise payable by the Funds. Limited partners in the Funds also bear certain expenses as further described below. Additionally, each of Fund I GP and Fund III GP is entitled to receive certain performance-based compensation, as described below under “Performance-Based Fees and Side-by-Side Management.”

Management Fees

Fund I

Fund I pays Escalate Management a Management Fee in advance on a quarterly basis. During Fund I’s investment period, the quarterly Management Fee is equal to 0.5% of the aggregate capital contributions to Fund I as of a date set forth in Fund I’s Limited Partnership Agreement. Following Fund I’s investment period, the quarterly Management Fee will be equal to 0.5% of the lesser of (x) the carrying value of debt securities shown on Fund I’s most recent quarterly balance sheet and (y) the aggregate capital contributions to Fund I as of a date set forth in Fund I’s Limited Partnership Agreement. Each quarterly Management Fee otherwise payable by Fund I is reduced by an amount equal to one-third of the Management Fee payable by Fund II in respect of the same quarterly period. Additionally, if the aggregate Management Fees payable by Fund I and Fund II in any year exceed a threshold set forth in Fund I’s Limited Partnership Agreement, the payment of such fees are subject to approval by Fund I’s advisory board (which is comprised entirely of representatives of investors in Fund I and not affiliates of Escalate).

Fund I portfolio companies may pay to Escalate Management, the General Partners and/or their affiliates certain loan fees, restructuring fees, prepayment fees and/or annual fees (collectively, “**Loan Fees**”). The Management Fees otherwise payable by Fund I are reduced (on an annual basis) by 100% of the amount of Loan Fees. If Loan Fees exceed the Management Fee, such excess is applied to succeeding Management Fees (on an annual basis) for up to three years.

Fund I also bears all fees and expenses incurred in investigating and evaluating investment opportunities and in the purchase, holding or sale of investments and in arranging for management assistance to portfolio companies and other costs associated with maintenance and management of investments; fees and expenses relating to federal and state regulatory compliance; costs of reporting to limited partners; auditing and bookkeeping costs and costs of

preparing the Fund's tax returns; certain indemnification expenses (if any); and certain other costs and expenses pursuant to Fund I's Limited Partnership Agreement.

Fund II

Fund II pays Escalate Management a Management Fee in advance on a quarterly basis. During Fund II's investment period, the quarterly Management Fee is equal to 0.5% of the sum of Fund II's Unreduced Regulatory Capital (as defined in SBIC TechNote 7A (Revised April 2008), Part A.1(2)) and Assumed SBA Leverage (which is equal to twice the Unreduced Regulatory Capital). Following Fund II's investment period, the quarterly Management Fee will be equal to 0.5% of the aggregate cost basis of all of Fund II's investments in "active" portfolio securities (*i.e.*, investments that have not been written off and where the issuer remains a going concern, in each case subject to confirmation by the SBA). As noted above, the aggregate Management Fees payable by Fund I and Fund II annually are subject to approval of Fund I's advisory board if they exceed a specified threshold set forth in Fund I's Limited Partnership Agreement.

The amount of any fees paid by a portfolio company that are received by Escalate Management or any of its affiliates is applied by Escalate Management first to reimburse Fund II for all expenses previously paid by it with respect to unconsummated investments and then any excess amount is applied to reduce the Management Fee otherwise payable by Fund II.

Additionally, Fund II is responsible for certain expenses, including all interest and expenses on any borrowing or leverage of Fund II; expenses related to Fund II's status as an SBIC; any taxes payable by Fund II; expenses incurred in the actual or proposed acquisition or disposition of assets; any legal, insurance, accounting and auditing expenses; and certain other expenses pursuant to Fund II's Limited Partnership Agreement.

Fund III

Fund III pays Escalate Management a Management Fee in advance on a quarterly basis. During Fund III's investment period, the quarterly Management Fee is equal to 0.4375% of the sum of Fund III's Unreduced Regulatory Capital (as defined in SBIC TechNote 7A (Revised April 2008), Part A.1(2)) and Assumed SBA Leverage (which is equal to twice the Unreduced Regulatory Capital). Following Fund III's investment period, the quarterly Management Fee will be equal to 0.4375% of the aggregate cost basis of all of Fund III's investments in "active" portfolio securities (*i.e.*, investments that have not been written off and where the issuer remains a going concern, in each case subject to confirmation by the SBA).

The amount of any fees paid by a portfolio company that are received by Fund III GP either (i) will be immediately paid to the Fund III GP and, unless otherwise permitted under the SBIC Act, shall be credited against future Management Fees, and in the event that such fees exceed the amount of Management Fees due at the beginning of the following fiscal quarter, Fund III GP will refund the difference to Fund III at the beginning of the following fiscal quarter; or (ii) will be immediately paid to Fund III. In the event that, upon termination of the Fund, any such fees remain unapplied to Fund III's obligations with respect to the Management

Fee, Fund III GP will refund such unapplied amount to Fund III for distribution to Fund III's limited partners.

Additionally, Fund III is responsible for certain expenses, including all interest and expenses on any borrowing or leverage of Fund III; organization expenses; expenses related to Fund III's status as an SBIC; any taxes payable by Fund III; expenses incurred in the actual or proposed acquisition or disposition of assets; litigation expenses; break-up fees; any legal, insurance, accounting and auditing expenses; and certain other expenses pursuant to Fund III's Limited Partnership Agreement.

Other Information

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

PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

Escalate Management is not entitled to receive carried interest distributions (“**Carried Interest**”) for its advisory services to the Funds.

Fund I GP receives Carried Interest equal to 20% of the aggregate realized profits from Fund I, subject to an 8% preferred return to Fund I's limited partners, and subject to a general partner catch-up as set forth in Fund I's Limited Partnership Agreement. Any excess distributions of Carried Interest received by Fund I GP will be subject to a claw-back upon termination of the Fund.

Fund III GP receives Carried Interest equal to 20-25% of the aggregate realized profits from Fund III based on the amount of cumulative distributions to limited partners, subject in each case to an 8% preferred return to Fund III's limited partners, and subject to a general partner catch-up as set forth in Fund III's Limited Partnership Agreement. Any excess distributions of Carried Interest to Fund III GP will be subject to a claw-back upon termination of the Fund.

Other than Carried Interest to which each of Fund I GP and Fund III GP is entitled as described above, none of the Advisers receive any performance-based fees in respect of the Funds.

TYPES OF CLIENTS

Escalate Management provides investment advice to the Funds and may provide investment advice to other investment partnerships or other investment entities formed under domestic or foreign laws and operated as exempt investment pools under the Investment Company Act of 1940, as amended. The investors participating in the Funds and such other private investment funds may include individuals, banks or thrift institutions, other investment entities, pension and profit-sharing plans, trusts, estates or charitable organizations or other

corporations or business entities and may include, directly or indirectly, principals or other employees of Escalate Management and its affiliates.

The Funds are closed to new investors subscribing for new interests. Interests in the Funds were offered and sold solely to accredited investors within the meaning of the rules promulgated under the U.S. Securities Act of 1933, as amended.

METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

The Advisers provide investment advisory services to the Funds, as applicable, and share common owners and personnel. Accordingly, the Advisers' investment methodology is described below. There can be no assurance that Advisers will achieve the investment objectives of the Funds and a loss of investment may be possible.

Fund I executes its investment strategy primarily by investing its assets in and through Fund II, and from time to time by making investments directly in portfolio companies, as more fully described below. Fund II and Fund III each operates as an SBIC and obtains financing from the SBA in the form of debentures to finance investments. Fund II and Fund III are mezzanine funds that provide loans to, and acquire warrants from, privately-held expansion and later-stage companies primarily backed by equity sponsors within the technology and technology-enabled services industries.

Investment Approach

Escalate's investment strategy includes the following:

- **Investment Security:** Loans take the form of amortizing senior secured loans or senior secured subordinated loans. Loans generally range from \$3 million to \$15 million and amortize after an interest-only period. Interest is payable in arrears on a monthly basis. Warrants generally take the form of the right to purchase preferred or common shares. Additionally, Escalate will from time to time take an equity interest in conjunction with its debt investment.
- **Covenant Structure:** Working closely with the borrower, Escalate structures a covenant package that may be based on a combination of operating performance, asset coverage, cash flow and/or other milestones. In situations where the portfolio company has outstanding debt from a senior lender, the Fund typically receives cross-default rights with existing senior loan covenants.
- **Expansion- and Later-Stage Focus:** Escalate seeks to invest in target companies that offer a product or service that is commercially available, demonstrate significant revenue growth, and are on a path to profitability within the term of the loan. Target companies also have potential future exit alternatives that may provide liquidity to the Fund's equity position via the warrant component of the investment.
- **Equity Sponsorship:** Target companies generally are equity-sponsored by one or more firms. Escalate believes that target companies with institutional sponsorship

represent a lower risk profile and a higher marginal upside opportunity than those without such backing. In certain situations, compelling, non-equity-sponsored companies may be considered for investment if other criteria are met.

- **Deal Flow:** Escalate generates deal flow from (i) relationships with equity sponsors, (ii) direct calling on prospective companies within certain target industries and geographies, (iii) referrals from other senior technology and life science lenders, (iv) referrals from key “centers of influence” (e.g., investment bankers, lawyers, accountants) and (v) conferences.
- **Geographic Focus:** The Fund’s investment activities are focused exclusively on companies based in the U.S.

Due Diligence & Investment Decision Process

Escalate’s due diligence and underwriting process are as follows:

- **Preliminary Evaluation of Borrower.** After identifying a company that merits further investigation, Escalate evaluates the prospective borrower. One or more investment professionals meet with the borrower and perform a preliminary investigation of the borrower’s management and operations. Escalate generally seeks other sources of information to assess the prospects of the borrower and its industry. If Escalate is satisfied with a preliminary investigation of the borrower and after reaching an agreement on terms, Escalate will commence due diligence.
- **Due Diligence.** Escalate’s due diligence initially focuses on the borrower’s management team. The Fund will conduct on-site visits to the borrower’s headquarters and certain other facilities. Interviews with key management and board members and discussions with customers, suppliers, and industry research analysts will be conducted as appropriate. Escalate will collect specific information, including the history of the borrower, detailed historical and projected financial statements, a description of the borrower’s market and competitive landscape, and a description of operations. Escalate discusses the business with the company’s existing investors regarding their assessment of the company’s strengths and weaknesses, as well as appetite for additional investment if needed. Furthermore, Escalate prepares sensitivity analyses of company performance and any potential impact on the borrower’s future earnings. Additional legal due diligence is performed by outside legal counsel.
- **Loan Approval.** Upon the completion of due diligence, a borrower profile is created that summarizes the borrower’s historical and projected financial statements, its industry, management, operations, prospects, and its degree of conformity with the Fund’s preferred borrower characteristics. The borrower’s profile will then be presented to the applicable investment committee(s).

Portfolio Monitoring

Escalate employs a proactive portfolio monitoring process consistent with its experience in portfolio management. Following the closing of a loan, Escalate monitors the performance of the portfolio company and its compliance with the terms of the loan. As part of the loan agreement, each portfolio company is required to provide the Fund with monthly financial statements and other relevant financial information, as well as audited year-end financial statements and board presentation materials. In addition to reviewing this information as a team on a monthly basis, Escalate maintains regular contact with the borrower and consults with the borrower on its performance and results as well as the borrower's overall strategic plan.

Risks of Investment

The Funds and their investors bear the risk of loss that the Advisers' investment strategy entails. The risks involved with the Advisers' investment strategy and an investment in the Funds include, but are not limited to:

Regulation by SBA. Fund II and Fund III are each subject to SBA regulations and policies which may change during the respective life of the Fund in ways that might require it to alter its business activities. Current SBA regulations provide SBA with certain rights and remedies if the Fund violates their terms. A key regulatory metric for SBA is the extent of "Capital Impairment" (*i.e.*, the extent of realized (and, in certain circumstances, net unrealized) losses compared with the SBIC's private capital commitments). Interest payments, management fees, organization and other expenses are included in determining "realized losses". SBA regulations preclude the full amount of "unrealized appreciation" from portfolio companies from being considered when calculating Capital Impairment in certain circumstances. Remedies for regulatory violations are graduated in severity depending on the seriousness of Capital Impairment or other regulatory violation. For minor regulatory infractions, warnings are given. For serious infractions, the use of debentures may be limited or prohibited, outstanding debentures can be declared to be immediately due and payable, restrictions on distributions and making new investments may be imposed, management and fees may be required to be reduced. In severe cases, the SBA may require an SBIC's limited partners to remove the SBIC's general partner or its officers, directors, managers or partners, or the SBA may obtain appointment of a receiver for the SBIC.

Availability of SBA Financing. Receipt of an SBIC license by either Fund II or Fund III is not automatic assurance that such Fund will receive SBA Financing. Receipt of SBA Financing is dependent upon such Fund's continued compliance with SBA regulations and policies and the availability of funding. The amount of SBA Financing available to SBICs is dependent upon annual Congressional authorizations and in the future, may be subject to annual Congressional appropriations. There can be no assurance that there will be sufficient SBA Financing available at the times desired by Fund II or Fund III.

Use of SBA Financing. The use of SBA Financing magnifies the potential for both gains and losses with respect to investments made by the Funds. As a result of the commitment fees, repayment obligations and semi-annual interest payments to which the SBA is entitled, the Funds' investors may realize a lower return than they otherwise would have realized if they had

made an investment in a fund that did not use SBA financing, and may realize no return when they would have realized a positive return if they had made their investment in such a fund. There can be no assurance that the Fund will generate returns that exceed the crossover point for return enhancement attributable to SBA financing. The payments to which the SBA is entitled may reduce or entirely eliminate returns to a Fund's limited partners if the relevant Fund does not generate sufficient returns in excess of such payments.

No Assurance of Investment Return. Escalate cannot provide assurance that it will be able to choose, make and realize investments in any particular company or portfolio of companies. There is no assurance that the Funds will be able to generate returns for their investors or that the returns will be commensurate with the risks of investing in the type of companies and transactions described herein. There is no assurance that the assumptions upon which any projections were made will prove to be accurate, including without limitation, the amount of capital recycled by the Funds, the number of loans per year, the average interest rate, the loan loss percentage, warrant ownership positions, warrant portfolio return and average time to liquidity.

Pursuant to SBA regulations, an SBIC with outstanding SBIC Financing may distribute cumulative realized profits (less unrealized losses on investments) to its investors, but it may not return more than 2% of its outstanding capital to investors in any fiscal year without the SBA's prior approval. Generally, the SBA only permits repayments in excess of 2% of its outstanding capital pursuant to an approved "wind-up" plan filed by an SBIC pursuant to which the SBA determines that repayment of the outstanding SBIC Financing is adequately assured.

Illiquid Investments. Portfolio companies in which the Funds invest are comparatively small companies that may not have a readily available market for their securities, including the debt, equity and warrant securities in which the Funds invest.

Competition for Investments. Escalate competes with other companies for investments, some of which have greater resources than those of the Funds. Competition for investments may result in less favorable investment terms than would otherwise be the case. There can, therefore, be no assurance that investments of the Funds will meet all their respective investment objectives, or that the Funds will be able to invest all of their available funds.

Short Operating History of Companies. Investment by the Funds in certain companies may involve a high degree of risk in that such companies may have a relatively short operating history and a need for additional capital to support expansion or to achieve or maintain a competitive position. Such companies may face intense competition, including competition from companies with greater financial resources, more extensive development, manufacturing, marketing and service capabilities, and a larger number of qualified managerial and technical personnel.

Need for Follow-on Investments. Following its initial investment in portfolio companies, the Funds may have opportunities to increase their investments. There is no assurance that the Funds will make such additional investments, or that the Funds will have sufficient capital to make such investments. Any decision by the Funds not to make such investments, or their inability to make them, may have a substantial negative impact on a portfolio company in need

of such an investment, or may result in a missed opportunity for the Funds to increase their participation in a successful operation.

Legal, Tax and Regulatory Risks. Legal, tax and regulatory changes could occur during the Funds' respective terms that may have an adverse effect on such Fund, its portfolio companies or its general or limited partners. The Funds may have limited legal recourse in the event of a dispute, and remedies might have to be pursued in the courts of a variety of countries.

Public Company Holdings. The Funds' investment portfolios may contain securities issued by companies the securities of which may become public following a Fund's initial investment. Such investments may subject the Funds to risks that differ in type or degree from those involved with investments in companies whose securities are solely privately held. Such risks include, without limitation, greater volatility in the valuation of such companies, increased obligations to disclose information regarding such companies, limitations on the ability of such Funds to dispose of such securities at certain times, increased likelihood of shareholder litigation against such companies' board members, and increased costs associated with each of the aforementioned risks.

Potential Conflict of Interest - Carried Interest. The Carried Interest to which Fund I GP and Fund III GP are entitled may create an incentive for the Advisers to make more speculative investments and different decisions regarding the manner and timing of realization of certain investments than would otherwise be the case. However, the Advisers have adopted policies and procedures to address these and other conflicts and the Advisers seek to manage all portfolio investments in the best interest of the Fund.

DISCIPLINARY INFORMATION

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

OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Escalate Management is affiliated with other Escalate investment advisers registered with the SEC under the Advisers Act pursuant to Escalate Management's registration in accordance with SEC guidance. These advisers are Fund I GP, Fund II GP and Fund III GP. Escalate provides management and administrative services to Fund I, Fund II and Fund III GP pursuant to a management services agreement. These affiliated investment advisers operate as a single advisory business together with Escalate Management and serve as managers or general partners of private investment funds and other pooled vehicles and may share common owners, officers, partners, employees, consultants or persons occupying similar positions.

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

The Advisers have adopted a Code of Ethics and Securities Trading Policy and Procedures (the "**Code**"), which sets forth standards of conduct that are expected of the

Advisers' principals and employees and addresses conflicts that arise from personal trading. The Code requires certain Escalate personnel to report their personal securities transactions, prohibits or requires pre-clearance for Escalate personnel from directly or indirectly acquiring beneficial ownership or disposing of securities in an initial public offering, and prohibits Escalate's personnel from directly or indirectly acquiring beneficial ownership of securities with limited exceptions, without first obtaining approval from the Advisers' Chief Compliance Officer. A copy of the Code will be provided to any investor or prospective investor upon request to the Advisers' Chief Compliance Officer.

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

Accordingly, should the Advisers or any of their affiliated persons come into possession of material nonpublic or other confidential information with respect to any public company, the Advisers would be prohibited from communicating such information to clients, and the Advisers will have no responsibility or liability for failing to disclose such information to clients as a result of following their policies and procedures designed to comply with applicable law.

Co-investments. The Advisers have adopted policies and procedures that address the allocation of co-investment opportunities to and among persons, including limited partners of the Funds. As a general matter, the Advisers offer all relevant investment opportunities first to the applicable Fund up to an amount of the transaction deemed prudent by the applicable Adviser(s) consistent with its Limited Partnership Agreement. Any excess available investment over that allocated to the Fund may then be offered as a co-investment to one or more other persons, including limited partners as and in such proportions determined by such Adviser(s). Further, the Advisers are under no obligation to offer any co-investment opportunity to any or all limited partners in a Fund.

BROKERAGE PRACTICES

The Advisers generally make loans to, and acquire warrants from, private companies through privately-negotiated transactions. As a general matter, the Advisers do not use the services of a broker-dealer in these transactions. However, the Advisers may distribute these and related securities to investors in the Funds or sell such securities, including through use of a broker-dealer. Although the Advisers do not intend to regularly engage in public securities transactions, to the extent they do so, they follow the brokerage practices described below.

The Advisers will seek to select brokers on the basis of best price and execution capability. In selecting a broker to execute transactions, the Advisers may consider a variety of factors, including: (i) execution capabilities with respect to the relevant type of order; (ii) commissions charged; (iii) the reputation of the firm being considered; and (iv) responsiveness to requests for trade data and other financial information.

The Advisers have no duty or obligation to seek in advance competitive bidding for the most favorable commission rate applicable to any particular client transaction or to select any broker on the basis of its purported or “posted” commission rate, but will endeavor to be aware of the current level of the charges of eligible brokers and to reduce the expenses incurred for effecting client transactions to the extent consistent with the interests of the applicable Funds. Although the Advisers generally will seek competitive commission rates, they may not necessarily pay the lowest commission. Transactions may involve specialized services on the part of the broker involved and thereby entail higher commissions or their equivalents than would be the case with other transactions requiring more routine services.

Although the Advisers generally do not make use of research services, brokerage commissions on client transactions may be directed to brokers in recognition of such services, consistent with the Advisers seeking to obtain best execution.

The Advisers have no formal arrangements with broker-dealers to receive research or other products or services, and the Advisers do not have any soft dollar or commission sharing agreements in place that would require the Advisers to provide any specified amount of brokerage to a broker-dealer. The Advisers, however, may receive research reports from broker-dealers that may provide or seek to provide services to the Advisers, the Funds or their portfolio companies. Any information received from a broker-dealer is consistent with the safe harbor for brokerage and research services under Section 28(e) of the Securities Exchange Act of 1934. If the Advisers receive research or other information or opportunities from a broker-dealer free of charge, the Advisers could be viewed as receiving a benefit they do not have to pay for, and the they could be viewed as having an incentive to select or recommend a broker-dealer for a transaction on behalf of a Fund or portfolio company based on its receiving such benefits rather than on receiving most favorable execution.

The Advisers do not anticipate engaging in regular or significant public securities transactions; however, to the extent that an Adviser engages in any such transactions, orders for purchase or sale of securities placed first will be executed first, and within a reasonable amount of time of order receipt. To the extent that orders for the Funds are completed independently, an Adviser may also purchase or sell the same securities or instruments for several Funds simultaneously. From time to time an Adviser may, but is not obligated to, purchase or sell securities for more than one Fund at approximately the same time. Such orders may be combined or “batched” to facilitate obtaining best execution and/or to reduce brokerage commissions or other costs. Batched transactions are executed in a manner intended to ensure that no participating Fund of an Adviser is favored over any other private investment fund managed by the Advisers. When an aggregated order is filled in its entirety, each participating Fund generally will receive the average price obtained on all such purchases or sales made during such trading day. When an aggregate order is partially filled, the securities purchased or sold will normally be allocated on a *pro rata* basis to each Fund participating in such buy or sell order in accordance with the amount of securities originally requested for such Funds.

REVIEW OF ACCOUNTS

As described above, investments made by the Funds are generally private, illiquid and long-term in nature. Accordingly, the review process is not directed toward a short-term

decision to dispose of securities. However, Escalate Management closely monitors companies in which the Funds invest, and the Advisers' Chief Compliance Officer periodically checks to confirm that each Fund is advised and managed in accordance with its stated objectives.

Each Fund provides to its limited partners (i) annual GAAP audited and quarterly unaudited financial statements and (ii) annual tax information necessary for each limited partner's tax return.

CLIENT REFERRALS AND OTHER COMPENSATION

Neither the Advisers nor their affiliates are currently using the services of any third party for client referrals.

CUSTODY

The Advisers maintain custody of the funds and securities of each Fund, held in such Fund's name, with Merrill Lynch, Pierce, Fenner & Smith, Inc.

INVESTMENT DISCRETION

The Advisers have discretionary authority to manage investments on behalf of the Funds. Certain limitations on this authority are set forth in each Fund's respective Limited Partnership Agreement. Investments made on behalf of Fund II or Fund III are also subject to applicable limitations pursuant to the SBA Act and rules and guidance promulgated by the SBA. Pursuant to the terms of the Limited Partnership Agreements, an Adviser may enter into "side letter" arrangements with certain limited partners whereby the terms applicable to such limited partner's investment in the applicable Fund may be altered or varied, including, in some cases, the right to opt-out of certain investments for legal, tax, regulatory or other similar reasons. Each Adviser assumes this discretionary authority pursuant to the terms of the applicable Limited Partnership Agreement, the applicable investment management agreement and powers of attorney executed by the limited partners of the applicable Fund.

VOTING CLIENT SECURITIES

The Advisers have adopted the Proxy Voting Policies and Procedures (the "**Proxy Policy**") to address how they will vote proxies, as applicable, for the Funds' portfolio investments. The Proxy Policy seeks to ensure that the Advisers vote proxies (or similar instruments) in the best interest of the applicable Fund, including where there may be material conflicts of interest in voting proxies. Each Adviser generally believe its interests are aligned with those of the applicable Fund's investors through the principals' beneficial ownership interests in the applicable Fund and therefore will not seek investor approval or direction when voting proxies. In the event that there is or may be a conflict of interest in voting proxies, the Proxy Policy provides that each Adviser may address the conflict using several alternatives, including by seeking the approval or concurrence of the applicable Fund's advisory board on the proposed proxy vote or through other alternatives set forth in the Proxy Policy. Additionally, a Fund's advisory board may approve the Adviser's vote in a particular solicitation. No Adviser considers the Adviser's receipt of management or other fees from portfolio companies to create a material conflict of interest in voting proxies with respect to such companies. In addition, the

Proxy Policy sets forth certain specific proxy voting guidelines followed by the Advisers when voting proxies on behalf of a Fund. If you would like a copy of the Advisers' complete Proxy Policy or information regarding how the Advisers voted proxies for particular portfolio companies, please contact Escalate's Chief Compliance Officer, at (512) 651-2109, and it will be provided to you at no charge.

FINANCIAL INFORMATION

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