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Part 2A of Form ADV  
The Brochure

March 29, 2019

This brochure provides information about the qualifications and business practices of Ecosystem Investment Partners, LLC. If you have any questions about the contents of this brochure, please contact us at 443-921-9441. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority. Registration with the SEC as an investment adviser does not imply a certain level of skill or training.

Additional information about Ecosystem Investment Partners, LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Material Changes

This Part 2 of Form ADV is revised annually in conjunction with the filing of Ecosystem Investment Partners, LLC's ("EIP", "we", "our", or "us") Annual Amendment to reflect the most current information available. Other than the liquidation of EIP Investors, LP effective July 31, 2018, none of the changes between this brochure and our brochure dated March 31, 2018, are material.

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## Advisory Business

EIP was founded in 2006. EIP serves as the manager and investment adviser to the investment funds described herein. Affiliates of EIP serve as the general partners of such private funds. EIP is principally owned by, Nicholas H. Dilks (through NHD Family Partners II, LLC), the Fred C. Danforth Revocable Trust of December 1997, Heath A. Rushing and Adam I. Davis. Nicholas H. Dilks, Heath A. Rushing and Adam I. Davis serve as EIP's Managing Partners.

EIP manages two private investment funds (each a "Partnership" and collectively the "Partnerships") which focus on making investments that capitalize on land-based environmental offset ("LEO") markets surrounding wetland, stream, and endangered species habitat mitigation throughout the United States.

We provide investment advice directly to the Partnerships and not individually to the underlying limited partners. EIP manages the assets of the Partnerships in accordance with the terms of each Partnership's individual limited partnership agreement and/or other governing documents.

We do not register the offer and sale of interests in the Partnerships under the Securities Act of 1933, as amended (the "Securities Act"), and the Partnerships are not registered under the Investment Company Act of 1940, as amended (the "IC Act"). Accordingly, we offer and sell interests in the Partnerships exclusively to persons satisfying the applicable eligibility and suitability requirements with respect to a private offering exempt from the registration requirements of the Securities Act.

As of December 31, 2018, EIP managed approximately \$513 million on a discretionary basis<sup>1</sup>. EIP does not manage any assets on a non-discretionary basis.

EIP currently provides investment advisory services to the following two Partnerships:

- Ecosystem Investment Partners II, L.P.
- Ecosystem Investment Partners III, L.P.

## **Fees and Compensation**

Our compensation generally consists of management fees, based on a percentage of assets under management, and a performance-based "carried interest."

### ***Ecosystem Investment Partners II, L.P.***

EIP receives an annual management fee for services to Ecosystem Investment Partners II, L.P. ("EIP II") paid as follows:

- Until the earlier of a) the initial closing of a new fund managed by EIP or b) the end of the EIP II investment period, EIP II pays an annual management fee ranging generally from 1.5% to 2.0% (depending on commitment amount) of each limited partner's respective capital commitment.
- Following the initial closing of a new EIP managed fund or the end of the EIP II investment period, EIP II pays an annual management fee ranging generally from 1.5% to 2.0% (depending on commitment amount) of the cost basis of EIP II's then remaining investments allocable to each such limited partner's interest in EIP II.

Management fees are payable in advance quarterly and are paid directly by EIP II.

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<sup>1</sup> Assets under management include unfunded capital commitments and assume all illiquid investments are valued at EIP's estimated, unaudited fair values as of December 31, 2018.

In addition to management fees, an affiliate of EIP, EIP Partners II, L.P. (“Partners II GP”), the general partner of EIP II is entitled to receive as “carried interest” (performance-based fee). Distributions are made as follows:

1. To the partners, pro-rata to their unreturned capital, until such time as each Limited Partner has received an amount equal to its paid-in committed capital;
2. To the partners, pro rata to their cumulative 8% preferred return, until such time as each limited partner has received an amount equal to such partner’s cumulative, preferred return;
3. 80% to the partners pro-rata to their contribution percentages, and **20%, as carried interest distributions**, to the general partner.

### ***Ecosystem Investment Partners III, L.P.***

EIP receives an annual management fee for services to Ecosystem Investment Partners III, L.P. (“EIP III”) paid as follows:

- Until the earlier of a) the initial closing of a new fund managed by EIP or b) the end of the EIP III investment period, EIP III pays an annual management fee ranging generally from 1.5% to 2.0% (depending upon commitment amount) of each limited partner’s respective capital commitment.
- Following the initial closing of a new EIP managed fund or the end of the investment period, EIP III pays an annual management fee ranging generally from 1.5% to 2.0% (depending upon commitment amount) of the cost basis of EIP III’s then remaining investments allocable to each such limited partner’s interest in EIP III.

Management fees are payable in advance quarterly and are paid directly by EIP III.

In addition to management fees, EIP Partners III, LP (“Partners III GP”), the general partner of EIP III is entitled to receive a “carried interest” (performance-based fee). Distributions from EIP III are made as follows:

1. To the partners pro rata to their unreturned capital until such time as each limited partner has received an amount equal to its paid-in committed capital;
2. To the partners pro rata to their cumulative 8% preferred return until such time as each limited partner has received an amount equal to such partner’s cumulative preferred return;
3. 50% to the limited partners, pro rata to their contribution percentages, and 50% to the general partner, **until the general partner has received as carried interest**

- distributions**, an amount equal to 20% of the amounts distributed under the second, third and fourth clauses of the distribution waterfall; and
4. 80% to the partners pro-rata to their contribution percentages and 20% **as carried interest distributions to the general partner**.

Each Partnership will generally bear its own organizational and operating expenses, and will generally be reimbursed for any expenses incurred for the benefit of the Partnerships. These fees and expenses vary but are described in each Partnership's organizational documents and/or the investment advisory agreements between the Partnerships and EIP. In that regard, in general, each Partnership pays (or reimburses EIP) all third-party organizational expenses and fees incurred in connection with its organization. Also, in general, each Partnership is responsible for and pays all costs and expenses related to its business and operations, including, but not limited to: (i) legal, consulting, accounting and auditing expenses of the Partnership; (ii) Federal, state, county and municipal taxes and assessments of any nature imposed on the Partnership, its business or operations; (iii) filing fees of the Partnership under all Federal, state, county and municipal laws, statutes and ordinances, and the rules and regulations thereunder; (iv) expenses of reports and notices to and meetings of the partners and of the Advisory Committee and Investor Subcommittee; (v) fees and disbursements of custodians, disbursing agents, and the like; (vi) brokerage commissions, investment banking fees, valuation fees, and finders' fees and legal and accounting expenses incurred in connection with the acquisition, holding, monitoring and disposition of investments of the Partnership; (vii) all consulting and other third party fees, costs and expenses incurred in connection with any proposed or existing investment by the Partnership; (viii) interest and other costs, fees, charges and assessments respecting funds borrowed by the Partnership; (ix) insurance premiums and expenses; (x) all expenses and liabilities associated with any pending or threatened claim or litigation involving the Partnership including, without limitation, any indemnification obligations of the Partnership, and including all judgements or settlements paid in connection with such claim or litigation; and (xi) all other costs, liabilities and expenses substantially comparable to any of the foregoing.

### **Performance-Based Fees and Side-By-Side Management**

The Managing Partners of EIP, as well as other members of the EIP team, are partners of Partners II GP and Partners III GP. As discussed above, Partners II GP and Partners III GP. may receive carried interest distributions from EIP II and, EIP III, respectively.

An adviser charging performance-based fees to some clients but not others faces a variety of conflicts of interest because the adviser can potentially receive higher fees from its clients paying performance-based compensation than from its clients paying a fee that does not relate to performance (e.g. an asset-based fee). As a result, the adviser may have an incentive to direct the best investment ideas to the client that pays a performance-based fee. EIP does not consider its current fee structure to present any conflicts of interest because all EIP clients are charged a performance fee.

The fact that Partners II GP and Partners III GP may be compensated based on a share of gains on the assets of the Partnerships may create an incentive for EIP to make investments on behalf of the Partnerships that are riskier or more speculative than would be the case in the absence of such compensation. The Managing Partners and members of the EIP team have invested in the Partners II GP and Partners III GP, and because of this, the GP's objectives are aligned with those of the limited partners in both funds.

## **Types of Clients**

EIP provides advisory services to private pooled investment vehicles as described in the *Advisory Business* section above. Limited partners in these Partnerships include a variety of investors, but primarily are foundations, endowments, family offices, high net worth individuals, and U.S. and European pension plans.

Limited partners who invest in the Partnerships must have a minimum degree of financial sophistication and meet other minimum investment criteria. Limited partners in the Partnerships must be “accredited investors” within the meaning of Rule 501 of Regulation D under the Securities Act, and “qualified clients” as defined in Rule 205-3 under the Advisers Act. Potential investors considering an investment in the Partnerships should consult with their own investment, tax, and/or legal advisers prior to investing.

The minimum required investment by a limited partner was \$3 million for EIP II and EIP III. The general partner of each Partnership reserved the right to waive the minimum in its sole discretion.

## **Methods of Analysis, Investment Strategies and Risk of Loss**

### *Investment Strategy and Analysis*

EIP's objective is to generate competitive returns to investors while providing significant conservation results by making investments in large-scale ecological restoration and conservation projects. These projects meet a large and growing demand for environmental offsets that mitigate impacts to wetlands, streams and other important natural resources stemming from infrastructure, commercial, industrial and residential development. EIP's primary investment focus is on mitigation for unavoidable and permitted impacts required by the federal Clean Water Act of 1972 and the Endangered Species Act of 1973.

EIP's differentiated approach involves the acquisition, entitlement, restoration, sustainable management and, ultimately, divestiture of properties that generate revenues through the sale of wetland, stream, endangered species and other environmental credits to entities seeking compliance under the aforementioned regulations. Additionally, EIP III is selectively

undertaking investments that deliver regionally significant restoration projects through pay-for-success contracts whereby EIP finances, designs and constructs large-scale projects, receiving fixed payments, or performance-based revenues, as ecological success milestones are achieved. These pay-for-success contracts entail a single buyer, often a state, county or other government agency.

Longstanding federal and state environmental laws, including the federal Clean Water Act of 1972 and the Endangered Species Act of 1973, require that unavoidable, permitted environmental impacts (debits) must be offset by the restoration of ecological functions of equal or greater value (credits) in the same service area (i.e., typically based in the same watershed) in order to achieve “No Net Loss” to the amount and quality of the US’ regulated natural resources. Currently, regulated resources include the nation’s rivers, streams, wetlands and endangered species habitats. Under these laws, land-owning investors such as EIP can restore and conserve ecologically degraded land to generate the credits needed by entities seeking requisite federal and/or state permits that allow these entities to impact regulated natural resources. For example, a Section 404 Clean Water Act “fill permit” is required to fill or impact wetlands or streams and an “incidental take permit” is required to impact endangered species habitats.

The majority of demand for mitigation and offsets is driven by a diverse set of public and private sectors such as highway construction, energy transmission, mining and other infrastructure-related projects, together with residential, municipal and commercial developments of all types nationwide.

Generally, the Partnerships invest in properties between \$5 and \$30 million in acquisition price that are 1,000 to 25,000 acres in size and deemed conservation priorities by major conservation organizations or state/federal natural resource agencies.

### *Active Investment Management*

In order to capitalize on LEO markets EIP employs a hands-on approach, and is actively involved in the:

- Design, entitlement, development, and management of wetland and/or stream mitigation banks;
- Design, entitlement, development and management of conservation (endangered species) banks or other recovery programs for federally threatened, endangered, or other rare and vulnerable species;
- Seeking access to funds from Federal, state, and local conservation finance programs;
- Development of long-term resource stewardship plans;
- Marketing of environmental credits to potential buyers; and
- Negotiation of real estate transactions at both purchase and sale, as well as leasing.

### *Control*

EIP seeks investments where the investment vehicle established by a Partnership for such investment will be the sole, majority or controlling owner or lessor of the underlying property and owner of the corresponding mitigation banking instrument. Land control may be achieved through leases and easements in addition to fee simple ownership.

### *Analysis*

Once an investment has been identified, EIP engages in a three-stage investment process consisting of initial due diligence, real estate negotiation and land control, and final due diligence. EIP conducts rigorous due diligence and underwriting on all potential property and/or leasehold acquisitions. When the target acquisition passes the initial due diligence screen with respect to LEO market potential, and early financial modeling demonstrates the likelihood that an investment will achieve target returns, EIP then moves quickly to secure purchase options or leases for the property. Once a purchase option, lease, or contract has been executed, the investment team initiates an in-depth due diligence process to determine the feasibility of the project. EIP allows sufficient due diligence periods, generally greater than 90 days, to complete a more in-depth study of the prospective investment to confirm or deny assumptions developed in the initial due diligence stage. If during the final due diligence stage the project no longer supports an acceptable return, EIP will end due diligence by terminating the option, lease, or contract. The final stage of the due diligence process focuses heavily on the three main aspects of overall investment feasibility - mitigation markets, property suitability, and financial modeling, used to measure the net present value of mitigation credits based on a discounted cash flow analysis.

### *Risk of Loss*

Acquiring an interest in a Partnership involves the risk of loss, including possible risk of loss of your entire investment. Any investor should be prepared to bear such a loss. There can be no assurance that the Partnerships' investment objectives will be achieved, or that an investor will receive a return of all capital. Risks associated with an investment in the Partnerships include, but are not limited to, the following, and should be carefully evaluated before making an investment in a Partnership. No assurance or representation is made that any Partnership will meet its investment objectives or otherwise be able to successfully carry out its investment program.

*No Assurance of Investment Return* - EIP's task of identifying and negotiating private investment opportunities, managing such investments and realizing a return for investors is difficult. There is no assurance that EIP will be able to invest the Partnerships' capital on attractive terms or generate returns for the Partnerships and their limited partners.



*Dependence on Management Team* - EIP is and will continue to be dependent upon the efforts of the individual members of its management team. The loss of one or more of these individuals could have a material adverse impact on EIP's operations and, in turn, the Partnerships' investment activities and returns.

*Difficulty of Locating Suitable Investments* - EIP may be unable to identify a sufficient number of attractive opportunities for the Partnerships to enable them to fully invest their capital in opportunities that fully meet their investment objectives, or that such investment opportunities will lead to successful investment returns. Identification of attractive investment opportunities is difficult and involves a high degree of uncertainty.

*Competition* - EIP competes for investments against other groups, including institutional investors, investment managers, industrial groups, and merchant banks which may be larger and better capitalized than the Partnerships. It is possible that competition for appropriate investment opportunities may limit significantly the number of opportunities available to the Partnerships and adversely affect the terms upon which investments can be made. Additionally, when selling credits to those requiring mitigation, EIP may compete with other mitigation banking firms.

*No Rights to Control Operations* - Limited partners have no opportunity to control the Partnerships' day-to-day operations, including investment and disposition decisions. Limited partners must rely entirely on individual members of EIP's management team to conduct and manage the affairs of the Partnerships.

*Investment Allocations* - The fact that the carried interest paid to EIP's affiliates is based on the performance of the Partnerships may create an incentive for EIP to cause the Partnerships to make investments that are more speculative than would be the case in the absence of such a carried interest.

*Illiquidity of Interests* - Interests in the Partnerships are highly illiquid, have no public market, and are not transferable except with the prior consent of the applicable general partner. Voluntary withdrawals of interests are not permitted, except in limited instances when necessary to comply with laws or regulations applicable to a limited partner.

*Lack of Liquidity of Investments* - There may be no readily available market for the Partnerships' investments and most investments will be difficult to value. Adverse market conditions may further limit or delay opportunities for liquidity.

*Risk of Real Estate Investment* - Investments in real estate are subject to various risks, including adverse changes in national or international economic conditions, adverse local market conditions, the financial condition of buyers and sellers of properties, unexpected operating expenses, changes in real estate tax rates, changes in environmental laws or regulations, governmental rules and fiscal policies, energy and supply shortages, changes in the relative

popularity of various types of real estate properties as investment alternatives, acts of war and terrorist activity, uninsured losses, and other acts that are beyond the control of EIP.

*Governmental Regulation* - Governmental authorities at the federal, state, and local levels are actively involved in the promulgation and enforcement of regulations relating to land use, zoning, and the environment. New regulations may be promulgated that could have the effect of restricting or curtailing certain uses of existing properties or structures or requiring that such properties or structures be altered in some fashion. The establishment of such regulations could increase the expenses and lower the profitability of any of the affected properties.

*Changes in Environment* - EIP's investment program is intended to extend over a period of years, during which the business, economic, political, environmental and regulatory environment within which EIP operates may undergo substantial changes, some of which may be adverse to the Partnerships. EIP will have the exclusive right and authority (within the limitations set forth in the Partnerships' limited partnership agreements and/or other governing documents) to determine the manner in which the Partnerships will respond to such changes. Limited partners generally will have no right to withdraw from a Partnership or to demand specific modifications to the Partnership's operations in response thereto.

### **Disciplinary Information**

As a registered investment adviser EIP is required to disclose all material facts regarding any legal or disciplinary events with respect to the firm's management that would be material to a client's or prospective client's evaluation of the integrity of EIP's management.

On March 13, 2018, the SEC notified EIP that it was considering an investigation of EIP due to the failure to file Form PF as required. EIP agreed to accept the SEC's offer to settle the matter without admitting or denying any of the SEC's findings in exchange for the payment of a civil penalty. In connection therewith, EIP entered into an Order Instituting Administrative Cease and Desist Proceedings and the imposition of Remedial Sanctions in respect of the filing of Form PF.

### **Other Financial Industry Activities and Affiliations**

None. As discussed above, affiliates of ours serve as the respective general partners of the Partnerships and may receive carried interest. Also, either directly or through affiliates, we will generally serve in a management capacity in entities we organize to facilitate the Partnerships' investment objectives.

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

EIP has adopted a written Code of Ethics (the “Code”), as required under Rule 204A-1 of the Advisers Act, that sets forth ethical standards and standards of business conduct for our employees. Among other things, the Code contains policies and procedures designed to ensure that our employees conduct their activities in such a manner as to avoid conflicts of interest or abuse of the employee’s position of trust and responsibility.

The Code requires, among other things, that our employees:

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

Our chief compliance officer is responsible for enforcing the Code of Ethics. As such, the chief compliance officer is required, among other things, to keep various records relating to the Code of Ethics. The Code of Ethics requires that all employees receive a copy of the code and acknowledge in writing such receipt. EIP will provide a copy of the Code to any limited partner or prospective limited partner of a Partnership client upon request.

An Advisory Committee has been formed for both Partnerships to consult with and offer advice in the conduct of EIP II and EIP III ongoing affairs. The committee includes representatives of some LPs as well as independent members who are senior professionals and acknowledged leaders in the environmental sector or private finance. An Investor Subcommittee of the Advisory Committee includes LP representatives and provides such advice and counsel as is requested by Partners II GP and Partners III GP in connection with the respective partnerships’ investments, potential conflicts of interest and other related matters.

## **Brokerage Practices**

Not applicable. EIP does not use broker-dealers in connection with its real estate investment activities.

## **Review of Accounts**

Our investment team monitors and reviews investments held by the Partnerships on a regular basis. The investment team also meets regularly to discuss investment ideas, economic developments, current events, and other issues related to current investments and potential investment opportunities. While the ultimate decision to invest is made by the Investment Committee, which consists of Mr. Dilks, Mr. Davis and Mr. Rushing, the Investment Committee seeks consensus among the EIP team. The investment team is divided according to the following functions: a) real estate acquisitions, b) operations, c) credit sales and marketing and d) research, policy and new markets. Each member of the team will contribute to the due diligence on potential investments.

- The three Managing Partners oversee the analysis and due diligence for all acquisitions.
- Two of the Managing Partners lead the real estate sourcing and acquisition effort with support from the Assistant Director of Real Estate.
- The Director of Markets, supported by the Assistant Director of Markets, lead EIP's sales and marketing effort and is actively involved in reviewing and analyzing sources of supply and demand, as well as pricing of credit markets for each asset. Frequently, these analyses will translate into key lists of pre-identified entities that are seeking credits, such that EIP can initiate its sales and marketing efforts prior to bank approval and initial credit release.
- The Director of Operations, supported by the Assistant Director of Operations, is responsible for property operations and is actively involved in the due diligence and underwriting as it relates to expense items associated with the entitlement of the banks and the resulting ecological restoration and continued maintenance of the properties.
- One of the Managing Partners is responsible for policy and new markets and is actively involved in monitoring established environmental offset markets and evaluating new markets for investment potential.
- All are supported by financial modeling, underwriting and return stress-testing provided by EIP's Director of Underwriting.

An independent public accounting firm of recognized national standing registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, conducts an annual audit of each Partnership's financial statements in accordance with generally accepted auditing standards. EIP delivers the audited financial statements of the Partnerships to each

limited partner annually within 120 days of its fiscal year end, along with a copy of the limited partner's capital account statement and Schedule K-1. Internally prepared financial statements are furnished within 45 days of quarter-end. Reports are provided in written or electronic form.

Additional reports are provided when appropriate.

### **Client Referrals and Other Compensation**

We do not receive any economic benefit from someone who is not a client for our providing investment advice or other advisory services to Partnership clients. Except as provided in the next paragraph, we and our related persons do not directly or indirectly compensate any person who is not our Supervised Person for client referrals.

We pay a placement fee to Monument Group for referring potential investors in the Partnerships to us that actually become limited partners in the Partnerships. Such fees are paid by EIP II and EIP III but reduce on a dollar-for-dollar basis the management fees paid to EIP by EIP II and EIP III, respectively.

### **Custody**

Our relationship to the Partnerships is such that we are deemed to have "custody" of the Partnerships' funds and securities. Accordingly, we comply with Rule 206(4)-2 promulgated under the Advisers Act in connection with our custody of the Partnerships' funds and securities.

In general, Rule 206(4)-2 requires advisors with custody of client funds or securities to: (i) maintain those funds and securities with a "qualified custodian" (generally a bank or broker dealer); (ii) have a reasonable belief that the qualified custodian sends at least quarterly account statements to each client; and (iii) have an independent public accountant conduct an annual surprise audit of the funds and securities for which the advisor has custody. However, in general, the requirement to send quarterly account statements and be subject to an annual surprise audit will not apply with respect to pooled investment vehicles (like the Partnerships) if the pooled investment vehicle obtains an annual audit and distributes its audited financial statements to its equity owners.

We maintain the funds and securities of the Partnerships with a qualified custodian, the Partnerships' financial statements are audited, and we send the equity owners in the Partnerships the EIP II and EIP III audited financial statements.

### **Investment Discretion**

We have discretionary authority to manage the investments of the Partnerships. The limited partnership agreements of each Partnership provide that an affiliate of EIP, as the general partner of such Partnership, have exclusive and complete authority and discretion in managing the

business and affairs of such Partnership, including the authority to decide which assets to purchase and sell for the Partnerships, subject only to any specific and express limitations provided therein. Thus, without obtaining specific consent from a Partnership or its limited partners for each transaction, EIP [through its affiliate general partners] has discretionary authority to make investment decisions for the Partnerships.

### **Voting Client Securities**

Not applicable.

### **Financial Information**

We do not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance. If we did, we would be required to provide you with an audited balance sheet.

We do not have any financial condition that is reasonably likely to impair our ability to meet our contractual commitments to clients.

We have not been the subject of a bankruptcy petition at any time during the past ten years.