

# Black Canyon Management LLC

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This brochure provides information about the qualifications and business practices of Black Canyon Management LLC. If you have any questions about the contents of this brochure, please contact Bradley Spencer at (310) 272-1806. 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 as an investment adviser does not imply a certain level of skill or training.

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

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## **Advisory Business**

Black Canyon Management LLC (“Black Canyon” or “Adviser”) is the investment adviser to the Black Canyon Direct Investment Fund LP (the “Fund”). The Fund was launched in 2006 and is a traditional private equity fund with a three year investment period and an eight year term (which may be extended for two additional one-year periods). The investment period ended on April 30, 2009. As of December 31, 2011, the Fund had 72 investors and assets of \$285 million.

Black Canyon is owned by Black Canyon Capital LLC and Canyon Capital Advisors LLC, and is registering with the SEC as an investment adviser as of March 2012. Canyon Capital Advisors LLC has been registered with the SEC as an investment adviser since 1994. For more information regarding Canyon Capital Advisors LLC, please see the SEC’s website at [www.sec.gov](http://www.sec.gov). The Adviser does not anticipate offering advisory services in the future other than the current Fund.

Advisory services are generally not tailored to the individual needs of Fund investors and Fund investors are generally not permitted to impose restrictions on investing in certain securities or types of securities.

The principals of Black Canyon are Michael Hooks, Mark Lanigan, Joshua Friedman and Mitchell Julis (collectively, the “Investment Committee”). Messrs. Michael Hooks and Mark Lanigan are responsible for the day-to-day management of the Adviser and the assets held by the Fund. Messrs. Joshua Friedman and Mitchell Julis are members of the Fund’s investment committee, but are not involved in the day-to-day management of the Adviser.

## **Management Fees and Compensation**

Investors are charged a quarterly management fee charged at an annual rate of 1.75% and paid on the first business day of each quarter. During the three (3) year investment period, the management fee was calculated on the Fund’s aggregate capital commitments. Currently, the management fee is calculated based on the total cost of the portfolio investments held by the Fund, as adjusted for write-downs and write-offs.

The management fee agreement provides that the quarterly management fee payable will be reduced by 66 2/3% of the amount of any fees the Adviser receives from portfolio companies with respect to monitoring, transaction, consulting, and other portfolio company fees.

Management fees are charged in accordance with the requirements of Rule 205-3 under the Investment Advisers Act of 1940, as well as limitations applicable in California. The General Partner of the fund at its discretion may reduce the management fees of any investor.

## **Fund Expenses**

Investors bear direct and indirect costs, fees and expenses incurred by the Fund that are not reimbursed by a potential or actual portfolio company or any third party. These types of expenses include but are not limited to the following: (i) professional fees such as legal, accounting, insurance, advisory fees and taxes; (ii) all broken deal expenses incurred on a potential investment; (iii) all investment related expenses; (iv) management fees as described above; and (v) all organizational costs up to an aggregate of \$1,500,000. Black Canyon makes a pro-rata allocation of such expenses based on the Investor’s percentage of Fund committed capital.

## **Carried Interest**

All distributions of current income from investments, proceeds from disposition of investments, proceeds from the recapitalization of investments and any other income from assets of the Fund will be apportioned, with respect to each investment, among the investors in accordance with each investor’s funded capital contribution for such investment. Each shares of any distribution with respect to an investment shall be allocated between the investor and the General Partner based on the following:

- i. Return of Capital. First, 100% to such investor until such investor has received an amount equal to the sum of (a) capital contributions by such investor applied to such investment; (b) unrecouped losses on dispositions; and (c) such investor's percentage interest of the unrealized losses on write-downs (net of write-ups) of any investment;
- ii. Return of Allocated Partnership Expenses. Second, 100% to such investor until such investor has received an amount equal to the allocated fees and expenses of such Investor;
- iii. 6% Preferred Return. Third, 100% to such investor until such investor has received a 6% compounded annual rate of return on the amounts described in (i) and (ii) above;
- iv. General Partner Catch-Up. Fourth, 100% to the General Partner until distributions of such investment proceeds to the General Partner equal 20% of the cumulative amounts of distributions made under clause (iii) above and this clause (iv); and
- v. Thereafter, 80% to the investor and 20% to the General Partner.

## **Types of Investors**

Black Canyon's investors are "accredited investors" and "qualified purchasers", as such terms are defined in the federal securities laws. Fund investors include individuals, partnerships, trusts, foundations, endowments, pension plans, corporations, and public and private entities.

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

Michael Hooks and Mark Lanigan are the key persons at Black Canyon responsible for the Fund's overall investment activity. As noted above, the Fund's investment period has ended. Set forth below is a brief summary of Black Canyon's method of analysis, investment approach and risk of loss. For a more detailed discussion of the Fund's investment methodology and risks, please see the Fund's confidential offering memorandum.

### Evaluation of Risk and Reward Throughout the Capital Structure

Fundamental to Black Canyon's investment approach is the belief that every investment opportunity is unique, and that the optimal balance of risk and reward will be found in different parts of a company's capital structure depending upon market and industry conditions, a company's existing capital structure, transaction dynamics and various other factors. Black Canyon expects many of the Fund's investments to be characterized by a significant amount of structural complexity and negotiation and may frequently involve the purchase of securities in multiple parts of the capital structure of a single company.

### Capital Preservation

Black Canyon's investment approach includes a very strong emphasis on preserving the principal amount of the investment and focus a substantial portion of their investment evaluation on downside scenarios; structuring of downside protection has been a key component of past direct investments completed by Black Canyon.

### Due Diligence

Perhaps the most important element of the Black Canyon investment approach is the belief that every investment must be supported by due diligence that is as rigorous and uncompromising as is practical in a given situation. The Adviser pursues a two-pronged approach to due diligence, encompassing both an examination of a company's internal workings and evaluation of information from sources external to the company.

### Creative Approach

Black Canyon seeks to develop creative approaches to accomplish a company's objectives while minimizing the risks inherent in an investment. Black Canyon believes that they have developed and deployed unique methods which have enabled them to make attractive investments, while avoiding competition from the public markets and other providers of capital.

### Identification and Exploitation of Market Inefficiencies

Black Canyon seeks to continually identify, evaluate and exploit inefficiencies that occur in the private and public markets, sometimes across the various securities of a single company. In different market environments, the availability of various forms of capital can be constrained by temporary, but extreme, movements in the capital markets. Companies often do not have the luxury of waiting until the markets return to equilibrium, thereby creating investment opportunities for providers of flexible capital. In order to take advantage of these inefficiencies, a capital provider must possess the base of knowledge and experience required to identify and evaluate such opportunities, as well as capital that is sufficiently flexible to exploit these opportunities.

### Possibility of Losses

Investor account values will fluctuate based upon a multitude of factors, including the financial condition, results of operations, governmental intervention, market conditions, and local, regional, national and global economic conditions. Therefore, Investors may lose all or a portion of their principal invested in the Fund if the investment strategies are not successful.

### Past Performance

Past performance is not necessarily indicative of future performance. The markets in which Black Canyon operates have been severely disrupted in recent years, so results observed in earlier periods may have little relevance to the results observable in the current environment.

### Volatility

The prices of some of the investments held by Black Canyon have been subject to periods of excessive volatility in the past, and such periods may continue. Price movements are influenced by many unpredictable factors, such as company financial performance, market sentiment, inflation rates, interest rate movements and general economic and political conditions.

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

### Broker-Dealer and Registered Representatives

Black Canyon Securities LLC is a registered broker-dealer and member of FINRA and SIPC as well as an affiliate of Black Canyon Capital LLC.

## **Code of Ethics and Personal Trading**

Black Canyon has adopted a Code of Ethics that sets forth standards of conduct expected of employees and addresses potential conflicts that can arise from personal trading by employees. Black Canyon has designated every employee, as an access person for purposes of its Personal Trading Policy. As such, all employees of Black Canyon are covered by the Personal Trading Policy. Under the Personal Trading Policy, employees must report their personal securities transactions and holdings to Black Canyon. To this end, employees must arrange for Black Canyon to receive the employee's investment account statements, which contain information regarding securities transactions in the accounts of the employee. In addition, employees must obtain written approval before making certain types of investments. All employees of the Adviser may buy or sell securities or other instruments that are not on Black Canyon's restricted list. Finally, all employees must review and acknowledge receipt of the Black Canyon Employee Handbook.

## **Review of Accounts**

Client accounts are reviewed and monitored on a routine basis by Black Canyon. Investors receive quarterly capital account statements listing the value of their investment and a quarterly investor letter detailing the performance of each portfolio company. Investors also receive an annual K-1 prepared by Ernst & Young LLP and a copy of the annual audited financial statements prepared by Deloitte & Touche LLP.

Also, due to legal/regulatory constraints that must be followed by some of our investors and/or the specific needs and requests by certain investors, Black Canyon may, at its discretion, agree to provide certain Investors more frequent reports and/or certain other reports than those described above.

## **Client Referrals and Other Compensation**

Black Canyon does not enter into arrangements with third parties whereby such third parties receive fees for referring clients to Black Canyon. Black Canyon does not receive any other compensation.

## **Custody**

Black Canyon has custody of investor funds and/or securities as a result of it, or an affiliate, serving as the general partner to the Fund. The Fund is audited annually and Investors receive a copy of the annual audit within 120 days of the Fund's year-end.

## **Financial Information**

Black Canyon does not require or solicit pre-payment of management fees beyond the payment of the quarterly management fee. There are no financial conditions that are reasonably likely to impair Black Canyon's ability to meet its contractual commitments to investors.

## **Additional Information**

The following areas of the investment adviser are not applicable to Black Canyon:

Allocation of Investment Opportunity

Brokerage Practices

Investment Discretion

Voting Client Securities