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## **BLACKSTREET CAPITAL ADVISORS II, LLC**

### **Form ADV Part 2A**

**March 31, 2015**

This brochure provides information about the qualifications and business practices of Blackstreet Capital Advisors II, LLC. If you have any questions about the contents of this brochure, please contact us at (240) 223-1330. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Additional information about Blackstreet Capital Advisors II, LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Blackstreet Capital Advisors II, LLC is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of any registered investment adviser are intended to provide you with information which you may use in determining whether to hire or retain a registered investment adviser.

**Item 2 – Material Changes**

This brochure contains material changes to our prior brochure dated April 1, 2014 (our “Prior Brochure”). Immediately below is a discussion of such material changes. Such discussion sets forth only material changes to the Prior Brochure.

- Updates the description of the Funds’ investment strategies in Item 8 to reflect the current status of each Fund’s investment period.
- Updates Item 10 to describe a recently formed affiliate of Blackstreet, Blackstreet Capital Holdings, LLC, and the related conflicts of interest that may arise from the operation of this entity as it builds an operating company.

This brochure also reflects material changes to the Prior Brochure by conforming amounts of assets under management resulting from the recently completed audits and valuations of our managed funds.

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#### **Item 4 – Advisory Business**

Blackstreet Capital Advisors II, LLC, referred to herein as BCA II, is the general partner of two related private equity funds, Blackstreet Capital Partners (AI) II, L.P. and Blackstreet Capital Partners (QP) II, L.P., collectively referred to herein as the Funds. The Funds are managed by Blackstreet Capital Management, LLC, referred to herein as BCM. BCM is an affiliate of BCA II and an SEC-registered investment adviser.

BCA II was formed in 2008. Mr. Murry Neal Gunty is a manager and the principal owner of BCA II.

BCA II, as the general partner, provides investment advisory services to the Funds, and not to investors in the Funds. No investment advisory relationship exists between BCA II and any investors in the Funds. To the extent any investor in the Funds desires any advice regarding its own investment decisions, it should engage its own financial, legal, tax, accounting and other advisors. Each investor and its own advisors are responsible for conducting their own analysis and due diligence to the full extent they deem necessary, and based on such independent analysis, each investor must make its own decisions regarding whether and when to invest in the Funds.

BCA II, as the general partner of the Funds, has full authority over the business and affairs of the Funds pursuant to the Funds' limited partnership agreements, as amended and currently in effect. Pursuant to the limited partnership agreements of the Funds, BCM provides investment advisory services to the Funds as their investment manager. The Funds' limited partnership agreements provide restrictions on the investments that may be made on behalf of the Funds. Without prior approval of the Limited Partner Advisory Board of the Funds, the Funds may not (a) invest more than 25% of their total commitments in any single portfolio company, (b) provide bridge financing to any portfolio company in an amount which, taken together with the amount of any investment in, or investment commitment to, the portfolio company is more than 25% of their total commitment, or (c) invest more than 10% of their total commitments in portfolio companies organized and maintaining their principal place of business and principal operations outside of North America. Furthermore, no more than 50% of the Funds' aggregate commitments may be invested in any single calendar year.

While BCM serves as the investment manager of the Funds, BCA II retains the right to make all decisions, consents and determinations relating to the acquisition and disposition of the Funds' investments, distributions by the Fund of cash and other securities, and amendments to the Funds' limited partnership agreements. BCA II does not currently take an active role in the investment management of the Funds. All assets of the Funds are currently managed by BCM on a discretionary basis, subject only to the investment limitations described above or as otherwise set forth in the limited partnership agreements. BCA II's total regulatory assets under management for the fiscal year ending December 31, 2014 were valued at approximately \$129,042,192. Regulatory assets under management have been calculated for the Funds by determining the current fair value of the Funds' assets and the contractual amount of any uncalled commitments to the Funds.

#### **Item 5 – Fees and Compensation**

As more specifically set forth in the limited partnership agreements, the limited partners of the Funds pay to BCM an annual management fee, payable semi-annually and called on January 15<sup>th</sup> and July 15<sup>th</sup> (i.e., in each case, partially in arrears and partially in advance) each year. During the capital commitment period of the Funds, the annual management fee is 2% of the limited partners' aggregate capital commitments. After the expiration of such commitment period, the management fee percentage is reduced by 0.2% each year during the remaining term of the Funds.

Management fees are generally paid to BCM pursuant to capital calls made semi-annually on the limited partners of the Funds. However, if and to the extent the Funds have cash on hand as a result of dividends or interest income received from portfolio investments or proceeds from the disposition of a portfolio investment, BCM and BCA II, as the general partner of the Funds, have the discretion to pay management fees to BCM from such cash on hand.

In addition to the management fee described above, BCM earns compensation for services provided to portfolio/operating companies as disclosed directly to investors.

BCA II is entitled to receive performance fees in the form of a carried interest on the profits of the Funds. See Item 6 below. If BCA II is then entitled to carried interest payments, those payments are made from time to time when cash or other distributions are otherwise made to the partners of the Funds.

The Funds bear all of the organizational and offering expenses (including legal, travel, accounting, filing and other expenses) incurred in connection with the formation of the Funds, BCA II and any other necessary related entities, up to a specified maximum amount set forth in the related limited partnership agreements of the Funds. The Funds reimburse BCA II or BCM for such expenses to the extent that any such expenses are borne by BCA II directly on behalf of the Funds.

The Funds are also responsible for all other expenses attributable to its activities, whether incurred directly by the fund or by BCA II or BCM on its behalf, including but not limited to:

- the fees and expenses relating to consummated portfolio investments, contemplated but unconsummated investments, and temporary investments, including but not limited to consulting, financing, legal and accounting fees, travel expenses, lodging, meals and other similar out-of-pocket expenses of BCA II, BCM, or their respective affiliates in connection with such investments (which may include the use of private aircraft owned by BCM or an affiliate, in which event the cost of such travel may include amortized portions of the cost of depreciation of such aircraft) to the extent that such fees and expenses are not reimbursed by a portfolio company or other third person;
- legal, custodial and accounting expenses, including expenses associated with the preparation of the Partnership's financial statements, tax returns and Schedule K-1's and the representation of the Funds or the partners by tax matters partner of the Funds;
- auditing, accounting, banking, and consulting expenses;
- appraisal expenses;
- expenses related to organizing vehicles through or in which portfolio investments may be made;
- costs and expenses that are classified as extraordinary expenses under generally accepted accounting principles;
- taxes and other governmental charges, fees and duties payable by the Funds;
- costs of reporting and distributions to the partners and of partner meetings, including but not limited to the annual partners meeting;
- expenses relating to defaults in capital contribution funding obligations;

- expenses incurred in connection with any restructuring of the Partnership or amendments to the Partnership agreement and other related agreements;
- compensation of members of the Investment Committee, Board of Advisors and/or Limited Partner Advisory Board who are not employees of BCM;
- costs of winding up and liquidating the Funds;
- the Partnership's allocable share of expenses of the Limited Partner Advisory Board incurred in accordance with the limited partner returning any distribution that was wrongfully made to it;
- obligations and liabilities of the Funds, including
  - o the cost of any insurance obtained to protect Fund II or any indemnitee from potential liabilities to third persons in connection with the affairs of the Funds and any "key man" life insurance with respect to any member, partner or key employee of either its BCA II or BCM for the benefit of the Funds;
  - o obligations to indemnify or advance expenses to any indemnitee in respect of a loss pursuant to the partnership agreement; and
  - o any reasonable litigation and indemnification costs and expenses, judgments and settlements; and
- the fees and expenses of any independent appraisers retained pursuant to the hiring of an a nationally recognized investment banking firm, mutually acceptable to BCA II and a majority of the members of the Limited Partner Advisory Board to review the final valuation of any securities, and such expert's determination shall be binding on all parties, but excluding (A) Organizational Expenses (as defined in the partnership agreement), (B) Ordinary Operating Expenses (as defined in the partnership agreement), and (C) expenses that are included in any Investment Contribution or Bridge Financing Contribution (as such terms are defined in the partnership agreement).

Neither BCA II nor any of its personnel receive compensation for the purchase or sale of securities or investment products by the Funds. BCA II provides investment advice to the Funds but neither BCA II nor its personnel cause transactions in which the Funds engage to occur. The Funds generally purchase securities through private placement transactions, without the assistance of a broker or dealer and without the payment of a brokerage commission or other transaction costs. Item 12 contains further information on the factors that are considered in the event that a broker-dealer is used for client transactions.

#### **Item 6 – Performance-Based Fees and Side-By-Side Management**

BCA II, as the general partner of the Funds, is entitled to receive a performance fee in the form of a carried interest equal to 20% of the Funds' profits, subject to satisfaction of an 8% preferred return to the Funds' investors, until such time as those investors have achieved a 30% internal rate of return on their capital contributions attributed to all realized investments, plus the amount of write-downs or write-offs, if any, with respect to each unrealized investment. Upon achieving this 30% internal rate of return, BCA II's carried interest increases to 25% of the Funds' profits.

## **Item 7 – Types of Clients**

BCA II serves solely as the general partner of the Funds, which are its sole clients. BCA II provides no other advisory and management services to any other private fund or client. A minimum capital commitment of \$1,000,000 is generally required of an investor in the Funds, provided that this minimum may be waived by BCA II in its discretion.

## **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**

The Funds generally invest in leveraged buyouts of lower middle market businesses located primarily in the Eastern United States. Investments are typically in companies with between \$20 million and \$100 million of revenue with total enterprise values of \$5 million to \$30 million on average. The Funds' strategy is to generally invest in companies that current owners, strategic acquirers, institutional investors and/or the capital markets have orphaned because the companies are (i) non-core divisions of larger, often struggling companies, (ii) over-leveraged and effectively owned by banks and/or creditors or (iii) owned by other entities for whom this is not a core ownership position. The investment period for each Fund has concluded. As a result, future investments will be limited to follow-on investments or working capital needs of existing portfolio companies.

Following each acquisition, BCM, as the investment manager of the Funds, works with new management to fix and re-position the businesses and improve operations and cash flows. BCM then seeks to sell the businesses to either strategic acquirers or other institutional investors at a market or premium multiple when the businesses have improved and/or the industries return to favor. Alternatively, BCM may seek to recapitalize the businesses in order to return capital to investors in the Fund prior to a sale. The Funds focus primarily on industries in which BCM has experience, including niche manufacturing and distribution (consumer and industrial), business services, education, specialty retail and restaurants. In most transactions, existing, new or augmented management are expected to invest a meaningful amount of capital. BCA II will not cause the Funds to invest in start-ups or other early stage enterprises and minimizes the exposure of the Funds to technology related investments. Additionally, up to 10% of the Funds' commitments may be invested in mortgages, mortgage-backed securities and/or packages of real estate.

Investing in securities involves risk of loss that clients should be prepared to bear. BCA II in no way guarantees performance or results. The return of capital and the realization of gains in the private equity portfolio of the Funds will occur only upon the partial or complete disposition of an investment by the Funds. While an investment may be sold at any time, it is not generally expected that this will occur for a number of years after an initial investment has been made. There can be no assurance that there will be a current return on investments made by the Funds. Because the Funds may only make a limited number of investments and since the Funds' investments generally will involve a high degree of risk, poor performance by a few investments could severely affect total returns.

The investment strategy for the Funds involves investing in sectors or businesses that are out of favor due to operating inefficiencies, cyclicalities or regulatory constraint, among other things. Acquisitions made using this investment strategy may expose the Funds to risks. No assurance can be given that this investment approach will be successful or that the cause for any business becoming out of favor can be remedied by BCA II or BCM or otherwise overcome. Industries that are out-of-favor may not return to favor at all or may require an extended period to return to favor, and changes in operations and management may be unsuccessful, reducing investment returns or extending the period a fund holds an investment.

Risks affecting real estate investments made on behalf of the Funds include general economic conditions, the conditions of financial markets, political events, developments or trends in any particular locality or

industry, the availability and pricing of credit and changes in prevailing interest rates. In addition to the risks related to the underlying real estate assets, mortgages and mortgage backed securities are particularly subject to risks related to prevailing prepayment and default rates, which can exhibit particular volatility. The cyclical and leverage associated with real estate-related instruments have historically resulted in periods, including significant periods, of adverse performance, including performance that may be materially more adverse than the performance associated with other instruments. Recent challenges to the financial markets and financial institutions and potential changes in government regulation of those markets and instruments could further adversely affect the pricing and liquidity of mortgages, mortgage backed securities and real estate investments.

The activity of completing and realizing private equity investments is highly competitive and involves a high degree of uncertainty. The Funds compete for investments with other private equity investment vehicles, as well as individuals, financial institutions and other institutional investors. Further, over the past several years, an increasing number of private equity funds have been formed (and many such existing funds have grown in size and have sizable undrawn commitments). Additional funds with similar investment objectives may exist or be formed in the future by other unrelated parties. There can be no assurance that BCM or BCA II will be able to complete investments in portfolio companies that satisfy the rate of return objectives of the Funds, or realize the values of such investments, or that either will be able to fully invest its committed capital.

The investment strategy of the Funds involves acquisitions of under-performing companies that may require new management to improve operations. As a result, there can be no assurance that existing management of portfolio companies will be retained following acquisition. Also, there can be no assurance that new management can be successfully located or employed or that new management will be able to operate successfully. Although each investment is monitored, the management of the underlying portfolio company will typically be relied upon to operate and manage the company's business on a day-to-day basis, though sometimes BCM personnel will act as interim management under the management and advisory agreement.

BCA II expects to cause the Funds to obtain third-party financing in connection with investments made by the Funds. There can be no assurances that such leverage will be available either in the amount or at the rate required by the Funds to achieve its projected returns. Leveraged buyouts by their nature require companies to undertake a high ratio of fixed charges to available income. Such investments are inherently more sensitive to declines in revenues and increases in expenses and to adverse general economic conditions. Failure by a portfolio company to meet operating projections could trigger defaults on third-party debt and ultimately create liquidity risks and potentially bankruptcy if the liquidity needs are unable to be satisfied. In such situations, the Funds' investments typically will be subordinated to third-party debt and may lose most of their value or be rendered worthless.

## **Item 9 – Disciplinary Information**

Registered investment advisors are required to disclose all material facts regarding any legal or disciplinary events that would be material to an evaluation of BCA II or the integrity of its management. BCA II has no history of any disciplinary action.

## **Item 10 – Other Financial Industry Activities and Affiliations**

BCA II is currently affiliated with two other SEC-registered investment advisers, BCM and Blackstreet Capital Advisors, LLC. BCM provides advisory and management services to the Fund and to other private equity funds. Blackstreet Capital Advisors, LLC serves as the general partner of other private equity funds.



A third affiliate of BCA II, Blackstreet Capital Holdings, LLC, (BCH) has been formed to build an operating company by purchasing small underperforming businesses and apply operational expertise to improve earnings – an acquisition and operating strategy that is similar to that of the Funds. BCH may decide to invest in a portfolio company owned by one of the Funds. If such a decision is made, an independent third party appraiser will be engaged to determine the value of such company to facilitate such a transaction. The cost of the appraisal would be born by BCH and the transaction likely would be subject to the express consent of Fund investors.

### **Item 11 – Code of Ethics**

BCA II has adopted a code of ethics for all supervised persons of the firm describing its high standard of business conduct and fiduciary duty to its clients. The Code of Ethics is set forth in BCA II's Regulatory Compliance Policies and Procedures Manual and Code of Ethics, and includes provisions relating to registration requirements, a prohibition on insider trading, disclosure requirements, and personal securities trading procedures, among other things. All supervised persons at BCA II must acknowledge the terms of the Code of Ethics annually, or when and as amended. Any client or prospective client, and investors or prospective investors in the Fund, may request a copy of the firm's Code of Ethics by contacting us at (240) 223-1330.

BCA II anticipates that, in appropriate circumstances, consistent with the investment objectives of the Fund, it may cause the Funds to purchase or sell securities in which BCA II, its affiliates and/or other clients, directly or indirectly, have a position or interest. BCA II's employees and other designated persons are required to follow BCA II's Code of Ethics. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of BCA II will not interfere with (i) making decisions in the best interest of the Funds and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code of Ethics, all employees of BCA II and its affiliates are required to provide a list of all personal/related accounts to the firm, as well as transaction reports and quarterly account statements so that employee trading may be continually monitored in order to prevent conflicts of interest between BCA II and the Funds. BCA II's general policy requires each employee to place the interests of the Funds above their own.

### **Item 12 – Brokerage Practices**

With respect to the portfolio companies in which the Funds invest, the securities of such portfolio companies are generally purchased through private placement transactions, without the assistance of a broker or dealer and without the payment of a brokerage commission. If a broker or dealer is to be used, BCM, as the investment manager of the Funds, has discretion to determine, without the consent of the Funds or their limited partners, the broker or dealer to be used and the commission rates to be paid. BCM endeavors in good faith to obtain the best execution of brokerage transactions for the Funds and selects brokers and dealers through which to effect transactions on behalf of the Funds on the basis of various factors. Best price, giving effect to commissions and commission equivalents, if any, and other transaction costs will normally be important factors in this decision, but the selection may also take into account the quality of brokerage services, including such factors as execution capability, willingness to commit capital, creditworthiness and financial stability, financial responsibility, responsiveness and clearance and settlement capability. Accordingly, where a broker or dealer is used, transactions may not always be executed at the best available price or commission.

BCM may select a broker or dealer that furnishes BCM or BCA II, directly or through correspondent relationships, with research (including third party research) or other services which provide appropriate assistance to BCM and BCA II in the investment decision-making process. Such research or other

services may include research reports on companies, industries and securities; economic and financial data; economic surveys and analyses; recommendations as to specific investments and securities; financial publications; and other services. In some circumstances, the commissions paid on transactions with a broker or dealer or other firms providing such services may exceed the amount another broker or dealer or service provider would have charged for effecting such transactions. BCA II does not expect to engage in any transactions involving the use of commissions or “soft dollars” to pay for such research or other services for the benefit of the Funds, but expects that any such arrangements will be within the safe harbor afforded by Section 28(e) of the U.S. Securities Exchange Act of 1934, as amended.

### **Item 13 – Review of Accounts**

BCA II, together with BCM, continuously reviews and evaluates the investment plans and strategies of the Funds, and causes the Funds’ accounts (and those of its respective investors) to be reconciled every time a capital call or distribution is made by the Funds. Investors in the Funds receive quarterly account statements. The accounts of the Funds are reviewed by the investment personnel of BCA II and its affiliates on a regular basis. Investors in the Funds receive, in written form, (i) annual GAAP audited financial statements of the Fund within 120 days following the end of each year, (ii) quarterly reports within 45 days of the end of each of the first three quarters of each year providing summary financial and other information on the Funds’ activities, (iii) a report in respect of the fourth quarter of each fiscal year within 90 days of the end of such fiscal year providing summary financial and other information on the Funds’ activities and (iv) tax information as required for tax filings.

The annual financial statements for the Funds are audited by an independent accounting firm which BCA II selects and hires.

### **Item 14 – Client Referrals and Other Compensation**

BCA II does not receive economic benefits from non-clients for providing investment advice or other advisory services to its clients, the Funds. Neither BCA II nor any related person directly or indirectly compensates any person for referrals of clients to BCA II, as the only clients of BCA II are the Funds. BCA II has entered into arrangement with certain firms and individuals (including affiliates of BCA II) which provide for the payment of fees based upon the referral of investors who sign binding agreements for the purchase of limited partnership interests in the Funds; however, as described above, investors in the Funds are not advisory clients of BCA II.

### **Item 15 – Custody**

BCA II maintains custody of the assets of the Funds through the use of qualified custodians that are not related to BCA II. The Funds, which constitute BCA II’s clients, receive account statements directly from the qualified custodians. BCM then provides written reports to the investors in the Funds on a periodic basis. See Item 13 above.

### **Item 16 – Investment Discretion**

All assets of the Funds are managed on a discretionary basis, subject only to the investment limitations described above or as otherwise set forth in the limited partnership agreements. See Item 1 above.

### **Item 17 – Voting Client Securities**

BCA II votes the securities held by the Funds, as the general partner of the Funds. BCA II has full

discretionary authority to vote any such securities in such manner as it may determine to be in the best interest of the Funds. BCA II maintains a voting policy designed to ensure that securities are voted in the best interest of the Funds and to address material conflicts of interest that may arise between the interests of the Fund and the interests of BCA II or any of its affiliates.

#### **Item 18 – Financial Information**

BCA II is not aware of any financial condition that is reasonably likely to impact its ability to meet its commitment to the Funds as its general partner, and has not been the subject of a bankruptcy proceeding.