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## **BLACKSTREET CAPITAL MANAGEMENT, LLC**

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

**March 24, 2011**

This brochure provides information about the qualifications and business practices of Blackstreet Capital Management, 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 Management, LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Blackstreet Capital Management, 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**

On July 28, 2010, the United States Securities and Exchange Commission published “Amendments to Form ADV” which amends the disclosure document that all investment advisers must provide to clients pursuant to SEC Rules. This brochure dated March 24, 2011 is a new document prepared according to the SEC’s amended rules for filing Form ADV. As such, this document is materially different in structure and requires certain new information that our previous brochure did not require.

In the future, this Item will discuss only specific material changes that are made to the brochure and provide clients with a summary of such changes. We will also reference the date of our last annual update of our brochure. We will further provide clients with a new brochure as necessary based on changes or new information, at any time, without charge. Currently, our brochure may be requested by contacting us at (240) 223-1330.

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#### **Item 4 – Advisory Business**

Blackstreet Capital Management, LLC provides advisory and management services to private equity funds. These funds currently include Blackstreet Capital Partners (AI), L.P. and Blackstreet Capital Partners (QP), L.P., collectively referred to as Fund I, and Blackstreet Capital Partners (AI) II, L.P. and Blackstreet Capital Partners (QP) II, L.P., collectively referred to as Fund II. Blackstreet Capital Management, LLC is referred to herein as Blackstreet, and Fund I, Fund II and any other funds that may in the future be managed by Blackstreet are referred to herein as the Blackstreet funds.

Blackstreet was originally formed in 2002 as MMP Capital Management, in partnership with Milestone Merchant Partners, LLC. In 2005, the principals of Blackstreet acquired Milestone's interest in MMP Capital Management and changed the name to Blackstreet Capital Management. Since May 2005, Mr. Murry Neal Gunty has been the managing member and principal owner of Blackstreet.

Blackstreet provides investment advisory services solely to each Blackstreet fund, and not to investors in those funds. No investment advisory relationship exists between Blackstreet and any investors in the Blackstreet funds. To the extent any investor in a Blackstreet fund 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 any Blackstreet fund.

Blackstreet provides advisory services to each Blackstreet fund pursuant to agreements entered into by Blackstreet and the fund. Those agreements provide restrictions on the investments that may be made by Blackstreet on behalf of the Blackstreet funds. Without prior approval of the Limited Partner Advisory Board of Fund I or Fund II, as the case may be, Blackstreet, in its capacity as investment manager of the fund, may not (a) invest more than 25% of the fund's total commitments in any single portfolio company, (b) invest more than 10% of the fund's total commitments in portfolio companies organized and maintaining their principal place of business and principal operations outside of North America or (c) invest more than 10% of the fund's total commitments directly into mortgages, mortgage backed securities and real estate. Furthermore, no more than 50% of the commitments of the partners of any Blackstreet fund may be invested in any single calendar year.

All assets of the Blackstreet funds are managed by Blackstreet on a discretionary basis, subject only to the investment limitations described above or as otherwise set forth in the related management agreements and/or limited partnership agreements. As of December 31, 2010, Blackstreet's total assets under management were approximately \$233 million. Assets under management have been calculated separately for each Blackstreet fund by determining the current fair value of such fund's assets and the contractual amount of any uncalled commitments to such fund.

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

As more specifically set forth in the limited partnership agreements and related management agreements for each fund, the limited partners of each fund pay to Blackstreet an annual management fee, payable semi-annually in advance. During the capital commitment period of each Blackstreet fund, 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 fund.

Blackstreet Capital Advisors, LLC, the general partner of Fund I, and Blackstreet Capital Advisors II, LLC, the general partner of Fund II, are each registered investment advisers and affiliates of Blackstreet, and are entitled to receive performance fees in the form of a carried interest on the profits of Fund I and Fund II, respectively. See Item 6 below.

The management fees described above are generally non-negotiable as between Blackstreet and its clients, the Blackstreet funds. However, certain investors in a Blackstreet fund may negotiate a reduction of such management fees prior to or concurrently with becoming an investor in the fund.

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

If the general partner of a Blackstreet fund is then entitled to carried interest payments, those payments are made from time to time when cash distributions are otherwise made to the partners of the Blackstreet fund.

Each Blackstreet fund bears all of the organizational and offering expenses (including legal, travel, accounting, filing and other expenses) incurred in connection with the formation of the fund, its general partner and any other necessary related entities, up to a specified maximum amount set forth in the related limited partnership agreement for such fund. Each Blackstreet fund will reimburse Blackstreet for such expenses to the extent that any such expenses are borne by Blackstreet directly on behalf of the fund.

Each Blackstreet fund is also responsible for all other expenses attributable to its activities, whether incurred directly by the fund or by its general partner or Blackstreet on its behalf, including but not limited to:

- fees and expenses relating to consummated portfolio investments, and/or contemplated but unconsummated investments, and temporary investments, including but not limited to consulting, financing, legal and accounting fees, travel expenses of such fund's general partner or Blackstreet in connection with such investments, (which may include the use of private aircraft owned by Blackstreet 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;
- premiums for insurance protecting the fund and any indemnified persons from liabilities to third persons in connection with fund affairs, including, if deemed appropriate, key man life insurance for principals of Blackstreet;
- legal, custodial and accounting expenses, including expenses associated with the preparation of the fund's financial statements, tax returns and Schedule K-1's and the representation of the fund or its partners by the tax matters partner;
- 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 fund;
- insurance, regulatory, and litigation expenses and damages incurred by the fund;
- 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 fund or amendments to the fund's limited partnership agreement and other related agreements;
- compensation of members of the fund's Investment Committee and/or Board of Advisors who are not employees of Blackstreet;
- any expenses reimbursed by the fund to or compensation paid to any members of the Limited Partner Advisory Board;
- costs of winding up and liquidating the fund; and
- other fees and expenses to be borne by the fund under the terms of the fund's limited partnership agreement.

Neither Blackstreet nor any of its personnel receive compensation for the purchase or sale of securities or other investment products by the Blackstreet funds. Blackstreet generally causes the Blackstreet funds to 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 Blackstreet considers in the event that a broker-dealer is used for client transactions.

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

Blackstreet Capital Advisors, LLC, the general partner of Fund I and an affiliate of Blackstreet, is entitled to receive a performance fee in the form of a carried interest equal to 20% of Fund I's profits, subject to satisfaction of an 8% preferred return to Fund I's investors.

Blackstreet Capital Advisors II, LLC, the general partner of Fund II and an affiliate of Blackstreet, is entitled to receive a performance fee in the form of a carried interest equal to 20% of Fund II's profits, subject to satisfaction of an 8% preferred return to Fund II's investors, until such time as those investors have achieved a 30% internal rate of return on their capital contributions attributable 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, Blackstreet Capital Advisors II's carried interest increases to 25% of Fund II's profits.

## **Item 7 – Types of Clients**

Blackstreet currently provides advisory and management services solely to Fund I and Fund II, and in the future may provide advisory and management services to other private funds. A minimum capital commitment of \$1,000,000 is generally required of an investor in a Blackstreet fund, provided that this minimum may be waived by a fund's general partner in its discretion.

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

In providing advisory services to the Blackstreet funds, Blackstreet generally invests 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. Blackstreet's strategy is to 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.

Following each acquisition, Blackstreet works with new management to fix and re-position the businesses and improve operations and cash flows. Blackstreet 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, Blackstreet may seek to recapitalize the businesses in order to return capital to investors in the Blackstreet funds prior to a sale. Blackstreet focuses primarily on industries in which it has experience, including niche manufacturing and distribution (consumer and industrial), business services, education, specialty retail and restaurants. In each transaction, Blackstreet expects existing, new or augmented management to invest a meaningful amount of capital. Blackstreet will not invest in start-ups or other early stage enterprises and minimizes the exposure of the Blackstreet funds to technology related investments. Additionally, up to 10% of Fund II's 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. Blackstreet in no way guarantees performance or results. The return of capital and the realization of gains in the private equity portfolio of a Blackstreet fund will generally occur only upon the partial or complete disposition of an investment by the fund. 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 a Blackstreet fund. Because a Blackstreet fund may only make a limited number of investments and since the fund's investments generally will involve a high degree of risk, poor performance by a few investments could severely affect total returns.

Blackstreet's strategy involves investing in sectors or businesses that are out of favor due to operating inefficiencies, cyclicity or regulatory constraint, among other things. Acquisitions made using this investment strategy may expose the Blackstreet funds to risks. No assurance can be given that Blackstreet's investment approach will be successful or that the cause for any business becoming out of favor can be remedied by Blackstreet, Blackstreet Capital Advisors or Blackstreet Capital Advisors II 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 Blackstreet 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 nature 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 identifying, completing and realizing private equity investments is highly competitive and involves a high degree of uncertainty. Blackstreet competes 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 Blackstreet will be able to identify and complete investments in portfolio companies that satisfy the rate of return objectives of a Blackstreet fund, or realize the values of such investments, or that it will be able to fully invest its committed capital.

The investment strategy of Blackstreet 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 Blackstreet will be able to locate and employ new management or that new management will be able to operate successfully. Although Blackstreet monitors each investment, Blackstreet will rely upon management of the underlying portfolio company to operate and manage the company's business on a day-to-day basis.

Blackstreet expects to obtain third-party financing in connection with investments made by the Blackstreet funds. There can be no assurances that such leverage will be available either in the amount or at the rate required by a fund 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, a fund's 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 Blackstreet or the integrity of its management. Blackstreet has no history of any disciplinary action.



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

Blackstreet is currently affiliated with two other SEC-registered investment advisers, Blackstreet Capital Advisors, LLC and Blackstreet Capital Advisors II, LLC. Blackstreet Capital Advisors, LLC is the general partner of Fund I. Blackstreet Capital Advisors II, LLC is the general partner of Fund II.

## **Item 11 – Code of Ethics**

Blackstreet 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 Blackstreet's Supervisory Procedures and Compliance Manual, and includes provisions relating to registration and licensing requirements, a prohibition on insider trading, disclosure requirements, and personal securities trading procedures, among other things. All supervised persons at Blackstreet must acknowledge the terms of the Code of Ethics annually, or when and as amended. Blackstreet's clients or prospective clients, and investors or prospective investors in the Blackstreet funds, may request a copy of the firm's Code of Ethics by contacting us at (240) 223-1330.

Blackstreet anticipates that, in appropriate circumstances, consistent with the investment objectives of a Blackstreet fund, it may cause a Blackstreet fund to purchase or sell securities in which Blackstreet, its affiliates and/or other clients, directly or indirectly, have a position or interest. Blackstreet's employees and other associated persons are required to follow Blackstreet's Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of Blackstreet and its affiliates may trade for their own accounts in securities which are recommended to and/or purchased for the Blackstreet funds. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of Blackstreet will not interfere with (i) making decisions in the best interest of the Blackstreet 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 Blackstreet employees 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 Blackstreet and the Blackstreet funds. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as the Blackstreet funds, there is a possibility that employees might benefit from market activity by a Blackstreet fund in a security held by an employee.

Blackstreet's general policy requires each employee to place the interests of the Blackstreet funds above their own. Blackstreet's Code of Ethics contains an Individual Conflict of Interest policy which prohibits employees from purchasing or selling stock for personal accounts immediately before a Blackstreet fund's planned purchase or sale of which such employee has knowledge.

## **Item 12 – Brokerage Practices**

With respect to the portfolio companies in which Blackstreet 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, Blackstreet has discretion to determine, without the consent of the Blackstreet funds or their limited partners, the broker or dealer to be used and the commission rates to be paid. Blackstreet endeavors in good faith to obtain the best execution of brokerage transactions for the Blackstreet funds and selects brokers and dealers through which to effect transactions on behalf of the Blackstreet 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 will not always be executed at the best available price or commission.

Blackstreet may select a broker or dealer that furnishes Blackstreet, directly or through correspondent relationships, with research (including third party research) or other services which provide, in Blackstreet's view, appropriate assistance to Blackstreet 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. The use of commissions or "soft dollars" to pay for such research or other services, whether provided directly or indirectly, may be utilized (but has not to date), for the benefit of the Blackstreet funds managed by Blackstreet and its affiliates.

Blackstreet currently expects that any soft dollar 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**

Blackstreet continuously reviews and evaluates the investment plans and strategies of the Blackstreet funds, and reconciles each fund's accounts (and those of their respective investors) every time a capital call or distribution is made by the fund. Investors in the Blackstreet funds receive quarterly account statements. The accounts of the Blackstreet funds are reviewed by Blackstreet's Chief Financial Officer, Human Resources Manager and Chief Compliance Officer. Investors in the Blackstreet funds receive, in written form, (i) annual financial statements of the fund within 150 days following the end of each year, (ii) annual reviews providing annual financial information for each of the fund's portfolio companies within 150 days of the end of each year, (iii) 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 fund's activities and (iv) tax information as required for tax filings.

In the sole discretion of the general partner of each Blackstreet fund, the annual financial statements for the fund are either audited or reviewed by an independent accounting firm hired by the general partner.

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

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

**Item 15 – Custody**

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

**Item 16 – Investment Discretion**

All assets of the Blackstreet funds are managed by Blackstreet on a discretionary basis, subject only to the investment limitations described above or as otherwise set forth in the related management agreements and/or limited partnership agreements. See Item 1 above.

**Item 17 – Voting Client Securities**

Blackstreet does not vote the securities held by the Blackstreet funds. The respective general partner of each Blackstreet fund, which in each case is an affiliate of Blackstreet, votes the securities held by the related Blackstreet fund. Blackstreet Capital Advisors, LLC is the general partner of Fund I and a SEC-registered investment adviser. Blackstreet Capital Advisors II, LLC is the general partner of Fund II and also a SEC-registered investment adviser.

**Item 18 – Financial Information**

Blackstreet requires that management fees be paid semi-annually in advance. See Item 5 above for management fee information. Blackstreet is not aware of any financial condition that is reasonably likely to impact its ability to meet its contractual commitment to the Blackstreet funds (its clients), and has not been the subject of a bankruptcy proceeding. A balance sheet containing financial information for the most recent fiscal year is attached to this brochure.

**Blackstreet Capital Management, LLC**  
**Balance Sheet**  
As of December 31, 2010

	<b>Dec 31, 10</b>
<b>ASSETS</b>	
<b>Current Assets</b>	
Cash	53,596.70
Total Other Current Assets	<u>109,908.98</u>
<b>Total Current Assets</b>	163,505.68
<b>Total Fixed Assets</b>	389,897.37
<b>Total Other Assets</b>	<u>501,987.23</u>
<b>TOTAL ASSETS</b>	<u><u>1,055,390.28</u></u>
<b>LIABILITIES &amp; EQUITY</b>	
<b>Liabilities</b>	
<b>Current Liabilities</b>	
Accounts Payable	58,692.77
Total Other Current Liabilities	<u>68,013.65</u>
<b>Total Current Liabilities</b>	126,706.42
<b>Total Equity</b>	<u>928,683.86</u>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<u><u>1,055,390.28</u></u>