

Item 1 – Cover Page



## Bayou City Energy Management, LLC

1201 Louisiana Street, Suite 3308

Houston, TX 77002

[www.bayoucityenergy.com](http://www.bayoucityenergy.com)

Telephone: (713) 400-8200

Facsimile: (713) 400-8201

## Form ADV Part 2A: Firm Brochure

[April \_\_, 2016]

This Brochure provides information about the qualifications and business practices of Bayou City Energy Management, LLC (the “Firm” or “Adviser”). If you have any questions about the contents of this Brochure, please contact Kristin MacKelvey, Chief Compliance Officer, at (713) 400-8213 or [kristin@bayoucityenergy.com](mailto:kristin@bayoucityenergy.com). 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.

The Firm 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 an Adviser provide you with information about which you determine to hire or retain an Adviser.

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

## Item 2 – Material Changes

This is Bayou City Energy Management, LLC's initial Brochure dated April \_\_, 2016, and has been prepared according to the SEC's requirements and rules.

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.

Pursuant to SEC Rules, we will ensure that a summary of any materials changes to this and subsequent Brochures will be provided within 120 days of the close of our business' fiscal year. We may provide other ongoing disclosure information about material changes as necessary.

We will further provide a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, our Brochure may be requested by contacting Kristin MacKelvey, Chief Compliance Officer, at (713) 400-8213 or [kristin@bayoucityenergy.com](mailto:kristin@bayoucityenergy.com).

Additional information about the Firm is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any persons affiliated with the Firm who are registered, or are required to be registered, as investment adviser representatives of the Firm.

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## Item 4 – Advisory Business

Bayou City Energy Management, LLC, (“Bayou City”, “BCE” or the “Firm”) is a private equity firm formed May 27, 2015 by William W. McMullen (the “Managing Partner”), Mark N. Stoner (the “Partner”) and Charles R. Cherington (the “Senior Advisor”) to invest in small energy exploration and production (“E&P” or “upstream”) companies.

Bayou City provides investment management services to investment funds offered to qualified investors in the United States and elsewhere on a private placement basis. Currently Bayou City provides investment management services to Bayou City Energy, L.P. and Bayou City Energy Affiliate Fund, L.P. (the “Fund”), as well as a number of other private investment funds. The Fund generally makes each investment through holding companies, which are disclosed in Section 7.B(1) of Schedule D of the Form ADV Part 1A. Other investors may also invest in the holding companies alongside the Fund.

Bayou City Energy GP, L.P., a Delaware limited partnership (the “General Partner”), is the sole general partner of the Fund. The General Partner will control the business and affairs of the Fund. The General Partners and Bayou City are controlled by William W. McMullen.

Bayou City has full discretionary authority with respect to investment decisions for the Fund, and its advice is made in accordance with the investment objectives and guidelines set forth in the Fund’s offering memorandum.

This Brochure does not constitute an offer to sell or solicitation of an offer to buy any securities. Persons reviewing this Brochure should not construe this as an offer to sell or solicitation of an offer to buy the securities of any of the Funds described herein. Any such offer or solicitation will be made only by means of a confidential private placement memorandum.

Bayou City’s investment strategy is to specifically target investments in North American exploration and production companies through two complementary strategies: Investing buyout and growth capital in small operators with current production to sustain and expand operations (“Platform Companies”), and partnering with leading operators to provide dedicated drilling capital commitments (“Drill Partnerships”).

Please see Item 8 for a more detailed description of Bayou City’s investment strategies.

The descriptions set forth in this Brochure of specific advisory services that Bayou City offers to the Fund should not be understood to limit in any way Bayou City’s investment activities. Bayou City may, in the future, offer any advisory services, engage in any investment strategy and make any investment that Bayou City considers appropriate, subject to each Fund’s or client’s investment objectives and guidelines. The investment strategies Bayou City pursues are speculative and entail substantial risks. Investors should be prepared to bear a substantial loss of capital. There can be no assurance that the investment objectives of any fund managed by Bayou City will be achieved.

Investors in the Fund participate in the overall investment program for that Fund, but may be excused from a particular investment due to legal, regulatory or other agreed-upon circumstances pursuant to the Limited Partnership Agreement (“LPA”).

The Fund and/or the General Partners have entered into side letters or other similar agreements with certain investors that have the effect of establishing rights under, or altering or supplementing the terms of, the relevant LPA with respect to such investors.

The Firm manages approximately \$219.7 million in assets as of March 31, 2016, which is determined based on the value of the Fund, other related investments and unfunded commitments.

## **Item 5 – Fees and Compensation**

### Management Fees

During the Fund’s investment period, investors generally bear a management fee (the “Management Fee”) paid quarterly in advance on committed capital, at a rate of 2.0% per annum during the investment period, and 2.0% of the cost basis of portfolio investments held by the Fund (excluding portfolio investments that have been written off as worthless) thereafter.

Under the Fund’s LPA, generally the Management Fees are offset by 100% of the amount of all fees paid by the Fund’s portfolio companies to the General Partner or its affiliates, (the “Other Fees”), including transaction, directors, consulting, investment banking, monitoring, topping, break-up and other similar fees; provided that any fees or other compensation paid by one or more portfolio companies to employees of Bayou City or its affiliates who are devoting a majority of their business time to such portfolio companies shall not be subject to offset. To the extent that the Management Fee would be reduced for a given quarterly period below zero as a result of these reductions, the reduction amounts are carried forward and reduce future installments of the Management Fee or be distributed at the end of the relevant Fund’s life.

The General Partner and Bayou City, as investment adviser to the Fund, are responsible for their normal administrative and overhead expenses, including compensation of employees, rent, utilities, equipment and other office expenses. The Fund will be responsible for all other third-party costs and expenses, including the legal, consulting, accounting and auditing expenses of the Fund (including, without limitation, fees and expenses of the annual audit of the Fund, the preparation of the annual and interim financial statements of the Fund and the Federal and state tax returns of the Fund); Federal, state, county and municipal taxes and assessments of any nature imposed on the Fund, its business, or operations; filing fees of the Fund under all Federal, state, county, and municipal laws, statutes, and ordinances, and the rules and regulations thereunder; expenses of reports and notices to and meetings of Partners and of the Advisory Board; fees and disbursements of custodians, disbursing agents, and the like; brokerage commissions, investment banking fees, valuation fees, finders’ fees and custodial, legal, consulting and accounting expenses and all other expenses, including travel, incurred in

connection with any proposed acquisition or disposition of investments of the Fund (whether or not any such acquisition or disposition is consummated) or the holding and monitoring of investments of the Fund, all to the extent not reimbursed by the Fund's portfolio companies; interest and other costs, fees, charges, and assessments respecting funds borrowed by the Fund; insurance premiums and expenses; all expenses and liabilities associated with any pending or threatened claim or litigation involving the Fund including, without limitation, any indemnification obligations of the Fund, and including all judgments or settlements paid in connection with such claim or litigation; and all other costs, liabilities and expenses substantially comparable to any of the foregoing or otherwise payable to third parties unaffiliated with the General Partner or the Bayou City on behalf of the Fund and, to the extent any such costs or expenses are paid by the General Partner or the Bayou City, the General Partner or their affiliates, as the case may be, shall be reimbursed by the Fund.

Bayou City may exempt certain investors, including, but not limited to, its affiliates, its employees and members of management of any portfolio company, in the Fund from payment of all or a portion of Management Fees and/or carried interest. Such exemption from Management Fees and/or carried interest may be made by a direct exemption, rebate of Management Fees or otherwise. For example, in instances where a Bayou City professional or his or her estate planning vehicle or other affiliated person invests in a Fund, such professional, estate planning vehicle or affiliated person generally may be exempt from payment of the Management Fee and/or carried interest with respect to such Fund. Additionally, to the extent permitted by the relevant limited partnership agreement, Bayou City may have the right to permit investors, affiliated with Bayou City or otherwise, to invest through the relevant General Partner or other vehicles that do not bear Management Fees or carried interest.

Bayou City also manages other pooled investment vehicles. Fees paid by investors in those vehicles are described in the limited partnership agreements or other documents governing those relationships.

#### Carried Interest

The General Partner of the Fund may receive a carried interest in the Fund, as described in Section 6.

#### External Fees

Bayou City may receive financial advisory fees, consulting fees, finder, commitment or placement fees, or similar compensation from any Portfolio Company as well as director's fees or similar compensation from any Portfolio Company. As set forth in the LPA of the Fund, External Fees received by Bayou City benefit the LPs of the Fund by way of a management fee offset.

#### Expenses

The Fund shall pay for all reasonable costs and expenses related to the Fund's establishment, including legal, accounting, filing, capital raising and other organizational expenses (the "Organizational Expenses"); provided that the Management Fee will be reduced by Organizational Expenses in excess of \$1,000,000 and any placement fees paid by the Fund.

Similarly, organizational expenses of other pooled investment vehicles managed by Bayou City are paid by such vehicles pursuant to the terms of the relevant limited partnership agreements.

Bayou City seeks to make securities investments for clients in such a manner that the total costs or proceeds in each transaction are the most favorable under the circumstances ("best execution"). Bayou City's investment strategy generally involves making direct private equity investments in leveraged acquisitions of companies. The terms of such transactions are typically subject to negotiation and brokerage firms are not usually involved. Therefore Bayou City does not currently anticipate using broker dealers to effect securities transactions.

Bayou City does not currently receive any soft dollar benefits from broker dealers.

Bayou City and/or its affiliates generally have discretion over whether to charge transaction fees to a portfolio company and, if so, the fee rate or amount. Although such transaction fees are generally offsettable against the Management Fees, the receipt of transaction fees may give rise to conflicts of interest between the Funds, on the one hand, and Bayou City and/or its affiliates on the other hand.

#### Co-investment Deal Fee

Bayou City may receive a deal fee from a co-investment party for the finding and negotiating of an investment. That fee is paid directly to Bayou City and does not offset the management fee charged to the Fund.

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

The General Partner of the Fund may receive an allocation of carried interest. Since Bayou City is generally subject to limitations on forming new pooled investment entities as set forth in the relevant LPA, it does not generally face certain conflicts of interest that may arise when an investment adviser accepts performance-based fees from some clients, but not from others.

The General Partner may receive a carried interest with respect to each limited partner in the Fund, based on proceeds from realized investments. The carried interest rate is 20%, depending upon each limited partner's agreement with the General Partner, and is subject to a provision such that no carried interest allocation is made until there has been a full return of each limited partner's capital contribution, as well as a compounded annual rate of return of 10% on capital contributions, as more fully described in the Fund's LPA. Carried interest distributions to the General Partner are generally subject to give back obligations as set forth in the relevant LPAs.

To the extent permitted by the relevant limited partnership agreement, Bayou City may have the right to permit investors, affiliated with Bayou City or otherwise, to invest through the relevant General Partner or other pooled investment vehicles that do not bear management fees or carried interest.

In measuring clients' assets for the calculation of performance-based fees, Bayou City includes realized capital gains and losses. Performance-based fee arrangements may create an incentive for Bayou City to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement.

## **Item 7 – Types of Clients**

Bayou City primarily provides investment advice to Funds offered to qualified investors on a private placement basis. The investors participating in the Funds may include, but are not limited to, individuals, banks or thrift institutions, other investment entities, university endowments, sovereign wealth funds, family offices, pension and profit-sharing plans, trusts, estates or charitable organizations or other corporations or business entities and may include, directly or indirectly, principals or other employees of Bayou City and its affiliates and members of their families, Executive Partners or other service providers retained by Bayou City.

The offering documents of the Fund set minimum amounts for investment by prospective investors in such Fund. These minimum amounts in general may be waived by Bayou City.

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

Bayou City's investment strategy is to focus on making investments in the North American upstream oil & gas sector. Bayou City targets privately negotiated investments through two complementary strategies: Providing buyout and growth equity capital for small operators with current production, and partnering with leading operators to provide dedicated drilling capital.

Investing in securities involves risk of loss that clients should be prepared to bear.

Although the Firm seeks to reduce these risks, prospective investors should consider carefully, among other factors, the risks described below. Such risk factors are not meant to be an exhaustive listing of all potential risks associated with an investment with the Firm.

- *General Investment and Trading Risks.* All securities investments present a risk of loss of capital. Volatile financial markets increase that risk. If the Firm's evaluation of an investment opportunity should prove incorrect, an investor could experience losses as a result of a decline in the market value of securities in which the investor holds a long position or an increase in the value of securities in which the investor holds a short position. The risk management techniques that may be used by the Firm do not provide any assurance that investors will not be exposed to a risk of significant investment losses.

- *General Economic Conditions.* Market risk is a factor in any investment. A high level of volatility in the financial markets could disrupt the Firm's investment strategy, decrease the value of its portfolios, and adversely impact returns.



## **Certain Risk Factors**

The following risk factors do not purport to be a complete list or explanation of the risks involved in an investment in the Fund advised by Bayou City. These risk factors include only those risks Bayou City believes to be material, significant or unusual and relate to particular significant investment strategies, methods of analysis or types of securities used by Bayou City. For a more detailed list of risk factors applicable to the Fund, please refer to the Fund's offering memorandum.

## **Investment Risks**

### **Dependence on Key Personnel**

The success of the Fund will be highly dependent on the expertise and performance of the Managing Partner and Bayou City's other investment professionals. There can be no assurance that Bayou City's other investment professionals will continue to be associated with the General Partner or the Bayou City throughout the life of the Fund, as they are under no contractual obligation to remain with the General Partner or Bayou City for all or any portion of the term of the Fund. The loss of the services of one or more of these individuals could have a material adverse effect on the performance of the Fund. Furthermore, although investment professionals employed by the Bayou City will commit a significant amount of their business efforts to the Fund, they are not required to devote all of their business time to the Fund's affairs.

### **Illiquidity of Investments**

An investment in the Fund requires a long-term commitment with no certainty of return. It is unlikely there will be near-term cash flow available to investors. Many of the Fund's investments may be illiquid, and there can be no assurance that the Fund will be able to realize such investments at attractive prices or otherwise be able to effect a successful realization or exit strategy. Consequently, dispositions of such investments may require a lengthy time period or may result in distributions in-kind to the investors. Additionally, the Fund may acquire securities that cannot be sold except pursuant to a registration statement filed under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or in accordance with Rule 144 promulgated under the Securities Act. There can be no assurance that private purchasers can be found for the Fund's investments.

### **No Assurance of Investment Return**

The General Partner cannot provide assurance that it will be able to choose, make and/or realize investments in any particular company or portfolio of companies. There is no assurance that the Fund will be able to generate returns for its investors or that the returns will be commensurate with the risks of investing in the types of companies and transactions described herein. The marketability and value of any such investment will depend upon many factors beyond the control of the Fund. The expenses of the Fund may exceed its income, and an investor could lose the entire amount of its contributed capital. Therefore, an investor should only invest in the Fund if it can withstand a total loss of its investment. The past investment performance of the entities with which officers and employees of the Bayou City have been associated cannot be taken to guarantee future results of the Fund or any investment of the Fund.

**Nature of the Fund's Investments**

A substantial portion of the Fund's investments will be in equity or equity-related investments in the energy sector that, by their nature, involve business, financial, market and/or legal risks. While such investments offer the opportunity for significant capital gains, they also involve a high degree of risk that may result in substantial losses. There can be no assurance that the Fund will correctly evaluate the nature and magnitude of the various factors that could affect the value of such investments. Prices of the investments may be volatile, and a variety of other factors that are inherently difficult to predict, such as domestic or international economic and political developments, may significantly affect the results of the Fund's activities. As a result, the Fund's performance over a particular period may not necessarily be indicative of the results that may be expected in future periods.

**Non-Controlling Investments**

Although the Fund intends to make primarily control-oriented investments, the Fund may make minority equity investments in portfolio companies where it may have limited influence. Such a portfolio company may have economic or business interests or goals that are inconsistent with those of the Fund, and the Fund may not be in a position to limit or otherwise protect the value of its investment in the company, although as a condition of making such investments, it is expected that appropriate shareholder rights generally will be sought to protect the Fund's investments. The Fund's control over the investment policies of these companies may also be limited.

**Leverage**

In addition to the Fund's limited ability to borrow as set forth in the Partnership Agreement, the Fund's investments may involve leveraged acquisitions, which 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 to increases in expenses. Utilization of leverage is a speculative investment technique and involves risks to investors. The leverage provided will result in interest expense and other costs incurred in connection with such borrowings, which may not be covered by available cash flow. While leverage may enhance total returns to the investors, if investment results fail to cover borrowing costs then returns to the investors will be lower than if there had been no borrowings.

**Investments with Third Parties**

The Fund may co-invest in a company with financial, strategic or other third-party investors. Such investments may involve additional risks not present in investments where a third party co-investor is not involved, including the possibility that such co-investor may have economic or business interests or objectives that are inconsistent with those of the Fund or may be in a position to take (or block) action in a manner contrary to the Fund's interests or objectives. In addition, the Fund may, in certain circumstances, be held liable for actions of its third party co-investors.

**Contingent Liability on Disposition of Investments**

Most of the Fund's investments will involve private securities. In connection with the disposition of an investment in private securities, the Fund may be required to make representations about the business and financial affairs of the portfolio company typical of those made in connection with the sale of a business. The Fund also may be required to indemnify the purchasers of such investment to the extent that any such representations are inaccurate or with respect to certain potential liabilities. These arrangements may result in contingent liabilities that ultimately yield funding obligations that must be satisfied by the Limited Partners to the extent of their commitments.

### **Reliance on Portfolio Company Management**

The day-to-day operations of each portfolio company in which the Fund invests will be the responsibility of such portfolio company's management team. Although the General Partner will be responsible for monitoring the performance of each Fund investment and generally intends to invest in portfolio companies operated by strong management, there can be no assurance that the existing management team or any successor will be able to operate any such portfolio company in accordance with the Fund's expectations.

### **Non-U.S. Investments**

The Fund may invest in portfolio companies whose principal executive offices or corporate headquarters are, at the time of initial investment, in Canada or Mexico, and therefore a portion of the Fund's investments and the income received by the Fund with respect to such investments may be denominated in non-U.S. currencies.

However, the Fund's books will be maintained, and the contributions and distributions from the Fund generally will be made, in U.S. dollars. Investing in non-U.S. securities may involve greater risks than investing in U.S. securities. In particular, the value of the Fund's investments in non-U.S. securities may be significantly affected by changes in currency exchange rates, which may be volatile. Although the General Partner may (but is not required to) attempt to hedge against foreign currency exchange rate risks by utilizing spot and forward foreign exchange contracts, foreign currency options or other instruments, there can be no assurance that the General Partner will be able to do so successfully or cost-effectively, and the General Partner may decide not to hedge against such risks or to do so only incompletely. The Fund may incur costs in converting investment proceeds from one currency to another, as well as costs associated with any hedging instruments.

Additional risks include: (i) risks of economic dislocations in the host country; (ii) greater difficulty of enforcing legal rights in a foreign jurisdiction; (iii) differences between the U.S. and non-U.S. securities markets, including potential price volatility in and relative illiquidity of some non-U.S. securities markets; (iv) the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and differences in government supervision and regulation; (v) certain economic and political risks, including potential exchange control regulations, potential restrictions on foreign investments and repatriation of capital and the risks associated with political, economic or social instability, diplomatic developments and the possibility of expropriation or confiscatory taxation; and (vi) the possible imposition of non-U.S. taxes on income and gains recognized with respect to such securities. While the General

Partner will take these factors into consideration in making investment decisions for the Fund and intends to manage the Fund in a manner to minimize exposure to the foregoing risks, there can be no assurance that the General Partner will be able to evaluate the risks accurately or that adverse developments with respect to such risks will not adversely affect the value or realization of investments that are held by the Fund in certain countries.

### **Risks of Derivative Transactions**

The Fund is permitted to engage in certain derivative transactions, including swaps, short sales, forward contracts or options or other hedging transactions which are intended to reduce the Fund's equity, debt, currency, interest rate or other exposure, however there is not any obligation to enter into any such transactions.

The use of such instruments, even when used with the intent to reduce the risks associated with the Fund's investments, involves additional expenses as well as risks that are different than those of the Fund's direct or indirect investments. Unanticipated changes in securities prices, interest rates or currency exchange rates may result in a poorer overall performance for the Fund than if it had not entered into any such derivative transaction. In addition, any hedging transaction in which the Fund enters may be imperfect, leaving the Fund exposed to some risk from the position that was intended to be protected. The successful use of hedging strategies depends upon the availability of a liquid market and appropriate hedging instruments and there can be no assurance that the Fund will be able to close out a position when deemed advisable by the General Partner.

### **Difficulty of Locating Suitable Investments**

There can be no assurance that there will be a sufficient number of suitable investment opportunities to enable the Fund to invest all of its commitments in opportunities that satisfy the Fund's investment strategy, or that such investment opportunities will lead to completed investments by the Fund. The process of identifying, structuring, implementing and realizing attractive investment opportunities is highly competitive. The Fund will compete for investment opportunities with many other investors, some of which will have greater resources than the Fund. Furthermore, the energy industry is inherently cyclical in nature and the availability of investment opportunities generally will be subject to market conditions as well as, in some cases, the prevailing regulatory or political climate. There can be no assurance that the Fund will be successful in its efforts to identify and complete attractive investment opportunities, and it is possible that the Fund's commitments will not be fully utilized if sufficient attractive investments are not identified and consummated by the Fund during the Investment Period.

### **Follow-On Investments**

The Fund may be called upon to provide follow-on funding for its portfolio companies or have the opportunity to increase its investment in portfolio companies. There can be no assurance that the Fund will wish to make such follow-on investments or that the Fund will have sufficient capital to do so. Any decision not to make follow-on investments or the inability to make them may have a substantial negative impact on a portfolio company in need of such an investment or may diminish the Fund's proportionate ownership in such portfolio company and thus its ability to influence such portfolio company's future development.

**Bridge Loans**

From time to time, the Fund may lend to portfolio companies on a short-term, unsecured basis or otherwise invest on an interim basis in portfolio companies in anticipation of a future issuance of equity or long-term debt securities or other refinancing or syndication. Such bridge loans may be convertible into a more permanent, long-term security; however, for reasons not always in the Fund's control, such long-term securities issuance or other refinancing or syndication may not occur and such bridge loans and interim investment may remain outstanding. In such event, the interest rate on such loans may not adequately reflect the risk associated with the unsecured position taken by the Fund.

**Early Stage Investments**

The Fund may invest in newly-formed or pre-revenue companies. Many of these types of investments are made at an early point in a company's life cycle. These "early stage" or "seed" investments can create value inherent in particular companies or situations that can be realized only with substantial effort or expense. Often the success of the investment will depend not only on the efforts of the manager, but also upon actions of other key individuals, or extraneous factors including political or economic developments over which the manager has little or no control. These companies are typically dependent on the abilities of key individuals, including founding entrepreneurs, owners or employees with critical technological skills or ownership of important patents or other intellectual property, and marketing and financial professionals.

The growth and development of early stage companies may depend on the regular injection of additional capital and financing beyond that which the Fund is prepared or able to invest; such financing may not be available from other sources. Early stage companies are typically thinly staffed and may lack the internal resources or procedures and controls to detect and prevent accounting errors, or more serious losses caused by the misconduct or negligence of officers, employees or agents.

**Failure to Fund Commitments; Consequences of Default**

The Fund's investments in portfolio companies will require capital calls on Limited Partners over an extended period of time. If Limited Partners fail to fund their commitment obligations when due, the Fund's ability to complete its investment program or otherwise to continue operations may be substantially impaired. A default by a substantial number of Limited Partners or by one or more Limited Partners who have made substantial commitments would limit opportunities for investment diversification and likely would reduce returns to the Fund. In the event that a Limited Partner defaults, such Limited Partner may be subject to various penalties, including forfeiture of a portion of its Interest, as provided in the LPA.

**Investments Longer than Term**

The Fund may invest in investments that may not be advantageously disposed of prior to the date that the Fund will be dissolved, either by expiration of the Fund's term or otherwise. Although the General Partner expects that investments will be either disposed of prior to dissolution or suitable for in-kind distribution at dissolution, the Fund may have to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of dissolution.

**Provision of Managerial Assistance and Control**

The Fund typically will designate individuals to serve on the boards of directors of the Fund's portfolio companies. The designation of directors and other measures contemplated could expose the assets of the Fund to claims by a portfolio company, its security holders and its creditors. The exercise of control over a company imposes additional risks of liability for environmental damage, product defects, failure to supervise management, violation of governmental regulations and other types of liability which the limited liability characteristic of business operations usually ignores. If these liabilities were to occur, the Fund could suffer losses in its investments. While the General Partner intends to manage the Fund in a way that will minimize exposure to these risks, the possibility of successful claims cannot be precluded.

**Restrictions on Transfer; No Market for Limited Partner Interests**

Interests in the Fund will not be registered under the Securities Act, the securities laws of any U.S. state or the securities laws of any other jurisdiction, and, therefore, cannot be sold unless they are subsequently registered under the Securities Act and other applicable securities laws or an exemption from registration is available.

The Fund has no plans, and is under no obligation, to register the Interests in the Fund under the Securities Act or other securities laws. No market exists for the Interests in the Fund and none is expected to develop. A Limited Partner may not sell, assign or transfer any of its interests, rights or obligations with respect to its Interest in the Fund without the prior written consent of the General Partner, which the General Partner may grant or withhold in its sole and absolute discretion. Further, a Limited Partner may not withdraw any amount from the Fund except under limited circumstances, primarily for regulatory or other legal reasons. Consequently, a Limited Partner may not be able to liquidate its investment in the Fund and must be prepared to bear the risks of owning an Interest for an extended period of time.

**Commodity Risk; Price Volatility**

The Fund is targeting investments primarily in companies serving the energy industry and, as such, they will be indirectly subject to commodity price risk, including, without limitation, the demand and price of oil and gas. Historically, the markets for oil, gas, coal and power have been volatile, and such markets are likely to continue to be volatile in the future. Because of their relation to the energy industry as a whole, operation and cash flows of the Fund's portfolio companies could depend upon prevailing market prices for energy commodities. These market prices may fluctuate materially depending upon a wide variety of factors that are beyond the control of the General Partner or the Fund, including, without limitation, market supply and demand, geopolitical conditions and events, including political conditions in the Middle East and other oil and gas producing nations, weather conditions, tax policy, changes in law and regulation, the price and availability of alternative fuels and energy sources, terrorist acts or threats thereof, actions of the Organization of Petroleum Exporting Countries (and other oil and natural gas producing nations), the foreign supply of (and demand for) oil and natural gas, the price of foreign imports and overall economic conditions.

**Tax Considerations**

An investment in the Fund may involve complex U.S. federal income tax considerations that will differ for each Limited Partner. Under certain circumstances, the Limited Partners could be required to recognize taxable income in a taxable year for U.S. federal income tax purposes, even if the Fund either has no net profits in such year or has an amount of net profits in such year that is less than such amount of taxable income. Furthermore, the Limited Partners could incur U.S. federal income tax liabilities without receiving from the Fund sufficient distributions to defray such tax liabilities. In addition, the Fund may invest in securities of corporations and other entities organized outside the United States. Income from such investments included in a Limited Partner's distributive share of Fund income related to such investments may be subject to non-U.S. withholding taxes, which may or may not be reduced or eliminated by an income tax treaty.

### **Risk Inherent in the Energy Industry**

The companies in which the Fund will invest are inherently subject to numerous risks arising from their operations. For example, companies involved in the drilling and production of oil and natural gas face risks that include, without limitation: (i) the risks of conducting drilling operations (including risks of substantial losses to properties, bodily injury and environmental damage arising from operations that do not proceed as planned and the risk of failing to find commercially productive reserves); (ii) risks of compliance with increasingly burdensome environmental regulations and other regulations governing the production of natural resources; (iii) risks involved in offshore drilling and in locations in foreign countries, including political unrest, terrorism, kidnapping, expropriation, increased costs and operational delays and disruptions; and (iv) risks of catastrophic and other force majeure events. The occurrence of losses as a result of the risks inherent in operating in the energy industry could have a materially adverse impact upon actual results of the Fund's investments.

### **Adequacy and Availability of Insurance; Catastrophic Events**

While the Fund will seek to make investments where insurance and other risk management products (to the extent available on commercially reasonable terms) are utilized to mitigate the potential loss resulting from catastrophic events and other risks customarily covered by insurance, this may not always be practicable or feasible. Moreover, it will not be possible to insure against all such risks, and such insurance proceeds as may be derived in a timely manner from covered risks may be inadequate to completely or even partially cover a loss of revenues, an increase in operating and maintenance expenses and/or a replacement or rehabilitation.

In addition, certain losses of a catastrophic nature, such as those caused by wars, earthquakes, hurricanes, tornados, floods, terrorist attacks or other similar events, may be either uninsurable or insurable at such high rates as to adversely impact the Fund's profitability. In general, losses related to terrorism are becoming harder and more expensive to insure against. Most insurers are excluding terrorism coverage from their all-risk policies. In some cases, the insurers are offering significantly limited coverage against terrorist acts for additional premiums, which can greatly increase the total costs of casualty insurance. As a result, it is unlikely that any of the Fund's investments will be insured against damages attributable to acts of terrorism. If a major uninsured loss were to occur with respect to an investment, the Fund could lose both its capital invested in and anticipated profits related to such investment.

**Broken Deal Expenses**

Investments in the energy industry often require extensive due diligence activities and regulatory approvals prior to acquisition. Due diligence may include feasibility and technical studies, preliminary engineering and marketing studies and legal and environmental review, any or all of which may entail significant third-party expenses. In the event that an investment is not consummated, some or all of such third party expenses and any termination fees will be borne by the Fund.

**Certain Conflicts of Interest**

Prospective investors should be aware that there may be occasions when the General Partner, Bayou City and their partners, officers, directors, employees and affiliates will encounter potential conflicts of interest in connection with the Fund's activities. The following discussion enumerates certain potential conflicts of interest that should be carefully evaluated before making an investment in the Fund. This does not purport to be a comprehensive list or complete explanation of all potential conflicts of interests.

**Other Investment Activities**

Bayou City and the Managing Partner may, in the future, organize and manage one or more entities with objectives similar to or different than those of the Fund, including successor funds. Some of these entities may have interests that conflict with those of the Fund. The Fund may, subject to certain limitations set forth in the LPA, acquire an interest in an existing Fund investment or co-invest in the existing investments or with a competing fund in the future. Any such co-investments or related transactions may raise potential conflicts of interest, particularly if investments are made in different classes or types of securities of the same portfolio company. In that regard, actions may be taken by such other fund that are adverse to the Fund.

**Allocation of Investment Opportunities**

Bayou City may, in the future, manage other investment funds and accounts which invest in assets eligible for purchase by the Fund (collectively, the "Other Managed Accounts"). The investment policies, fee arrangements and other circumstances of the Fund may vary from those of Other Managed Accounts. Bayou City, the General Partner and their respective affiliates intend to allocate investment opportunities to the Fund and Other Managed Accounts in a manner that they believe in their judgment to be fair and equitable given the investment objectives, liquidity, diversification and other limitations of the Fund and such Other Managed Accounts. Bayou City, the General Partner and their affiliates may also adopt certain procedures to address such conflicts. All of the foregoing procedures could, in certain circumstances, adversely affect the price paid or received by the Fund or the size of the position purchased or sold by the Fund (including prohibiting the Fund from purchasing a position) or may limit the rights that the Fund may exercise with respect to an investment. Further, the allocation of investment opportunities otherwise eligible for the Fund to Other Managed Accounts may serve to decrease certain investment opportunities to the Fund.

**Overlapping Investments**

Other Managed Accounts may hold or may acquire positions in portfolio companies in which the Fund invests or has invested. Similarly, the Fund may hold or acquire positions in which such



Other Managed Accounts hold investments, or may acquire positions from such Other Managed Accounts. Such investments may be coincident or precede one another. For example, the Fund may acquire a position in an existing investment, either directly from the issuer or from the holders of the existing investment. The Fund may have divergent interests from such Other Managed Accounts with respect to exit strategies from such investments, restructuring the capital structure or business of such companies or other matters affecting the Fund's investment in such companies. In addition, conflicts may arise due to the fact that such Other Managed Accounts may invest in different levels of the capital structure of a portfolio company than the Fund.

Investments by Other Managed Accounts may cause the General Partner to become subject to legal or contractual restrictions on its ability to effect transactions for the Fund, for example due to the receipt of nonpublic information or due to the existence of a control relationship between Bayou City's affiliates and a portfolio company. In that regard, actions may be taken by such Other Managed Account that are adverse to the Fund. In addition, it is possible that in a bankruptcy proceeding the Fund's interest may be adversely affected by virtue of such Other Managed Accounts' involvement and actions relating to its investment.

### **Management Fee; Carried Interest**

The existence of the carried interest may create an incentive for the General Partner to approve and cause the Fund to make riskier or more speculative investments than it would otherwise make in the absence of such performance-based compensation.

### **Diverse Investors**

The Limited Partners may have conflicting investment, tax and other interests with respect to their Fund investments. The conflicting interests of individual Limited Partners may relate to or arise from, among other things, the nature of the Fund's investments, the structuring or the acquisition of investments and the timing of disposition of the Fund's investments. As a consequence, conflicts of interests may arise in connection with decisions made by the General Partner, including with respect to the nature or structuring of investments, that may be more beneficial for one investor than for another investor, especially with respect to investors' individual tax situations. In selecting and structuring investments appropriate for the Fund, the General Partner will consider the investment and tax objectives of the Fund and the Fund's Partners as a whole, and not the investment, tax or other objectives of any Limited Partner individually.

### **Written Agreements**

The Fund and the General Partner will be authorized, without the approval of any Limited Partner, to enter into side letters or similar written agreements with Limited Partners that have the effect of establishing rights under, or altering or supplementing the terms of this Memorandum, the LPA, such Limited Partner's Subscription Agreement or other related agreements. The ability of other Limited Partners to elect to receive the benefit of such side agreements will be limited.

## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of the Firm or the integrity of the firm's management.

The Firm has no information applicable to this Item.

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

Bayou City and its management persons are not registered as broker-dealers and do not have any application pending to register with the SEC as a broker-dealer or registered representative of a broker-dealer.

Bayou City and its management persons are not registered as, and do not have any application to register as, a futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of the foregoing entities.

Bayou City does not recommend or select other investment advisers for its Clients.

The General Partner of the Fund is an affiliate of Bayou City. As described in Items 5 and 6, carried interest allocations are made to the General Partner of the Fund, while management fees are paid to Bayou City.

McMullen Management LLC, is 100% owned and controlled by William McMullen, Bayou City's Managing Partner and 50% equity owner. McMullen Management LLC is the general partner of two private equity partnerships, Bayou City Energy Partners, L.P., and Bayou City Energy Partners II, L.P. McMullen Management LLC may receive a carried interest as general partner of these funds in the event certain performance hurdles are met. Bayou City Energy Partners, L.P. is in the process of winding down and currently only holds cash for the purpose of paying expenses associated with the closing of that fund. Bayou City Energy Partners II, L.P. holds one investment and will not be making any future capital calls or further investments. Mr. McMullen may devote some of his time as principal of McMullen Management LLC in connection with these investments, but this should not significantly impact his ability to perform his role as principal of Bayou City.

It is not anticipated there should be any conflict of interest among Bayou City, the Fund, Bayou City Energy Partners, L.P. and Bayou City Energy Partners II, L.P. with respect to investment allocations, given that the latter two partnerships are no longer actively investing.

Intervale Capital LLC ("Intervale"), a federally registered investment adviser (CRD# 161464 / SEC# 801-73585), is a partial owner of Bayou City. Intervale is a private equity firm that provides investment advisory services to private equity funds, and is principally owned by

Charles Cherington, Intervale's Managing Partner. In general, Intervale invests in lower middle-market companies in the oilfield services and equipment industry. Charles Cherington is a Senior Advisor at Bayou City and a member of the investment committee. Mr. Cherington is also a manager/member of Cherington Capital, a private equity investment firm based in Cambridge, MA. Cherington Capital is no longer conducting advisory services and withdrew from registration with the SEC in December 2015 (by filing Form ADV-W).

A conflict of interest between Intervale and Bayou City related to investment allocations is unlikely given the differing strategies: Intervale targets investments in oilfield services and equipment companies and Bayou City targets E&P companies and drill partnerships. If a conflict arose, however, it would be presented to the respective Advisory Boards of the relevant funds for approval.

## **Item 11 – Code of Ethics**

The Firm has adopted a Code of Ethics ("the Code") to ensure that securities transactions by the Firm employees are consistent with the Firm's fiduciary duty to its clients and to ensure compliance with legal requirements and the Firm's standards of business conduct. The Code of Ethics includes a prohibition on insider trading, restrictions on the acceptance of significant gifts and personal securities trading procedures, among other things. All supervised persons at the Firm must acknowledge the terms of the Code of Ethics annually, or as amended.

Under the Code certain classes of securities have been designated as exempt transactions, based upon a determination that these would not materially interfere with the best interest of Bayou City's clients. In addition, the Code requires pre-clearance of certain transactions, and restricts trading in close proximity to client trading activity. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics, and to reasonably prevent conflicts of interest between Bayou City and its clients.

The Firm's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting Kristin MacKelvey, Chief Compliance Officer, at (713) 400-8213 or [kristin@bayoucityenergy.com](mailto:kristin@bayoucityenergy.com).

## **Item 12 – Brokerage Practices**

Bayou City seeks to make securities investments for clients in such a manner that the total costs or proceeds in each transaction are the most favorable under the circumstances ("best execution"). Bayou City's investment strategy generally involves making direct private equity investments in leveraged acquisitions of companies. The terms of such transactions are typically subject to negotiation and brokerage firms are not usually involved. Therefore, Bayou City does not currently anticipate using broker dealers to effect securities transactions.

Bayou City does not receive any soft dollar benefits from broker dealers.

### **Item 13 – Review of Accounts**

Bayou City performs various weekly, monthly, quarterly and periodic reviews of the Fund's portfolio companies. Such reviews are conducted by the Principals. The Firm anticipates providing annual audited financial statements to investors in each Fund within 120 days of the applicable Fund's fiscal year end.

Investors in the Fund generally receive a written quarterly report and account statement from Bayou City.

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

Bayou City and/or its affiliates may provide certain business or consulting services to companies in the Funds' portfolios and may receive compensation from these companies in connection with such services. As described in the Fund's LPAs, this compensation may, in many cases, offset the Management Fees paid by the Funds. However, in other cases (e.g., reimbursements for out of pocket expenses directly related to a portfolio company), these fees may be in addition to Management Fees. See "Fees and Compensation."

As previously stated, each General Partner may, at its option, provide priority to co-investment opportunities (ability to invest at the same time in the same portfolio companies as a Fund) to certain persons, including strategic investors, third party sponsors, consultants, advisors or lenders, limited partners and others (but excluding the General Partner and its affiliates), subject to certain limitations. A General Partner may receive compensation in connection with these co-investment activities. Such compensation will not result in additional offsets to the Management Fee.

Bayou City may enter into written agreements with third party solicitors or placement agents to refer potential clients or investors to Bayou City as permitted by applicable laws. Bayou City may enter into solicitation or placement agent agreements, by which third parties receive fees based on providing client or investor referrals. Under these arrangements, the third party may receive a fixed fee, or fees in part based on the size of the investment made by the referred client or investor. Typically, these arrangements last for a period of time, but fees may be paid to the solicitor or placement agent for a trailing period following termination of the arrangement. Any fees payable to any such placement agents will be paid by Bayou City indirectly through an offset against the Management Fee, although related expenses incurred pursuant to the relevant placement agent or similar agreement, including but not limited to placement agent travel, meal and entertainment expenses, generally are borne by the relevant Fund(s).

## **Item 15 – Custody**

Bayou City may be deemed to have custody of the Fund's assets and securities because it has the authority to manage the Fund's accounts and securities. To the extent that assets and/or securities of the Fund is held by a qualified custodian, account statements related to the Fund are sent by the qualified custodian to Bayou City.

Bayou City is subject to Rule 206(4)-2 under the Advisers Act (the "Custody Rule"). However, it is deemed to have complied with certain requirements of the Custody Rule with respect to the Fund because it requires that the Fund be subject to audit at least annually by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and requires that the Fund distribute its audited financial statements to all investors within 120 days of the end of its fiscal year.

## **Item 16 – Investment Discretion**

Bayou City has discretionary authority from the Funds it advises to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives as described in the private offering memorandum for the relevant Fund.

As a general policy, Bayou City does not allow its discretionary advisory clients to place limitations on its authority other than certain investment limitations as set forth generally in a Fund's LPA. Consistent with the terms of the Funds' LPAs, however, Bayou City may enter into "side letter" arrangements with certain limited partners whereby the terms applicable to such limited partners' investments in the Funds may be altered or varied, including, in some cases, the right to opt-out of certain investments for legal, tax, regulatory or other similar reasons.

Investment guidelines and restrictions must be provided to the Firm in writing.

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

The Securities and Exchange Commission adopted Rule 206(4)-6 under the Investment Advisers Act of 1940, which requires registered investment advisers that exercise voting authority over client securities to implement proxy voting policies. Although Bayou City generally has authority to vote client securities, it generally is not called upon to participate in proxy voting because of the types of securities in which the Firm transacts on behalf of the Funds. However, in compliance with such rules, Bayou City has adopted proxy voting policies and procedures should the Firm have proxy voting responsibility at any time in the future. As a general matter, Bayou City's goal is to vote such proxies in the best long term interests of its clients.

In connection with each exercise of voting authority, Bayou City will assess whether any material conflicts of interest exist between the interests of Bayou City and the interests of the relevant Fund with respect to the matters to be voted upon. A conflict of interest typically arises where there is a business or personal relationship between the employees executing voting authority, on the one hand, and the proponents of a voting proposal or director candidates standing for election at the portfolio company, on the other. A conflict might arise for Bayou City, for example, where the Firm or an employee has a separate business relationship with the portfolio company or the challenger in a proxy contest, or where an employee has a personal relationship with an officer or director (such as a close family member serving in such position) of the portfolio company or the challenger in a proxy contest. In such cases, a managing director or the employee will raise any potential conflict of interest with the CCO who will work to determine whether alternative voting procedures need to be implemented. In the event of a material conflict of interest, Bayou City will look to a proxy voting service, or other independent third party, to determine the manner in which our votes will be cast. In the event of any such material conflict of interest, the CCO will document the nature of the conflict and the alternative voting procedure employed to address such conflict.

Clients may obtain a copy of Bayou City's complete proxy voting policies and procedures upon request by calling the number list on the front page of this Brochure. Clients may also obtain information from Bayou City about how Bayou City voted any proxies on behalf of their account(s).

## **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about the Firm's financial condition. The Firm has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.