



**Part 2A of Form ADV: Black Bay Energy Capital, LLC - Firm Brochure**

**Item 1. Cover Page**

May 15, 2020

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**This brochure provides information about the qualifications and business practices of Black Bay Energy Capital, LLC (the “Adviser”, “Firm”, or “Black Bay”). If you have any questions about the contents of this brochure, please contact us at (504) 227-3020. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.**

**Additional information about Black Bay Energy Capital, LLC also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). An investment adviser’s registration with the SEC does not imply a certain level of skill or training.**

## **Item 2. Material Changes**

This Brochure, dated May 15, 2020 is an amendment to its annual Form ADV amendment filing made on March 12, 2019. A summary of material changes since the last update is as follows:

- Certain routine updates, including revisions and additions to Items 4, 5, 6, 7, 8, and 11 describing our advisory business and additions to the risk factors and conflicts contained in Item 8 and Item 11.
- Currently, our Brochure may be requested by contacting Ms. Julie Isacks, the Adviser's Chief Compliance Officer at (504) 586-3949.
- Additional information about the Adviser is also available via the SEC's website [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's website also provide information about any persons affiliated with the Adviser who are registered, or required to be registered, as investment adviser representatives of the Adviser.

### **Item 3. Table of Contents**

Item 1. Cover Page .....	1
Item 2. Material Changes .....	2
Item 3. Table of Contents.....	3
Item 4. Advisory Business .....	4
Item 5. Fees and Compensation .....	6
Item 6. Performance-Based Fees and Side-By-Side Management .....	9
Item 7. Types of Clients.....	10
Item 8. Methods of Analysis, Investment Strategies and Risk of Loss Methods of Analysis and Investment Strategies.....	11
Item 9. Disciplinary Information.....	24
Item 10. Other Financial Industry Activities and Affiliations Related General Partners .....	25
Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	26
Item 12. Brokerage Practices .....	27
Item 13. Review of Accounts Oversight and Monitoring .....	35
Item 14. Client Referrals and Other Compensation.....	36
Item 15. Custody .....	37
Item 16. Investment Discretion .....	38
Item 17. Voting Client Securities .....	39
Item 18. Financial Information.....	40

#### **Item 4. Advisory Business**

The Adviser, a Delaware limited liability company, based in New Orleans, Louisiana, together (where the context permits) with its affiliated general partners of the Fund (as defined below) and other affiliates that provide advisory services to and/or receive advisory fees from the Fund. Such affiliates are currently and would typically be under common control with Black Bay Energy Capital, LLC and possess a substantial identity of personnel and/or equity owners with Black Bay Energy Capital, LLC. These affiliates have been and may in the future be formed for tax, regulatory or other purposes in connection with the organization of the Fund (as defined below). One or more of these affiliates currently serve as the general partner of the Fund.

The Adviser provides investment supervisory services to pooled investment vehicles (the “Fund”, or collectively the “Funds” or “Clients”) that are exempt from registration under the Investment Company Act of 1940, as amended (the “1940 Act”) and whose securities are not registered under the Securities Act of 1933, as amended (the “Securities Act”).

The Fund makes primarily long-term private equity and equity-related investments to generate superior risk-adjusted returns through investing in small-cap companies providing products, services, and technologies to the oil & gas industry (or “oilfield services”). The Adviser’s advisory services consist of investigating, identifying and evaluating investment opportunities, structuring, negotiating and making investments on behalf of the Fund, managing and monitoring the performance of such investments and disposing of such investments. The Adviser serves as the investment adviser to the Fund in order to provide such services.

The Adviser provides investment supervisory services to each Fund in accordance with the limited partnership agreement (or analogous organizational document) of such Fund or separate investment and advisory, investment management or portfolio management agreements (each, an “Advisory Agreement”).

Investment advice is provided directly to the Fund, subject to the discretion and control of the applicable general partner, and not individually to the investors in the Fund. Services are provided to the Fund in accordance with the Advisory Agreements with the Fund and/or organizational documents of the applicable Fund. Investment restrictions for the Fund, if any, are generally established in the organizational or offering documents of the applicable Fund, Advisory Agreements and/or side letter agreements negotiated with investors in the applicable Fund (the organizational and offering documents, Advisory Agreements and side letters referred to herein as a Fund’s “Governing Documents”).

Additionally, from time to time and as permitted by the relevant Organizational Documents, the Adviser in its sole discretion, may (but is not obligated to) offer co-investment opportunities (including the opportunity to participate in co-invest vehicles) to certain investors or other persons, including other sponsors, market participants, finders, consultants and other service providers, the Adviser’s personnel and/or certain other persons associated with the Adviser and/or its Affiliates. Such co-investments typically involve investment and disposal of interests in the applicable portfolio company at the same time and on the same terms as the Fund making the investment. However, from time to time, for strategic and other reasons, a co-investor or co-invest vehicle may purchase a portion of an investment from one or more Funds after such Funds have consummated their investment in the portfolio company (also known as a post-closing sell-down or transfer).

Any such purchase from a Fund by a co-investor or co-invest vehicle (or otherwise equitably to adjust the purchase price under certain conditions), and to seek reimbursement to the relevant Fund for related costs. However, to the extent such amounts are not so charged or reimbursed, they generally will be borne by the relevant Fund.

The Adviser does not participate in wrap fee programs.

Black Bay Energy Capital, LLC was formed in 2015 and is wholly owned by BBEC Holdco GP, LLC, which is in turn wholly owned by Michael LeBourgeois. The Adviser manages approximately \$274 million of client assets as of December 31, 2019, all of which is managed on a discretionary basis. Please note that this RAUM calculation is based upon valuations as of December 31, 2019, the most recent valuations available at this time.

## **Item 5. Fees and Compensation**

Below is a discussion of how the Adviser is typically compensated in connection with providing advisory services to its Clients. Because the Adviser may enter into different fee arrangements on a Client by Client basis, please ensure you obtain and carefully read and study all applicable offering documents for any Fund or Fund(s) for which the Adviser provides investment advisory services. The information contained herein is a summary only and is qualified in its entirety by the Client's Governing Documents. Investors and prospective investors are advised that they should consult with their own legal, financial, tax and other advisers when making any investment decision.

The Adviser or its affiliates generally receive Management Fees and Carried Interest (each as defined below) or similar performance-based remuneration from a Fund. A Fund, and/or its portfolio companies may also make other payments to the Adviser or its affiliates for services provided to the portfolio companies which, in certain circumstances, may reduce the Management Fees payable to the Adviser. Additionally, consistent with the Governing Documents of a Fund, the Fund typically bears certain out-of-pocket expenses incurred by the Adviser in connection with the services provided to the Fund and/or the portfolio companies. Further details about certain common fees and expenses are set forth below.

### **Management Fee**

The Fund will pay a management fee (deducted directly from the Fund's account) to the Manager semi-annually, in advance, starting on the date of the Initial Closing of the Fund. The Management Fee will be assessed at the rate of 2.0% per annum of (i) total Commitments of the Limited Partners until the earlier of (A) the termination of the Commitment Period and (B) the date that a successor Fund begins to charge a management fee, and thereafter (ii) Capital Contributions of the Limited Partners that remain. For additional information, please refer to the specific offering documents for each Fund(s) which may contain different management fee provisions and payment structures than that described above.

### **Performance Allocation**

The Adviser or its affiliates typically receive Carried Interests allocations from each of the Fund(s) of up to 20% of distributable cash of each portfolio investment. Carried Interests allocations may be subject to hurdles and/or claw-backs, depending on, among other things, the strategy of the relevant Fund(s) and market returns. For additional information, please refer to the specific offering documents for each Fund(s) which may contain different carried interest provisions and payment structures than that described above.

### **Organizational Expenses**

The Funds will typically bear all costs and expenses incurred in connection with the organization of the Fund, including legal and accounting fees, printing costs, travel and out-of-pocket expenses, and all costs and expenses incurred in connection with the offering of Interests. Such expenses may be subject to certain limitation that are more fully explained in each Fund(s)' applicable offering documents.

### **Partnership Expenses**

Fund(s)' will typically be responsible for all expenses relating to its own operations ("Partnership Expenses"), including fees, costs and expenses directly related to the purchase and sale of Investments, principal, interest, fees, expenses and other amounts payable in respect of financings, custody fees and costs of other third-party services, costs relating to data provider services (including management systems and software), legal, accounting, engineering and other professional costs, any insurance, indemnity or litigation expenses, all costs of the Fund's administration, including preparation of its financial statements and reports to Limited Partners, costs of meetings of Partners, expenses relating to regulatory compliance (excluding expenses related to compliance with the Investment Advisers Act of 1940), expenses relating to the Limited Partner Advisory Committee (as defined below), including out-of-pocket expenses of its members, and any taxes, fees or other governmental charges levied against the Fund. In addition, the Fund will be responsible for all out-of-pocket costs and expenses in connection with prospective Investments that are not consummated.

### **General Partner Expenses**

The General Partner and the Manager will be responsible for all of their day-to-day operating expenses, including office overhead and compensation of employees.

### **Co-Investment Vehicle Expenses**

In certain cases, a co-investment vehicle, or other similar vehicle established to facilitate the investment by investors to invest alongside the Fund or Funds, may be formed in connection with the consummation of a transaction. In the event a co-investment vehicle is created, the investors in such co-investment vehicle, the portfolio company, or the Manager will typically bear all expenses related to its organization and formation and other expenses incurred solely for the benefit of the co-investment vehicle. The co-investment vehicle will generally bear its pro rata portion of expenses incurred in the making of an investment.

If a proposed transaction is not consummated, no such co-investment vehicle generally will have been formed, and the full amount of any expenses relating to such proposed but not consummated transaction ("Dead Deal Costs") would therefore be borne by the Fund or Funds selected by the Adviser as proposed investors for such proposed transaction (including reverse termination fees, extraordinary expenses such as litigation costs and judgments and other expenses), and not by any prospective or expected co-investors. Similarly, co-investment vehicles are not typically allocated any share of break-up fees paid or received in connection with such an unconsummated transaction. Furthermore, to the extent a co-investment vehicle is formed in connection with a proposed but not consummated transaction, costs and expenses relating to such co-investment vehicle, may, in certain situations, be borne by another Fund or Funds, regardless of whether such proposed transaction is consummated.

### **Transaction, Directors', Break-Up and Other Fees**

While the Firm has yet to charge this type of fee to date, it is disclosed in the Governing Documents that the Manager could charge transaction and monitoring fees in its sole discretion. Typically, 100% of any transaction, directors', monitoring, consulting, break-up, and other similar fees received by the Manager and its affiliates and employees in connection with the Fund and its Investments, net of unreimbursed transaction expenses incurred by the Manager, will be applied to reduce the Management Fee for the following semi-annual period. To the extent such offsets would reduce the Management Fee for a given semi-annual period below zero, such offsets will be carried forward and reduce future installments of the Management Fee.



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

As stated in Item 5 above, the Adviser or its affiliates receive performance-based fees (“Carried Interest”) or allocations from certain Clients. Each General Partner is a related person of the Adviser. Carried Interest paid by a Fund is indirectly borne by investors in such Fund. Certain Funds and investors in such Funds may incur lower or no Carried Interest. These payments are subject to Section 205(a)(1) of the Investment Advisers Act of 1940, as amended (the “Advisers Act”), in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3, which requires that performance-based fees only be charged to “qualified clients” (as such term is defined in Rule 205-3).

Performance-based fees, in general, may create an incentive for an adviser or its supervised persons to make investments that are riskier and more speculative than would be the case in the absence of a performance-based fee. Such fee arrangements may also create an incentive to favor higher fee-paying clients over other clients in the allocation of investment opportunities. To address these conflicts of interest with respect to any future clients, the Adviser has implemented policies and procedures to ensure that all clients receive equitable and fair treatment over time with respect to the allocation of investment opportunities.

## **Item 7. Types of Clients**

The Adviser currently provides investment supervisory services to Funds, which are pooled investment vehicles. Investment advice is provided directly to the Funds (subject to the direction and control of the general partner of each such Fund, if applicable) and not individually to investors in such Fund.

The Adviser does not have a minimum size for a Fund, but minimum investment commitments are typically \$1.0 million for each investor in the Fund. The general partner of each Fund has in the past and may in the future, in its sole discretion, permit investments below the minimum amounts set forth in the Governing Documents of such Fund.

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

### **Methods of Analysis and Investment Strategies**

The Fund generally will make private equity investments with a primary focus on small-cap companies providing products, services, and technologies to the oil & gas industry, achieving long-term capital appreciation through growth equity and equity related investments. Black Bay's investment strategy will be a combination of (i) thematic investing based on extensive oilfield service sector evaluation and analysis; (ii) leveraging prior experience in evaluating company-level dynamics; (iii) primarily employing three types of growth-oriented deal structures, and (iv) approaching strategic buyers proactively throughout the life of an investment.

### **Risks**

Investing in securities involves a substantial degree of risk. A Fund may lose all or a substantial portion of its investments, and investors in the Fund must be prepared to bear the risk of a complete loss of their investments.

In addition, material risks relating to the investment strategies and methods of analysis described above, and to the types of securities typically purchased by or for the Fund, include the following:

### **General Risks Related to Investments**

#### **Equity Investments**

A substantial portion of the Fund's investments will be in equity or equity-related investments which 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 can result in substantial losses. There can be no assurance that the General Partner, the Manager or the Black Bay investment team will correctly evaluate the nature and magnitude of the various factors that could affect the value of such investments. Prices and market movements of the Fund's 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 and the value of the Fund's investments. 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.

#### **Investments in Under Performing Companies**

A portion of the Fund's investments may involve under performing companies or companies identified by the Manager as being in need of additional capital. The financial condition of such companies may be weak or their balance sheets highly leveraged, and any investment in them may involve a high degree of risk.

#### **Investments in Private Securities**

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 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 investments to the extent that any such representations turn out to be inaccurate. These arrangements may incur contingent liabilities that ultimately might yield funding obligations that must be satisfied by the Partners to the extent of their Commitments.

### **Use of Leverage**

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 Partners, if investment results fail to cover borrowing costs, returns to the Partners will be lower than if there had been no borrowings.

In addition, such levels of indebtedness could have significant consequences on the Fund's investments in such companies, including (i) a substantial portion of a company's cash flow from operations may be used to pay principal of and interest on its indebtedness and may not be available for other purposes, (ii) a company's ability to obtain financing in the future for working capital needs, capital expenditures, acquisitions, investments, general corporate purposes or other purposes may be materially limited or impaired and (iii) a company's level of indebtedness may reduce its flexibility to respond to changing business and economic conditions. Also, increased interest rates generally increase portfolio company interest expenses.

Further, portfolio companies will enter into loan agreements that generally impose a number of operating and financial restrictions on such companies. Such restrictions could affect, among other things, the ability of a company to incur additional indebtedness, pay dividends, issue stock, repay indebtedness prior to stated maturity, create liens, sell assets or engage in mergers or acquisitions, make certain capital expenditures and make investments in operating subsidiaries, if any. Such loan agreements may require, among other things, that the Fund pledge its shares of stock in a portfolio company and that such company pledge its assets and shares of stock in its operating subsidiaries, in each case as security for the lender. In the event of a default under such loan agreements, the lenders could foreclose on those shares and assets so pledged. These restrictions could limit the ability of these companies to affect future financings or may otherwise limit corporate activities. In the event any such portfolio company cannot generate adequate cash flow to meet debt service, the Fund may suffer a partial or total loss of capital invested in the portfolio company.

Finally, the Fund may enter into a credit facility to be utilized in anticipation of receiving contributions following capital calls. To obtain such a credit facility would likely require that the Fund pledge the unfunded commitments of its partners as security. In the event of a default under such a facility, the lender could foreclose on such unfunded commitments.

### **General Economic Conditions**

General economic conditions may affect the Fund's activities. Interest rates, general levels of economic activity, the price of securities and participation by other investors in the financial markets may affect the value and number of investments made by the Fund or considered for prospective investment. Economic slowdowns or downturns could lead to financial losses in the Fund's portfolio securities and net assets of the Fund. In addition, many portfolio companies may be similarly subject

to the same economic conditions, which could adversely affect the Fund's returns. Potential investors should realize that the General Partner may determine to delay realization events to the Limited Partners as a result of general economic conditions, illiquidity of portfolio investments, contractual prohibitions or other reasons. While under normal circumstances, distributions will be made in cash, it is possible that certain distributions to the Partners may be made in kind and could constitute securities for which there is no readily available public market or with respect to which there are substantial transfer restrictions.

While the financial markets have generally experienced a period of recovery since the beginning of 2009, market volatility remains high compared to historic standards. Volatility in the Middle East, conflicts in Syria and Iraq, the concerns over a slowdown in China, the emergence of ISIS and Russian activities in Ukraine, among other things, have contributed to a continuation of the volatility in global financial markets. Volatility and disruption in the equity and credit markets could adversely affect the value of the Fund's investments, and, therefore, the performance of the Fund. For example, the lack of available credit or the increased cost of credit could materially and adversely affect the Fund's ability to make investments to the extent it relies on leverage at the portfolio company level. Disruptions in the debt and equity markets may make it more difficult for the Fund to exit and realize value from its investments because potential buyers of portfolio companies may not be able to finance acquisitions and the equity markets may become unfavorable for initial public offerings. The volatility will also directly affect the market prices of securities issued by many companies for reasons unrelated to their operating performance and may adversely affect the valuation of the Fund's investments. Any or all of these factors may adversely affect investment returns for the Fund.

### **Difficulty of Locating Suitable Investments; Unspecified Investments**

Limited Partners must rely upon the ability of the Black Bay Team and the General Partner in identifying, structuring and implementing investments consistent with the Fund's investment objectives, philosophy and strategy. The Fund has not yet consummated any investments, and 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 committed capital in opportunities that satisfy the Fund's investment objectives, or that such investment opportunities will lead to completed investments by the Fund. Identification of attractive investment opportunities is difficult and involves a high degree of uncertainty. Furthermore, the availability of investment opportunities generally will be subject to market conditions as well as, in some cases, the prevailing regulatory or political climate. It is possible that the Fund will never be fully invested if sufficiently attractive investments are not identified, or, if identified, are not consummated.

### **Need for Significant Capital**

The companies in which the Fund will invest may require significant amounts of capital. There can be no assurance that such capital will be available from public capital markets or private sources. In particular, the cyclical nature of public markets may prevent portfolio companies from raising money in this sector, despite attractive products or services. Failure of a portfolio company to raise the necessary capital to fund its operations, research and development, capital expenditures or other activities may require, among other things, the sale or liquidation of some or all of the assets of such company at a loss or reduced valuation from the price paid by the Fund.

### **Risk of Bridge Financings**

The Fund is permitted to make bridge financings, subject to certain limitations. If the Fund makes

an investment in a single transaction with the intent of refinancing or syndicating the portion of that investment constituting a bridge financing, there is a risk that the Fund will be unable to complete successfully such a refinancing. This could cause the Fund to be less diversified than the General Partner intended.

### **Risks Relating to Due Diligence of Investments**

Before making investments, the General Partner and the Manager will typically conduct such due diligence as they deem reasonable and appropriate based on the facts and circumstances applicable to each investment. Due diligence may entail evaluation of important and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisors, accountants, investment banks and other third parties will be involved in the due diligence process to varying degrees depending on the facts and circumstances of the particular investment. Such involvement of third-party advisors or consultants may present a number of risks primarily relating to the General Partner's reduced control of the functions that are outsourced. In addition, the due diligence investigation that the General Partner and the Manager carry out with respect to any investment opportunity may not reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity.

### **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 such portfolio companies. There can be no assurance that the Fund will so wish to make follow-on investments or that it will have sufficient Fund to do so, and any decision by the Fund not to make follow-on investments or its inability to make them may have a substantial negative effect on a portfolio company in need of such an investment or may diminish the Fund's ability to influence the portfolio company's future development.

### **Third-Party Involvement; No Right to Control Portfolio Companies**

The Fund is permitted to co-invest with third parties through joint ventures or other entities, including with private equity Fund sponsored by others in so-called "club deals". The co-investment commitment to a portfolio company may be substantial. Such investments may involve risks not present in investments where third parties are not involved, including the possibility that a co-venturer of the Fund may experience financial, legal or regulatory difficulties, may at any time have economic or business interests or goals which are inconsistent with those of the Fund, may take a different view from the General Partner's as to the appropriate strategy for an investment, or may be in a position to take action contrary to the Fund's investment objectives. In such situations, there can be no assurance that the Fund will be able to negotiate control provisions or otherwise exercise control. Disagreements with management and/or other shareholders (including other private equity firms) may limit the Fund's ability to bring about operating, strategic or other changes at such companies and may limit exit opportunities. In addition, the Fund may, in certain circumstances, be liable for the actions of its third-party co-venturers.

### **Risks Related to Investments in the Oilfield Services Sector**

*The Fund will invest in the oilfield services sector and related sub-sectors. These investments are subject to the additional risks set forth below.*

## **Volatility of Oil and Gas Prices**

The profitability of certain of the Fund's investments will depend substantially on prevailing prices for oil and natural gas and the differential between prices of specific commodities that are a primary factor in the profitability of certain conversion activities such as petroleum refining ("crack spread") and power generation ("spark spread"). The volume of oil and gas produced and the prices obtainable therefore will be affected by market factors beyond the Fund's control and have been, and will continue to be, volatile and subject to significant fluctuation. The factors creating such fluctuations include: (i) the extent of domestic production and importation of oil and gas, (ii) the level of market demand on a regional, national and global basis, (iii) domestic and non-U.S. economic conditions that determine levels of industrial production, (iv) political events in oil-producing regions and variations in governmental regulations and tax laws or the imposition of new governmental requirements upon the energy industry. A substantial and prolonged decline in oil and gas prices could have a material adverse effect on portfolio companies, and thus on the Fund itself.

## **Demand for Oil and Gas**

The success of certain of the Fund's investments will be dependent upon the demand for oil and gas. Certain of the portfolio companies in which the Fund may invest will market their products and services to buyers whose business models rely materially on the availability of a ready market for such buyers' oil and gas production, which in turn depends on a number of factors beyond such buyers' control, including the demand for, and supply of, oil and gas, the availability of alternative energy sources, the proximity of reserves to, and the capacity of, oil and gas gathering systems, pipelines, or trucking and terminal facilities.

The buyers to which certain of the Fund's portfolio companies may market may also have to shut in some of their wells temporarily due to a lack of market or adverse weather conditions. In addition, federal and state regulation of oil and gas production and transportation, general economic conditions, and changes in supply and demand could adversely affect a buyer's ability to produce and market its oil and gas on a profitable basis. Any change on a large scale in such buyers' ability to produce and market their oil and gas production could have a material adverse effect on any portfolio company of the Fund that relies on sales to such buyers, and as such could adversely impact such portfolio company's financial condition.

## **Fragmented Industry**

Although the North American oilfield services industry is highly fragmented, which the Manager believes enhances the opportunity to deploy its buy and build investment strategy, it is possible that one or more segments of the industry could cease to be as fragmented as a result of significant investments by a group of dominant consolidators. The performance of the Fund's investments could be materially adversely impacted in the event that dominant consolidators materialize within a segment of the oilfield services industry in which the Fund is invested.

## **Operational and Technical Risks**

Investments may be subject to operating and technical risks, including the risk of mechanical breakdown, spare parts shortages, failure to perform according to design specifications, failure to meet expected levels of efficiency, availability or output, increases in costs of fuel or other necessary supplies, pipeline or offtake disruptions, power shutdowns, labor strikes, labor disputes, work stoppages and other work interruptions, and other unanticipated events that adversely affect

operations. While the Fund will seek investments in which creditworthy and appropriately bonded and insured third parties may bear certain of these risks, there can be no assurance that any or all such risk can be mitigated or that such parties, if present, will perform their obligations. The long-term profitability of the Fund's investments is partly dependent upon their efficient operation. Inefficient operations or limitations in the skills, experience or resources of operating companies, may reduce returns to investors.

### **Key Inputs**

The operations of the portfolio companies in which the Fund invests or the buyers to which such companies market their products or services may rely on access to certain key inputs such as strategic consumables, raw materials and equipment. The inability to obtain such key inputs in a timely manner could delay or reduce a portfolio company's or such consumer's production, which could have an adverse impact on its results of operations and financial condition. Periods of high demand for such supplies can result in periods when availability of supplies are limited and cause costs to increase above normal inflation rates. Any interruption to supplies or increase in costs could adversely affect the operating results and cash flows of the Fund's investments and therefore of the Fund.

### **Terrorist Activities**

The continued threat of terrorism and the impact of military or other actions have led to and will likely lead to increased volatility in prices for oil and gas and could affect portfolio companies' financial results. Further, the U.S. government has issued public warnings indicating that energy assets might be specific targets of terrorist organizations. As a result of such a terrorist attack or of terrorist activities in general, portfolio companies may not be able to obtain insurance coverage and other endorsements at commercially reasonable prices or at all.

### **Environmental Liabilities**

The oil and gas business is subject to environmental hazards, such as oil spills, gas leaks and ruptures, discharges of petroleum products and hazardous substances, and historic disposal activities. These environmental hazards could expose portfolio companies to material liabilities for property damages, personal injuries, or other environmental harm, including costs of investigating and remediating contaminated properties. A variety of stringent federal, state, and local laws and regulations govern the environmental aspects of the oil and gas business. Even if it implements internal compliance programs and protocols, and even if it shares such programs and protocols with its portfolio companies, the Fund has no way of guaranteeing that any of its portfolio companies will comply with all applicable laws and regulations. Any noncompliance with these laws and regulations could subject portfolio companies to material administrative, civil or criminal penalties, or other liabilities. Additionally, compliance with these laws and regulations may cause increased costs and/or decreased production at the portfolio company level and may affect acquisition costs for the Fund.

Under certain circumstances, certain environmental authorities may seek to impose personal liability on the limited partners of a partnership (such as the Fund) in connection with environmental liability. The Fund's limited partners may reduce their risk of such personal liability by avoiding activities with respect to the Fund's investments, other than as contemplated by the Partnership Agreement.



## **Construction Risks**

The construction by portfolio companies of any project involves many risks, including delays or shortages of construction equipment, material and labor, work stoppages, labor disputes, weather interferences, unforeseen engineering, environmental and geological problems, difficulties in obtaining requisite licenses or permits and unanticipated cost increases, any of which could give rise to delays or cost overruns. Any such occurrence may adversely affect portfolio companies and the overall performance of the Fund.

## **Governmental and Environmental Regulation**

The oil and gas industry is subject to extensive regulation under a wide range of U.S. federal and state statutes, rules, orders and regulations. Regulatory changes in any state or other jurisdiction in which a portfolio company is located may undermine the continued profitability and/or operation of such portfolio company. The locations of specific portfolio companies could also be subject to government exercise of eminent domain, which would significantly increase expenses incurred by such portfolio companies in connection with regulatory compliance.

In addition, various federal, state and local laws and regulations relating to the protection of the environment may affect the operations and costs of the companies in which the Fund invests. Expenses incurred in connection with environmental compliance have adversely impacted investment returns in a number of segments of the energy industry. If a portfolio company has operations outside of the U.S., it will also be subject to the laws and regulations of the country in which it is doing business. These regulations may have a significant adverse impact on the financial condition, prospects and profitability of portfolio companies.

## **Regulatory Approvals**

There can be no assurance that portfolio companies will be able (i) to obtain all required regulatory approvals that they do not have at the time of the Fund's investment or that they may require in the future; (ii) to obtain any necessary modifications to existing regulatory approvals; or (iii) to maintain required regulatory approvals. Delay in obtaining or failure to obtain and maintain in full force and effect any regulatory approvals, or amendments thereto, or delay or failure to satisfy any regulatory conditions or other applicable requirements, could prevent operation of the facility or sales to third parties or could result in additional costs to portfolio companies.

## **Political and Societal Challenges**

Concerns may arise regarding some of the extraction techniques used in connection with certain projects, including, without limitation, the use of natural gas hydraulic fracturing (also known as "fracking") in the extraction of oil and natural gas, which may require governmental permits or approvals and which has recently been the subject of heightened environmental concerns and public opposition in some jurisdictions. If public opposition or regulatory, legal or other challenges are mounted against an extraction technique that represents a material portion of the business of any of the Fund's portfolio companies, the financial condition, prospects and profitability of such portfolio company may be adversely impacted.

## **Competition in the Energy Industry**

The oilfield services industry is highly competitive in all aspects. Potential portfolio companies will compete amongst many participants in the energy industry, many of whom will have greater

financial and other resources. The Fund's focus on small-cap investments will further limit the number of investment opportunities available to the Fund.

### **Risks Related to the Fund Structure**

#### **Memorandum Is Not Advice**

In making an investment decision, investors must rely on their own examination of the Fund and the terms of this offering, including the merits and risks involved. Prospective investors should not construe the contents of this Memorandum as legal, tax, investment or accounting advice. Each prospective investor is urged to consult with its own advisors with respect to the legal, tax, regulatory, financial and accounting consequences of an investment in the Fund.

#### **Memorandum Is Incomplete**

This Memorandum contains a summary of the Partnership Agreement and certain other documents referred to herein. However, the summaries set forth in this Memorandum do not purport to be complete. They are subject to and qualified in their entirety by reference to the Partnership Agreement and such other documents, copies of which will be provided to any prospective investor upon request and which should be reviewed for complete information concerning the rights, privileges and obligations of investors in the Fund. If the descriptions in or terms of this Memorandum are inconsistent with or contrary to the descriptions in or terms of the Partnership Agreement or such other documents, the Partnership Agreement and such other documents will control. The General Partner reserves the right to modify the terms of the offering and Interests described in this Memorandum, and the Interests are subject to the General Partner's ability to reject any subscription in whole or in part.

#### **Side Letters**

The General Partner may enter into a side letter or other similar agreement with a particular Limited Partner in connection with its admission to the Fund without the approval of any other Limited Partner, which would have the effect of establishing rights under or supplanting the terms of the Partnership Agreement with respect to such Limited Partner in a manner more favorable to such Limited Partner than those applicable to other Limited Partners. Such rights or terms in any such side letter or other similar agreement may include, without limitation, (i) excuse rights applicable to particular investments (which may increase the percentage interest of other Limited Partners in, and contribution obligations of other Limited Partners with respect to, such investments), (ii) reporting obligations of the General Partner, (iii) waiver of certain confidentiality obligations, (iv) consent of the General Partner to certain transfers by such Limited Partner or other exercises by the General Partner of its discretionary authority under the Partnership Agreement for the benefit of such Limited Partner, (v) restrictions on, or special rights of such Limited Partner with respect to, the activities of the General Partner, (vi) withdrawal rights due to legal, regulatory or policy matters, including matters related to political contributions, gifts and other such policies, (vii) other rights or terms necessary in light of particular legal, regulatory or public policy characteristics of a Limited Partner or (viii) additional obligations, and restrictions of the Fund with respect to the structuring of any investment (including with respect to alternative investment vehicles). As a result of such side letters, certain Limited Partners may receive additional benefits that other Limited Partners will not receive. The other Limited Partners will have no recourse against the Fund or any of its affiliates in the event that certain Limited Partners receive additional or different rights or terms as a result of such side letters.

## **No Assurance of Returns**

Even if one or more portfolio companies are successful, there can be no assurance that the Limited Partners will receive distributions from the Fund in an amount equal to their investment in the Fund. The Fund will have no source of Fund from which to pay distributions to the partners other than income and gain received on its investments and the return of capital.

## **Increased Government Regulation**

Following global market volatility and dislocations, financial institution failures and financial frauds in recent years, governmental authorities in the U.S. and elsewhere have called for financial system and participant regulatory reform, including additional regulation of investment Fund (which could include the Fund) and their managers (such as the Manager) and their activities, including: compliance, risk management and anti-money laundering procedures; restrictions on certain types of investments; restrictions on the provision and use of leverage; implementation of capital requirements; and books and records, reporting and disclosure requirements. The ultimate effect of government actions cannot be predicted, but complying with these regulatory reform measures could cause the Fund to incur significant expense. In addition, legislation, including proposed legislation regarding executive compensation and taxation of carried interest, may adversely affect the Manager's ability to attract and retain certain investment professionals.

## **Dependence on Judgment of Black Bay Team and the General Partner**

The Fund will be largely dependent upon the private equity experience and judgment of the Black Bay Team, the Strategic Advisory Board and the General Partner for the selection of suitable investments. See "*Section 3 — Overview of Black Bay Management Team.*" The loss of any of the individuals who are members of either of these groups could have an adverse impact on the business of the Fund. The members of the Black Bay Team are under no contractual obligation to remain with the Manager for all or any portion of the term of the Fund. Although the members of the Black Bay Team will commit a significant amount of their business efforts to the Fund, they are not required to devote all of their time to the Fund's affairs.

The members of the Strategic Advisory Board are also under no contractual obligation to remain on the Strategic Advisory Board for all or any portion of the term of the Fund. Although the Strategic Advisory Board will advise and assist the Fund with respect to investment decisions, the members of the Strategic Advisory Board will generally not devote a substantial portion of their business efforts to the Fund.

## **Possibility of Fraud or Other Misconduct of Employees and Service Providers**

Misconduct by employees of the General Partner, the Manager, service providers to the foregoing or their respective affiliates could cause significant losses to the Fund. Misconduct may include entering into transactions without authorization, the failure to comply with operational and risk procedures, including due diligence procedures, misrepresentations as to investments being considered by the Fund, the improper use or disclosure of confidential or material non-public information, which could result in litigation or serious financial harm, including limiting the Fund's business prospects or future marketing activities, and non-compliance with applicable laws or regulations and the concealing of any of the foregoing. Such activities may result in reputational damage, litigation, business disruption or financial losses to the Fund. The Manager has controls and procedures through which it seeks to minimize the risk of such misconduct occurring. However,

no assurances can be given that the General Partner or the Manager will be able to identify or prevent such misconduct.

### **Illiquidity of Fund Interests**

The transferability of interests in the Fund will be severely restricted. No transferee of a limited partner interest in the Fund may be admitted as a substitute Limited Partner in the Fund without the prior written consent of the General Partner, as provided in the Partnership Agreement. Except under certain circumstances pertaining to Limited Partners subject to ERISA, a voluntary withdrawal by a Limited Partner is not permitted.

### **Illiquidity of Portfolio Investments**

Investments in most of the portfolio companies will be highly illiquid until such time as a public market is created. There can be no assurance that the Fund will successfully realize upon its investments in any portfolio company through a sale, a public offering of securities of such portfolio company or otherwise. Furthermore, dispositions of such investments may require a lengthy time period or may result in distributions in-kind to the Partners.

### **Portfolio Concentration**

*Diversification.* The total investment by the Fund in a single portfolio company may not exceed 20% of the aggregate Commitments, or 25% taking into account Bridged Investments (as defined below).

*Non-U.S./Canadian Investments.* The Fund will not make any investment in a portfolio company if as a result of such investment more than 15% of the aggregate Commitments would be invested in issuers headquartered and operating principally outside the United States and Canada.

*Open Market Purchases.* The Fund will not make open market purchases of publicly traded securities unless such purchases are made in connection with, or with a view to, a transaction in which the Fund would obtain a controlling position.

*Hostile Transactions.* The Fund will not invest in any “hostile” transaction that is opposed by a majority of the members of the target company’s board of directors.

*Blind Pool Investment Funds:* The Fund will not invest in any “blind pool” investment funds as to which a management fee or carried interest is payable to any third party.

The limitations described in this term “*Investment Limitations*” may be waived on a case-by-case basis by the Limited Partner Advisory Committee.

### **Forward-Looking Statements**

This Memorandum contains forward-looking statements. These forward-looking statements reflect the Black Bay Team’s views with respect to future events. Actual events and results could differ materially from those in the forward-looking statements as a result of factors beyond the Fund’s control. Investors are cautioned not to place undue reliance on such statements.

### **Passive Investment**

The structure of the Fund as a limited partnership precludes the Limited Partners in the Fund in their

capacity as limited partners from active participation in investment decisions, as a matter of law.

### **Indemnification; Return of Distributions**

The Fund will be required to indemnify the General Partner, the Manager, the Strategic Advisory Board and each other covered person for liabilities incurred in connection with the Fund's activities, except under certain circumstances. Such liabilities may be material and may have an adverse effect on the returns to the Limited Partners. For example, in their capacity as directors of portfolio companies, the members, managers or affiliates of the General Partner may be subject to derivative or other similar claims brought by shareholders of such companies. The indemnification obligation of the Fund would be payable from the assets of the Fund, including the unpaid capital commitments of the Limited Partners. In addition, the General Partner may recall certain distributions previously made to the Limited Partners to fund indemnification expenses and other obligations and liabilities of the Fund. This obligation will extend beyond the term of the Fund.

### **Provision of Managerial Assistance and Control**

The Fund typically will designate directors (and possibly non-executive chairmen) to serve on the boards of directors of 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 Manager intends to manage the Fund in a way that will minimize exposure to these risks, the possibility of successful claims cannot be precluded.

### **Tax and Regulatory Matters**

There are risks associated with the tax aspects of an investment in the Fund that are complex and will not be the same for all prospective investors. In addition, there may be special concerns for investors subject to special regulations (see "*Section 8 — Legal and Tax Matters*").

### **Potential Conflicts of Interest; Other Activities of the Black Bay Team**

In carrying out their responsibilities, certain members of the Black Bay Team may be subject to various conflicts of interest in allocating their available time. In particular, In addition, the Black Bay Team may have established relationships with certain other companies, whether by investment in such companies or otherwise, and with their senior management.

### **Management Fees; Carried Interest**

Management Fees payable by the Fund to the Manager and the carried interest that the Special Limited Partner will receive have not been established on the basis of an arm's-length negotiation among the Fund, the Special Limited Partner and the Manager. In addition, the existence of the carried interest that the Special Limited Partner will receive under the Partnership Agreement may create an incentive for the General Partner to approve and cause the Fund to make more speculative investments than it would otherwise make in the absence of such performance-based compensation.

### **Potential Conflicts in Calculation and Allocation of Certain Fund Costs and Expenses**

The Partnership Agreement provides that the Fund will be responsible for all costs and expenses in connection with its operation, other than the costs and expenses that will be the responsibility of the General Partner, the Manager or other third parties. A conflict of interest could arise in the Manager's determination of whether certain costs or expenses that are incurred in connection with the operation of the Fund meet the definition of Partnership Expenses for which the Fund is responsible, or whether such expenses should be borne by the General Partner or the Manager. The Fund will be reliant on the determinations of the Manager and the General Partner in this regard, and also in regard to the allocation of investment expenses and any common operating expenses as among the Fund and any other affiliates of the Manager or the General Partner.

### **Diverse Membership**

The Limited Partners may have conflicting tax and other interests with respect to their investments in the Fund. 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 or the Manager, 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 and the Manager will consider the investment and tax objectives of the Fund and the Partners as a whole, and not the investment, tax or other objectives of any Limited Partner individually.

### **Defaults by Limited Partners**

The consequences of defaulting on a capital call are material and adverse to the defaulting Limited Partner. If a Limited Partner fails to contribute any portion of its Commitment upon a call by the General Partner, such Limited Partner may be subject to a number of remedies available to the General Partner, including an immediate 50% reduction of its capital account, loss of the right to receive distributions and to vote, and the incurrence of liability for all costs, expenses and/or damages resulting from its failure to contribute such capital. See "*Section 2 — Summary of Principal Terms — Default*".

### **Dilution from Subsequent Closings**

The Fund may hold multiple closings. Each Limited Partner subscribing for an Interest at any subsequent closing will generally participate in existing investments of the Fund, diluting the interests of existing Limited Partners therein. Although such Limited Partners will generally contribute their pro rata share of previous drawdowns (plus an additional amount thereon), there can be no assurance that these payments will reflect the fair value of the Fund's existing investments at the time such additional Limited Partners subscribe for an Interest.

### **Liability of Limited Partners**

Under the Delaware Revised Uniform Limited Partnership Act, a Limited Partner generally will not incur personal liability for the liabilities and obligations of the Fund in excess of the Limited Partner's unfulfilled obligation to make capital contributions; *provided, however*, each Limited Partner that receives a distribution will, under certain circumstances, remain liable to the Fund or its creditors for the amount of such distribution. Furthermore, under the terms of the Partnership Agreement, a Limited Partner may be required, in order to allow the Fund to satisfy its indemnity

obligations, to return to the Fund certain amounts distributed to such Limited Partner by the Fund.

### **Fund Not Registered**

The Fund is not registered under the Investment Company Act. The Investment Company Act provides certain protection to investors and imposes certain restrictions on registered investment companies (including, for example, limitations on the ability of registered investment companies to incur leverage), none of which will be applicable to the Fund.

### **Other Risks**

#### **Cyber Security Breaches and Identity Theft**

Information and technology systems of the Manager's or the Fund's investments may be vulnerable to damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. Although the Manager has implemented various measures to manage risks relating to these types of events, if these systems are compromised, become inoperable for extended periods of time or cease to function properly, the Manager, the Fund or the Fund's investments may incur significant time or expense to fix or replace them and to seek to remedy the effects of such issues. The failure of these systems or of disaster recovery plans for any reason could cause significant interruptions in the operations of the Manager, the Fund or the Fund's investments and could result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to investors in the Fund (and the beneficial owners of such investors). Such a failure could harm the reputation of the Manager, the Fund or the Fund's investments and could subject such entities and their respective affiliates to legal claims or otherwise affect their business and financial performance.

#### **Electronic Delivery of Certain Documents**

Notices, communications and other information from the Manager, the General Partner, or the Fund will generally be provided to Limited Partners by electronic delivery (including email, fax or posting on the Fund's web-based data site or other Internet service). Neither the Manager nor the General Partner can provide any assurance that these communication methods are secure nor will the Manager or the General Partner be responsible for any computer viruses, problems or malfunctions resulting from any computer viruses or related problems that may be associated with the use of an Internet-based system.

**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 adviser or the integrity of adviser's management.

There are no legal or disciplinary events that are material to an evaluation of the Adviser's advisory services or the integrity of management.



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

### **Related General Partners**

Limited liability companies and limited partnerships serve as General Partner and as Special Limited Partner of the Funds. For a description of material conflicts of interest created by the relationship among the Adviser and the General Partner and Special Limited Partner, as well as a description of how such conflicts are addressed, please see Item 11 below.

## **Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

For the purposes of this Item 11, references to the “Fund” or “Funds” shall include any successor investment Fund that may be established by the Adviser, the General Partners or affiliates of the Adviser or the General Partners.

### **Code of Ethics**

Black Bay has adopted a Code of Ethics (the “Code”) that sets forth standards of conduct that are expected of Black Bay’s principals and employees and addresses conflicts that may arise from personal trading and outside business activities. The Code subjects each principal and employee to appropriate restrictions on activities and investments, and provides information on certain prohibited transactions, Black Bay’s internal review and compliance procedures, including quarterly and annual reporting requirements, and well-defined rules of business conduct, all intended to prevent or detect potential conflicts of interest. The Code also includes policies and procedures to prevent the misuse of material non-public information in Black Bay’s possession. Strict compliance with the Code and applicable securities laws is a condition of employment with Black Bay, and each principal and employee are obligated to individually read and retain a copy of the Code, as well as certify that he or she has read and understands the Code. Black Bay reviews compliance with the Code on an ongoing basis, and employees may be subject to disciplinary actions as severe as dismissal for certain infractions.

Black Bay and its affiliates may come into possession from time to time of material nonpublic or other confidential information. Under applicable law, Black Bay and its affiliated persons would be prohibited from improperly disclosing or using such information for their personal benefit or for the benefit of any person, including the Funds. Accordingly, should Black Bay or any of its affiliates come into possession of material non-public or other confidential information with respect to any public company, they would be prohibited from communicating such information to the Funds.

All employees who are access persons (as defined by the Investment Advisers Act of 1940, as amended) (the “Advisers Act”) are required to submit an initial, and thereafter, annual, holdings report, as well as quarterly transaction reports or equivalent brokerage statements, detailing the securities held, purchased or sold during the relevant period, except as otherwise exempted by the Advisers Act. In addition, all employees must pre-clear securities trades in an initial public offering or private placement, to ensure that potential conflicts of interest are adequately identified and addressed in a timely manner, and in securities maintained on Black Bay’s restricted list, which consists of securities of companies that Black Bay has determined its employees should not be trading, generally because Black Bay may be in possession of material non-public information relating to such company. The trading restrictions of the Code do not apply to (i) purchases or sales in any discretionary managed account over which an employee has no direct or indirect influence or control, or ability to direct any investment decision, (ii) purchases that are part of any automatic dividend reinvestment plan or direct investment program, and (iii) purchases effected upon the exercise of rights issued by an issuer pro-rata to all holders of a class of securities to the extent such rights were acquired from such issuer, sales of such rights.

The Code also includes, among other things, requirements that all employees (i) conform their

business conduct to applicable state and federal laws and regulations, and (ii) obtain pre-approval of any outside business activities that involve a time commitment that could reasonably be expected to have an adverse effect on the employee's work at Black Bay or conflict with the limited partnership agreement of any Funds or provide for material compensation to the employee.

Black Bay has also adopted a compliance program, which includes, among other things, a records retention and communication policy, an information security program intended to protect the confidentiality of the information retained by Black Bay and policies designed to ensure compliance with applicable laws and regulations.

The foregoing policies are designed to comply with SEC requirements that registered investment advisers have a Code of Ethics. Black Bay's Code of Ethics is available for review upon request. You may request a copy of the Code by contacting our Chief Compliance Officer, Julie Isacks at 504-277-3020 or [julie@blackbayenergy.com](mailto:julie@blackbayenergy.com).

### **Participation in Client Transactions**

Black Bay's Principal is a member of the Fund. Therefore, the Adviser may be deemed to recommend to Clients or buy or sell for Clients, investments in which the Adviser has a material financial interest.

The Principal has made capital commitments to the Fund. Such amounts may be invested pro rata with the members of the Fund in all Fund portfolio investments. In the view of the Principal, this aligns the interests of the Principal with the Fund and its investors and does not result in any conflicts of interest between the Adviser and the Fund.

In connection with sponsoring the Funds, the Adviser and certain affiliates have an economic interest in the Funds, the General Partner of the Funds, or both. Additionally, the governing documents of the Funds generally provide that the general partner has sole discretion to offer co-investment opportunities in a potential investment to any person (including other parties advised by the General Partners, or other related persons of the General Partners). A Fund or its General Partner, as applicable, may reduce all or a portion of the Management Fee and Performance-based fees related to investment held by such persons. For further details regarding these arrangements, as well as conflicts of interest presented by them, please see "Conflicts of Interest" immediately below.

### **Conflicts of Interest**

In the ordinary course of business, the interests of a Fund will, from time to time, conflict with the interests of the Adviser, other Funds, or their respective affiliates. Certain of these conflicts of interest, as well as a description of how the Adviser addresses such conflicts of interest, can be found below.

### **Allocation of Investment Opportunities**

In connection with its investment activities, the Adviser may encounter situations in which it must determine how to allocate investment opportunities among various clients and other persons, which may include, but are not limited to, the following:

- The Clients;
- Any co-investment vehicles that have been formed to invest side-by-side with one or more Funds in all or particular transactions entered into by such Client(s) (the investors in such co-investment vehicles may include employees, business associates and other “friends and family” of the Adviser or its personnel (“Adviser Investors”), and/or third parties;
- Adviser Investors and/or third parties that wish to make direct investments (i.e., not through an investment vehicle) side-by-side with one or more Clients in particular transactions entered into by such Client(s); and
- Adviser Investors and/or third parties acting as “co-sponsors” with the Adviser with respect to a particular transaction.

The Adviser assesses whether an investment opportunity is appropriate for a particular Client(s), based on the Client’s investment objectives, strategies, and structure. A Client’s investment objectives, strategies, and structure typically are reflected in the Client’s Organizational Documents. Prior to making any allocation to a Client of an investment opportunity, the Adviser determines what additional factors may restrict or limit the offering of an investment opportunity to the Client(s). Possible restrictions include, but are not limited to:

- **Obligation to Offer:** the Adviser may be required to offer an investment opportunity to one or more Clients. This obligation to offer investment opportunities will generally be set forth in a Client’s Organizational Documents.
- **Related Investments:** the Adviser may offer an investment opportunity related to an investment previously made by a Client(s) to such Client(s) to the exclusion of, or resulting in a limited offering to, other Clients.
- **Legal and Regulatory Exclusions:** the Adviser may determine that certain Clients or investors in such Clients should be excluded from an allocation due to specific legal, regulatory, and contractual restrictions placed on the participation of such persons in certain types of investment opportunities.

Once the Clients that will participate in a particular investment have been identified, the Adviser, in its discretion, decides how to allocate such investment opportunity among the identified Clients. In allocating such investment opportunity, the Adviser may consider some or all of a wide range of factors, which include, but are not necessarily limited to, one or more of the following:

- Each Client’s investment objectives and investment focus;
- Time horizon and life cycle;
- Transaction sourcing;
- Each Client’s liquidity and reserves;
- Each Client’s diversification;
- Lender covenants and other limitations;
- Any “ramp-up” period of a newly established Client;

- Amount of capital available for investment by each Client as well as each Client's projected future capacity for investment;
- Each Client's targeted rate of return;
- Stage of development of the prospective portfolio company or other investment and anticipated holding period of the portfolio company;
- Composition of each Client's portfolio;
- The suitability as a follow-on investment for a current portfolio company of a Client;
- The availability of other suitable investments for each Client;
- Supply or demand of an investment opportunity at a given price level;
- Risk considerations;
- Cash flow considerations;
- Asset class restrictions;
- Industry and other allocation targets;
- Minimum and maximum investment size requirements;
- Tax implications;
- Legal, contractual or regulatory constraints; and
- Any other relevant limitations imposed by or conditions set forth in the Organizational Documents of each Client.

The Adviser will not allocate investment opportunities based, in whole or in part, on (i) the relative fee structure or amount of fees paid by any Client or (ii) the profitability of any Client. There can be no assurance that the application of the factors set forth above will result in a Client participating in all investment opportunities that fall within its investment objectives.

In addition, principal executive officers and other personnel of the Adviser invest indirectly in and may be permitted to invest directly in Funds and therefore participate indirectly in investments made by the Funds in which they invest. Such interests will vary Fund by Fund and may create an incentive to allocate particularly attractive investment opportunities to the Client in which such personnel hold a greater interest. The existence of these varying circumstances presents conflicts of interest in determining how much, if any, of certain investment opportunities to offer to a Client. The allocation of investment opportunities among the persons and in the manner discussed herein may not, and often will not, result in proportional allocations among such persons, and such allocations may be more or less advantageous to some such persons relative to others. While investment opportunities will be allocated in a manner that the Adviser believes in good faith is fair and equitable under the circumstances over time and considering relevant factors, there can be no assurance that each Client's actual allocation of an investment opportunity, if any, or the terms on

which that allocation is made, will be as favorable as they would be if the conflicts of interest to which the Adviser may be subject, discussed herein, did not exist.

#### Allocation of Co-Investment Opportunities and Secondary Transactions

The Adviser will determine if the amount of an investment opportunity exceeds the amount the Adviser determines would be appropriate for the Funds (after taking into account any portion of the opportunity allocated by contract to certain participants in the applicable deal, such as co-sponsors, consultants and advisers to the Adviser and/or the Funds or management teams of the applicable portfolio company, certain strategic investors, and other investors whose allocation is determined by the Adviser to be in the best interest of the applicable Fund), and any such excess may be offered to one or more co-investors pursuant to the procedures included in such Funds’

Organizational Documents and as set forth in the following paragraphs.

As more fully described in the Funds’ Organizational Documents, and except as otherwise disclosed to investors, generally with respect to any available co-investment opportunity, the General Partner of a Fund, in its sole discretion, may (but is not obligated to) offer co-investment opportunities to any (including limited partners), in each case on terms to be determined by the General Partner in its sole discretion. Factors that the General Partner may consider in determining whether to offer a limited partner a co-investment opportunity include: (i) the amount of the Limited Partner’s capital commitment to such Fund; (ii) if the limited partner was an investor in a prior Fund and the amount of such limited partner’s capital commitment to such prior Fund; (iii) the amount the limited partner is willing to commit to a co-investment opportunity; (iv) the amount of time the limited partner will require in order to obtain the requisite internal approval of a co-investment opportunity; (v) the willingness of the limited partner to permit the General Partner to negotiate the terms of a co-investment opportunity and to defer to the General Partner with respect to all material elections and determinations with respect to such co-investment opportunity; and (vi) the General Partner’s and the Adviser’s experience in dealing with the limited partner.

In addition, a Fund may co-invest with third parties through partnerships, joint ventures or other entities or arrangements. Such investments may involve risks not present in investments where a third-party is not involved, including the possibility that: (i) a Fund and such co-venturer may reach an impasse on a major decision that requires the approval of both parties; (ii) a co-venturer or partner may at any time have economic or business interests or goals that are inconsistent with those of a Fund; (iii) the co-venturer or partner may encounter liquidity or insolvency issues or may become bankrupt; (iv) the co-venturer or partner may be in a position to take action contrary to a Fund’s investment objective; (v) the co-venturer or partner may take actions that subject the property to liabilities in excess of, or other than, those contemplated; or (vi) in certain circumstances a Fund may be liable for actions of its co-venturers or partners. The co-venturer or partner may be a joint venture partner or interest holder in another joint venture or other vehicle in which the Adviser or its affiliates has an interest or otherwise controls. The co-venturer or partner may also be entitled to receive payments from, or allocations or performance-based compensation (e.g., carried interest distributions) in respect of, a Fund and/or such investments, and in such circumstances, any such amounts will not, even if they have the effect of reducing any retainers or minimum amounts otherwise be payable by the Adviser or its affiliates, be deemed paid to or received by such persons or entities or reduce the management fee. In addition, a Fund may co-invest with non-affiliated co-investors or partners whose ability to influence the affairs of the companies in which such Fund invests may be significant, and even greater than that of such Fund

and as such, such Fund may be required to rely upon the abilities and management expertise of such co-venturer or partner. It may also be more difficult for a Fund to sell its interest in any joint venture, co-investment, partnership or entity with other owners than to sell its interest in other types of investments (and any such investment may be subject to a buy-sell right). A Fund may grant co-venturers or partners approval rights with respect to major decisions concerning the management and disposition of the investment, which would increase the risk of deadlocks or unanticipated exits from an investment. A deadlock could delay the execution of the business plan for the investment or require a Fund to engage in a buy-sell of the venture with the co-venturer or partner or conduct the forced sale of such investment or require alternative dispute resolution in order to resolve such deadlock. As a result of these risks, a Fund may be unable to fully realize its expected return on any such investment. Further, to the extent that a Fund offers any co-investment opportunity to any Limited Partners or third parties, some or all of the risks described above may also apply to such co-investments.

In the event the Adviser determines to offer an investment opportunity to co-investors, there can be no assurance that the Adviser will be successful in offering a co-investment opportunity to a potential co-investor, in whole or in part, that the closing of such co-investment will be consummated in a timely manner, that the co-investment will take place on the terms and conditions that will be preferable for the Fund, or that expenses incurred by the Fund with respect to the syndication of the co-investment will not be substantial. Further, it is possible that a potential co-investment party may experience financial, legal or regulatory difficulties and may, from time to time, have economic, tax, regulatory, contractual or other business interests or goals that are inconsistent with those of a Fund and as a result, may take a different view from the Adviser as to appropriate strategy for an investment or may be in a position to take a contrary action to a Fund's investment objective. In the event that the Adviser is not successful in offering a co-investment opportunity to potential co-investors, in whole or in part, the Fund may consequently hold a greater concentration and have exposure in the related investment opportunity than was initially intended, which could make the Fund more susceptible to fluctuations in value resulting from adverse economic and/or business conditions with respect thereto. There can be no assurance that a Fund's return from a transaction would be equal to and not less than the return of another party that was allocated a co-investment opportunity and that is participating in the same transaction.

In addition, to the extent the Adviser has discretion over a secondary transfer of interests in a Fund pursuant to such Fund's Organizational Documents, or is asked to identify potential purchasers in a secondary transfer, the Adviser will do so in its sole discretion, generally taking into account the following factors:

- The Adviser's evaluation of the financial resources of the potential purchaser, including its ability to meet capital contribution obligations;
- The Adviser's perception of its past experiences and relationships with the potential purchaser, including its belief that the potential purchaser would help establish, recognize, strengthen, and/or cultivate relationships that may provide indirectly longer-term benefits to current or future Funds and/or the Adviser and the expected amount of negotiations required in connection with a potential purchaser's investment;
- Whether the potential purchaser would subject the Adviser, the applicable Fund, or their affiliates to legal, regulatory, reporting, public relations, media, or other burdens;

- Requirements in such Fund's Organizational Documents; and
- Such other facts as it deems appropriate under the circumstances in exercising such discretion.

A purchaser's potential investment into another Fund (including any commitment to a future fund) may be considered, but will not be the sole determining factor considered by the Adviser in determining whether to grant or withhold its consent to a secondary transfer of interests in a Fund.



## **Item 12. Brokerage Practices**

As the Fund invests primarily in private equity, the Adviser anticipates that investments in publicly traded securities will be infrequent occurrences (e.g., money market instruments pending investment in a portfolio company, securities held as a result of initial public offerings of portfolio companies, going-private transactions, etc.). However, to meet its fiduciary duties to the Fund, the Adviser would adopt written policies to address issues that might arise with respect to purchasing, holding, and selling publicly traded securities, as follows:

If the Adviser sells publicly traded securities for a Fund, it is responsible for directing orders to broker-dealers to effect securities transactions for accounts managed by Black Bay. In such event, the Adviser will seek to select brokers on the basis of best price and execution capability. In selecting a broker to execute client transactions, the Adviser may consider a variety of factors, including: (i) execution capabilities with respect to the relevant type of order; (ii) commissions charged; (iii) the reputation of the firm being considered; and (iv) responsiveness to requests for trade data and other financial information.

The Adviser has no duty or obligation to seek in advance competitive bidding for the most favorable commission rate applicable to any particular client transaction or to select any broker on the basis of its purported or “posted” commission rate, but will endeavor to be aware of the current level of the charges of eligible brokers and to reduce the expenses incurred for effecting client transactions to the extent consistent with the interests of such clients. Although the Adviser generally seeks competitive commission rates, it may not necessarily pay the lowest commission or commission equivalent. Transactions may involve specialized services on the part of the broker involved and thereby entail higher commissions or their equivalents than would be the case with other transactions requiring more routine services.

Consistent with the Adviser seeking to obtain best execution, brokerage commissions on client transactions may be directed to brokers in recognition of research furnished by them, although the Adviser generally does not make use of such services at the current time and has not made use of such services since its inception. Such research services could include economic research, market strategy research, industry research, company research, fixed income data service, computer-based quotation equipment and research services and portfolio performance analysis. As a general matter, research provided by these brokers would be used to service all of the Adviser’s Funds. However, each and every research service may not be used for the benefit of each and every Fund managed over time by the Adviser, and brokerage commissions paid by one Fund may apply towards payment for research services that might not be used in the service of such Fund. Research services may be shared between the Adviser and its affiliates.

The Adviser currently does not engage in soft dollar transactions, but may engage in soft dollar transactions in the future in accordance with the limitations of Section 28(e) of the Securities Exchange Act of 1934, as amended.

The Adviser does not anticipate engaging in significant public securities transactions; however, to the extent that the Adviser engages in any such transactions, orders for purchase or sale of securities placed first will be executed first, and within a reasonable amount of time of order receipt. To the extent that orders for Funds are completed independently, the Adviser may also

purchase or sell the same securities or instruments for several Funds simultaneously. From time to time, the Adviser may, but is not obligated to, purchase or sell securities for several client accounts at approximately the same time. Such orders may be combined or “batched” to facilitate obtaining best execution and/or to reduce brokerage commissions or other costs. Batched transactions are executed in a manner intended to ensure that no participating Fund of The Adviser is favored over any other Fund. When an aggregated order is filled in its entirety, each participating Fund generally will receive the average price obtained on all such purchases or sales made during such trading day. To the extent such orders are not batched, they may have the effect of increasing brokerage commissions or other costs.

In the Adviser’s private company securities transactions on behalf of the Funds, the Adviser may retain one or more broker-dealers or investment banks, the costs of which will be borne by the relevant Fund and/or its portfolio companies. In determining to retain such parties, the Adviser may consider a variety of factors, including: (i) capabilities with respect to the type of transaction being contemplated; (ii) commissions or fees charged; (iii) reputation of the firm being considered; and (iv) responsiveness to requests for information. As a result, although the Adviser generally will seek reasonable rates for such services, the market for such services involves more subjective evaluations than public securities brokerage transactions, and the Funds may not pay the lowest commission or fee for such services.

## **Item 13. Review of Accounts**

### **Oversight and Monitoring**

The investments made by the Funds are generally private, illiquid and long-term in nature. Accordingly, the review process is not directed toward a short-term decision to dispose of securities. However, the Adviser closely monitors companies in which the Funds invest, and the Adviser's Chief Compliance Officer periodically checks to confirm that each Fund is maintained in accordance with its stated objectives. Investment decisions will be reviewed and require unanimous approval by the Fund's Investment Committee, which consists of Michael LeBourgeois, L. Guy Cook, III, and Thomas Ambrose.

The Principals believe that active participation in the monitoring of Fund investments is critical to creating value for Black Bay investors. Leveraging their extensive investment experience in this space, the Principals will actively assist portfolio companies with strategic planning, financial management (including budgeting and capital allocation), analysis of transaction opportunities, and positioning for a successful exit. The Black Bay Energy Team will utilize its extensive network in the industry to assist with assessing and identifying potential senior management team members as the company grows. The Adviser strongly believes that board participation from independent industry executives (with whom the Principals have personal relationships) is an invaluable resource for portfolio company executives, serving as both "real world" sounding boards and as potential strategic advisors. Black Bay Energy's Operational Excellence Committee, chaired by L. Guy Cook, III, ensures that portfolio companies have strong operational plans from day 1 of the investment and will enable the sharing of best practices across the portfolio.

### **Reporting**

Annually, the Fund will furnish audited financial statements to all Limited Partners and tax information necessary for the completion of U.S. income tax returns. On a quarterly basis, each Limited Partner will be furnished with unaudited financial statements of the Fund. In addition, during the Commitment Period, the General Partner will conduct an annual informational meeting for the Limited Partners.

**Item 14. Client Referrals and Other Compensation**

The Adviser does not receive any economic benefit, including sales awards or prizes, from any third party for providing advisory services to the Fund. Any arrangement to compensate a person or entity for soliciting business or potential Clients for the Adviser must be first proposed to, and approved, by the CCO. The CCO will maintain a file of approved solicitors. Such file will contain (i) the name of the solicitor, (ii) the date on which the solicitor was approved by the CCO, (iii) the date on which the Company engaged the solicitor, if any, and (iv) a copy of the solicitation agreement between the solicitor and the Adviser.

**Item 15. Custody**

The Adviser is deemed, under Rule 206(4)-2 of the Advisers Act, to have custody of the assets of the Funds by virtue of the common control of the Adviser and the General Partner of the Fund. All assets and securities of the Fund are held by qualified custodians. As noted in Item 13 above, Fund investors receive annual financial statements audited by an independent public accounting firm. Fund investors are urged to carefully review these statements.

**Item 16. Investment Discretion**

Investment advice is provided directly to the Fund, subject to the direction and control of the General Partner of each Fund, and not individually to the investors in the Fund. Services are provided to the Fund in accordance with the Governing Documents of the applicable Fund. Investment restrictions for the Fund, if any, are generally established in the Governing Documents of the applicable Fund.

## **Item 17. Voting Client Securities**

The Adviser does not currently vote its Clients' securities.

In the future event that the Adviser may vote its Clients' securities, the general partners of the Fund(s) may have conflicts of interest where they have a substantial business relationship with the portfolio company and the failure to vote in favor of company management could harm the relationship of the general partners of the Fund(s) with management. Conflicts may also arise in the event a senior executive of a portfolio company and principal of the Adviser have a significant personal relationship that could affect how the adviser would vote on a matter relating to the portfolio company.

Should the Adviser decide to vote its Clients' securities at a future date, the Adviser will adopt and implement policies and procedures which it believes are reasonably designed to ensure that it votes proxies in the best interests of its respective Funds. In the event that a material conflict of interest is identified, the Chief Compliance Officer or designee will take such steps as he or she deems necessary in order to determine how to vote the proxy in the best interests of the Funds, including, but not limited to, consulting with the legal department, outside counsel, a proxy consultant or the investment professionals responsible for the relevant portfolio company. In each instance, when exercising their voting discretion, the general partners of the Funds will seek to avoid any direct or indirect conflict of interest between their respective Funds and their voting decision.

You may contact our office at (504) 227-3020 for any questions about a particular solicitation.

**Item 18. Financial Information**

The Adviser does not require prepayment of management fees more than six months in advance or have any other events requiring disclosure under this item of the Brochure.