

# Blackstone Diversified Multi-Strategy Fund

Blackstone

(BXDMSAE: Class A (EUR) Acc.) - A sub-fund of Blackstone Alternative Investment Funds plc, an umbrella fund established as a UCITS with segregated liability between sub funds  
For Reporting Purposes Only

As of February 28, 2019

## Investment approach

The Fund's investment objective is to seek capital appreciation. The Fund seeks this objective by allocating its assets among a variety of discretionary sub-advisers with experience managing non-traditional or "alternative" investment strategies. Blackstone is responsible for selecting the strategies, for identifying and retaining sub-advisers, and for determining the amount of Fund assets to allocate to each strategy and to each sub-adviser. Blackstone may also manage a portion of the Fund's assets directly.

## Fund highlights

Fund Assets (Mn)	\$1,817.65
NAV per Share	€10.18
Currency	EUR
Fund Inception Date	August 11, 2014
Share Class Inception Date	April 25, 2016
Investment Manager	Blackstone Alternative Investment Advisors LLC
Subscriptions	Daily
Redemptions	Daily
Distributing/Accumulating	Accumulating
Cut-off	3pm (Ireland)
Bloomberg Ticker	BXDMSAE ID
ISIN	IE00BYXDW303

## Fund terms – share class A (EUR) dis. (2)

Minimum Initial Investment (Mn)	€1,000
Management Fee	1.95%
Performance Fee <sup>(3)</sup>	15.00%
Other Expenses <sup>(4)</sup>	Capped 0.45%

## Investment committee

Name	Years at Blackstone
Gideon Berger	17 Years
Min Htoo	2 Year
Robert Jordan	8 Years
Ian Morris	9 Years
Alberto Santulin	16 Years
Stephen Sullens	18 Years

## Fund net performance<sup>(1)</sup>

Fund Net Performance <sup>(1)(2)</sup>	MTD	QTD	YTD	ITD	ITD STATISTICS			
					St Dev.	Beta	Alpha	Sharpe
BXDMSAE	0.99%	3.56%	3.56%	0.63%	2.67%	-	-	0.50
MSCI World TR Index (EUR-Hedged)	2.82%	10.56%	10.56%	8.40%	10.43%	0.14	(0.53%)	0.87
Barclays Gbl Agg Index (EUR-Hedged)	(0.81%)	0.44%	0.44%	(0.78%)	4.48%	0.07	0.70%	(0.01)

## 12 month performance periods – to last quarter end<sup>(1)</sup>

	12/31/2013 - 12/31/2014	12/31/2014 - 12/31/2015	12/31/2015 - 12/30/2016	12/30/2016 - 12/29/2017	12/29/2017 - 12/31/2018
BXDMSAE	N/A	N/A	N/A	1.90%	(3.72%)
MSCI World TR Index (EUR-Hedged)	N/A	N/A	N/A	21.11%	(10.63%)
Barclays Gbl Agg Index (EUR-Hedged)	N/A	N/A	N/A	5.68%	(3.81%)

## Alternative strategies cumulative net performance



- (1) Fund performance is shown net of all fees and expenses. Past performance may not be a reliable guide to future performance. The value of Fund shares may go down as well as up and there can be no assurance that the Fund will achieve its investment objectives or avoid significant losses. Performance is estimated and unaudited for 2018 and 2019. Net performance for the Fund as well as indices is from 4/25/16 to 2/28/19 and is annualized. In the case of equity indices, performance of the indices reflects the reinvestment of dividends. Beta and Alpha represents BXDMSIU compared to the specific indices. Standard deviation and Sharpe calculations are annualized. All Inception to Date Statistics are calculated using daily performance since Inception and uses the local currency rate.
- (2) The above terms are summarised and qualified in their entirety by the more detailed information set forth in the UCITS prospectus and supplement.
- (3) The Fund will pay to Blackstone a performance fee equal to 15% of any returns the relevant class achieves above any losses carried forward from previous periods. The Fund may also pay to Blackstone an additional performance fee equal to the amount of any performance fees owed by Blackstone to the sub-advisers. Any such additional performance fee will be deducted from Blackstone's performance fee before it is paid in subsequent quarterly performance periods. The performance fee together with any additional performance fee are subject to a cap of 4.95% of the NAV of the class.
- (4) Blackstone has agreed to reimburse the Fund so that certain of the Fund's "Other Expenses" will not exceed 0.45% annually. Please see important disclosure information at the end of this document for further explanation.

None of the indices presented are benchmarks or targets for the Fund. Indices are unmanaged and investors cannot invest in an index. Please see end of document for additional disclosures regarding indices presented.

## Sub-adviser allocations<sup>(4)(5)</sup>

Manager	Strategy	Sub-strategy	Classification
<b>Active Sub-Advisors</b>			
HealthCor	Equity Hedge	Equity Long Short	Equity
Endeavour	Equity Hedge	Equity Market Neutral	
Two Sigma Advisers	Equity Hedge	Equity Market Neutral	
Bayview	Relative Value	Fixed Income - Asset Backed	Credit
EJF	Relative Value	Fixed Income - Asset Backed	
Good Hill	Relative Value	Fixed Income - Asset Backed	
Sorin	Relative Value	Fixed Income - Asset Backed	
BRESSA <sup>(4)</sup>	Relative Value	Fixed Income - Asset Backed	
Caspian	Event Driven	Distressed/Restructuring	
Magnetar <sup>(4)</sup>	Event Driven	Risk Arbitrage	Multi-Asset
Emso	Macro	Discretionary Thematic	
NWI	Macro	Discretionary Thematic	
IPM	Macro	Systematic Diversified	
D.E. Shaw	Multi-Strategy	N/A	
BAIA-Direct <sup>(7)</sup>	Multi-Strategy	N/A	
<b>Inactive Sub-Advisors<sup>(6)</sup></b>			
Cerberus	Relative Value	Fixed Income - Asset Backed	Inactive
Waterfall	Relative Value	Fixed Income - Asset Backed	
H2O	Macro	Discretionary Thematic	
GSA	Macro	Systematic Diversified	

## Performance summary

Sub-Strategy Performance <sup>(1)</sup>	Allocation at <sup>(5)</sup>		MTD		QTD		YTD		ITD Cumulative Performance	
	2/28/2019	Return	Attribution	Return	Attribution	Return	Attribution	Return	Attribution	
Equity	33.69%	1.20%	0.52%	1.45%	0.65%	1.45%	0.65%	8.54%	3.24%	
Credit	36.91%	1.26%	0.59%	4.34%	1.94%	4.34%	1.94%	32.01%	8.78%	
Multi-Asset	29.40%	0.68%	0.32%	4.67%	2.02%	4.67%	2.02%	9.25%	3.89%	
Hedging Expenses			(0.25%)		(0.67%)		(0.67%)		(7.01%)	
Expenses and Other			(0.19%)		(0.39%)		(0.39%)		(7.10%)	
Net Return <sup>(2)</sup>			0.99%		3.56%		3.56%		1.80%	

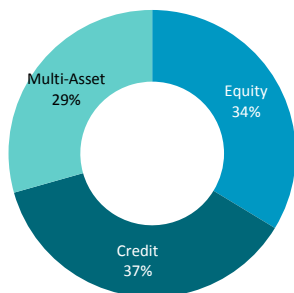
## Monthly net performance<sup>(2)</sup>

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2016	-	-	-	0.30%	0.60%	(0.99%)	0.90%	(0.69%)	1.00%	0.40%	(1.77%)	0.50%	0.20%
2017	1.50%	0.59%	0.59%	0.78%	0.68%	(0.96%)	0.77%	0.19%	(0.38%)	0.58%	(1.43%)	(0.97%)	1.90%
2018	(0.10%)	(1.47%)	0.30%	0.50%	(1.48%)	(0.40%)	1.01%	-	1.10%	(1.97%)	(0.30%)	(0.91%)	(3.72%)
2019	2.54%	0.99%	-	-	-	-	-	-	-	-	-	-	3.56%

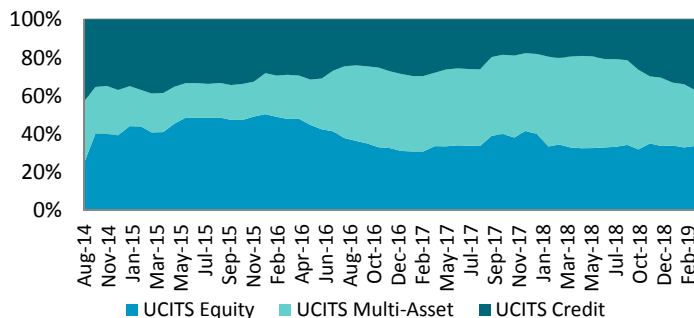
- (1) Sub-strategy performance is shown gross of all fees and expenses. Performance is estimated and unaudited.
- (2) Fund performance is shown net of all fees and expenses. Past performance may not be a reliable guide to future performance. The value of Fund shares may go down as well as up and there can be no assurance that the Fund will achieve its investment objectives or avoid significant losses. Performance is estimated and unaudited for 2018 and 2019. Net performance for the Fund as well as indices is from 4/25/16 to 2/28/19 and is annualized. ITD net return is cumulative not annualized.
- (3) Performance contribution represents the contribution of each strategy or sub-strategy to the Fund's total return. Performance contribution is shown gross of all fees and expenses.
- (4) Blackstone and its affiliates have financial interests in asset managers. Any allocation by Blackstone to a subsidiary or other affiliate benefits The Blackstone Group L.P. and any redemption or reduction of such allocation would be detrimental to The Blackstone Group L.P., creating potential conflicts of interest in allocation decisions. For a discussion of this and other conflicts, please see the Additional Disclosure section at the end of this document.
- (5) The Fund may shift allocations among sub-advisers, strategies and sub-strategies at any time. Further, Blackstone, on behalf of the Fund, may determine to not employ one or more of the above-referenced sub-advisers, strategies or sub-strategies. Blackstone may also add new sub-advisers, strategies or sub-strategies. Accordingly, the allocations are presented for illustrative purposes only and should not be viewed as predictive of the ongoing composition of the Fund's portfolio (and its sub-advisers), which may change at any time.
- (6) Sub-adviser is not currently managing any Fund assets. Allocations may change at any time without notice.
- (7) BAIA manages a portion of the Fund's assets directly. Such investments presently include opportunistic trades and hedging. BAIA's fees on directly managed assets are typically not reduced by a payment to a sub-adviser.

# Blackstone Diversified Multi-Strategy Fund (BXDMS)

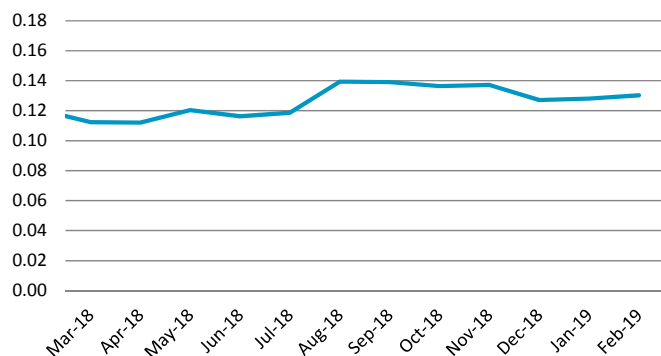
## Portfolio allocations<sup>(1)</sup>



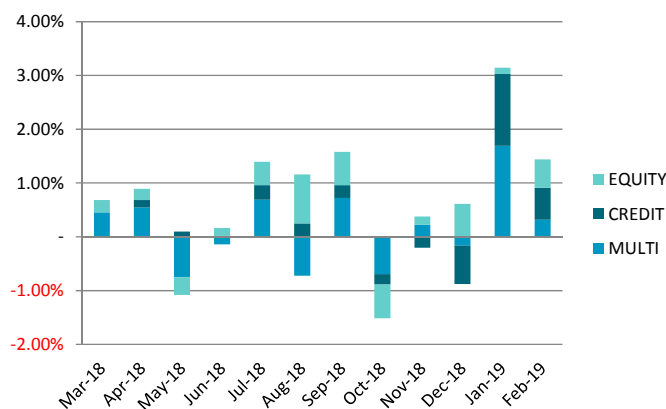
## Asset allocation by sub-strategy<sup>(1)</sup>



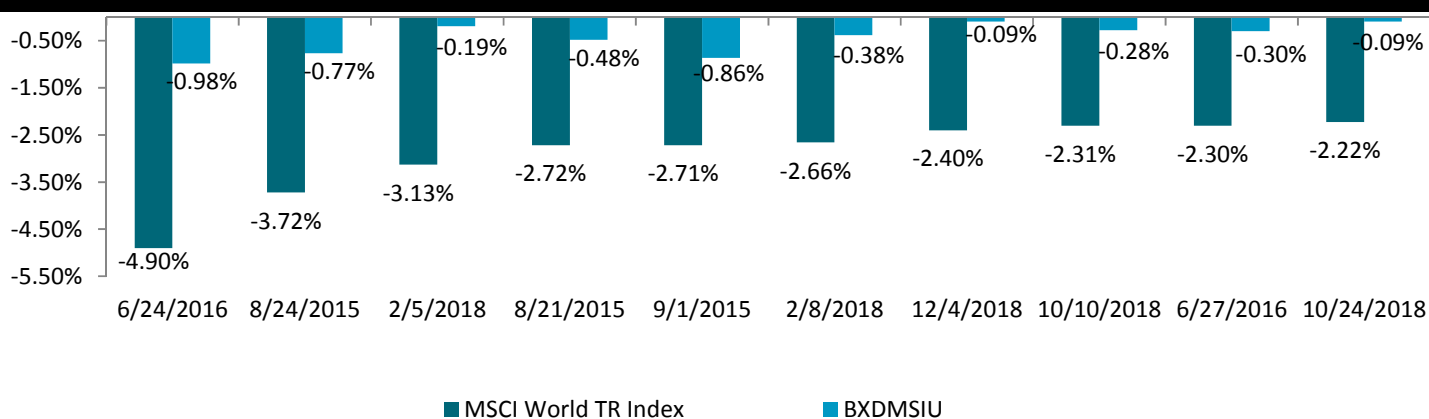
## 12 months rolling beta against MSCI World<sup>(2)</sup>



## Trailing 12 months performance contribution by sub-strategy<sup>(2)</sup>

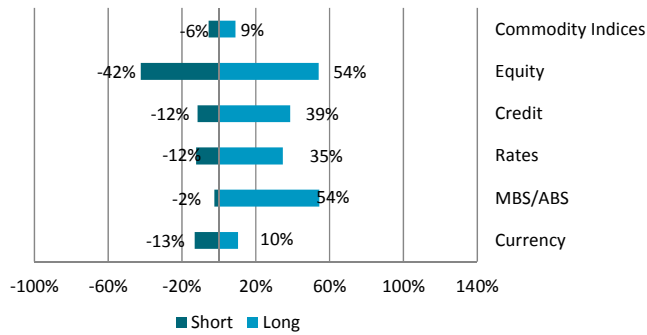


## BXDMS performance on worst 10 days for MSCI World since inception<sup>(3)</sup>

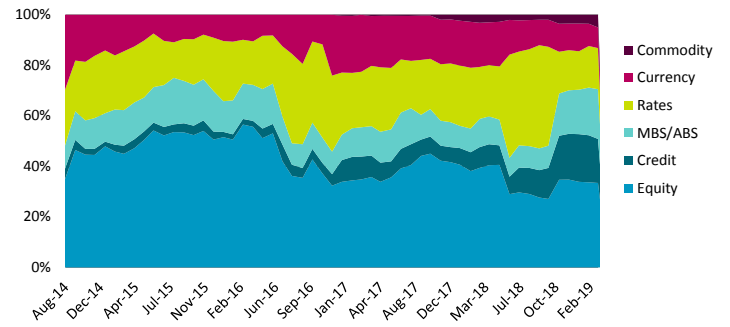


- The portfolio allocations in the table/chart reflect allocations as of the date of the report. The Fund may shift allocations among sub-advisers, strategies and sub-strategies at any time. Further, Blackstone, on behalf of the Fund, may determine to not employ one or more of the above-referenced sub-advisers, strategies or sub-strategies. Blackstone may also add new sub-advisers, strategies or sub-strategies. Accordingly, the allocations are presented for illustrative purposes only and should not be viewed as predictive of the ongoing composition of the Fund's portfolio (and its sub-advisers), which may change at any time.
- Performance contribution represents the contribution of each strategy or sub-strategy to the Fund's total return. Performance contribution is shown gross of all fees and expenses.
- The indices presented are indicative and for illustrative purposes only. The volatility of the index presented may be materially different from that of the performance of the Fund. In addition, the index employs different investment guidelines and criteria than the Fund; as a result, the holdings in the Fund may differ significantly from the securities that comprise the index. The performance of the index has not been selected to represent an appropriate benchmark to compare to the performance of the Fund, but rather is disclosed to allow for comparison of the Fund's performance to that of well-known and widely recognized index. A summary of the investment guidelines for the index presented is available upon request. Performance of the index reflects the reinvestment of dividends. Please see glossary of terms at the end of this presentation for index definitions. Please see the additional disclosure on the last page for additional index definitions. The average daily return for BXDMSIU for the 10 best MSCI World TR days is 0.33%, while the average return of MSCI World TR for the 10 best MSCI World TR days was 2.28%.
- Betas are calculated using the MSCI World TR index. The calculated betas use returns daily returns for BXDMS Share Class I Acc from 9/11/2014-2/28/2019. The volatility of the index presented may be materially different from that of the performance of the fund. In addition, the index employs different investment guidelines and criteria than the fund; as a result, the holdings in the fund may differ significantly from the securities that comprise the index. The performance of the index has not been selected to represent an appropriate benchmark to compare to the performance of the fund, but rather is disclosed to allow for comparison of the fund's performance to that of a well-known and widely recognized index. A summary of the investment guidelines for the index presented is available upon request.

## Asset class exposure<sup>(1)</sup>



## Asset class gross historical exposure<sup>(1)</sup>



## Fund geographic exposure<sup>(1)</sup>

Region	Long	Short	Net
US/Canada	144.85%	62.29%	82.56%
Latin America/Caribbean	10.67%	1.52%	9.15%
Core Europe	28.21%	11.01%	17.20%
Peripheral Europe	2.21%	0.32%	1.90%
Middle East/Africa	5.97%	1.65%	4.32%
China/HK/Taiwan	0.69%	2.64%	-1.94%
Asia general	4.35%	6.15%	-1.81%
Japan	4.04%	1.77%	2.27%
<b>Total</b>	<b>200.99%</b>	<b>87.35%</b>	<b>113.64%</b>

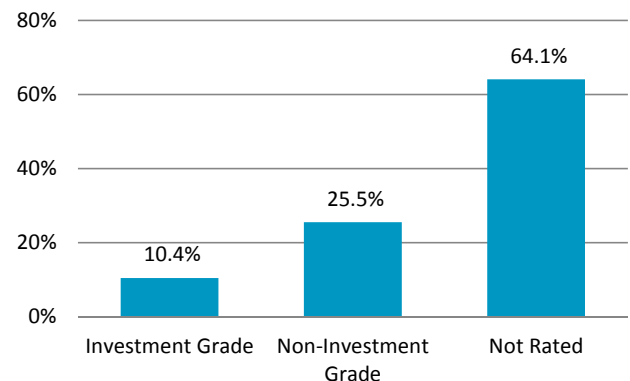
## Currency exposure<sup>(1)</sup>

Region	Long	Short	Net
US/Canada	0.00%	3.75%	-3.75%
Latin America	0.60%	0.09%	0.51%
Core Europe	4.57%	7.44%	-2.86%
Peripheral Europe	0.06%	0.22%	-0.16%
Middle East/Africa	0.00%	0.31%	-0.31%
China/HK/Taiwan	0.00%	0.22%	-0.22%
Asia general	2.57%	0.31%	2.26%
Japan	2.55%	0.78%	1.77%
<b>Total</b>	<b>10.35%</b>	<b>13.12%</b>	<b>-2.77%</b>

## Equity exposure – sector breakdown<sup>(1)</sup>

	Long	Short	Net
Energy	1.76%	(2.14%)	(0.38%)
Materials	0.83%	(1.06%)	(0.23%)
Industrials	3.95%	(1.29%)	2.65%
Consumer Discretionary	6.53%	(5.10%)	1.43%
Consumer Staples	1.43%	(2.09%)	(0.66%)
Health Care	12.53%	(6.76%)	5.77%
Financials	6.20%	(7.32%)	(1.12%)
Real Estate	1.73%	(0.27%)	1.46%
Information Technology	9.81%	(5.47%)	4.33%
Communication Services	2.29%	(3.68%)	(1.40%)
Utilities	0.54%	(1.02%)	(0.48%)
Index*	6.21%	(6.13%)	0.08%
Unclassified**	0.30%	(0.00%)	0.30%
<b>Total</b>	<b>54.10%</b>	<b>(42.34%)</b>	<b>11.75%</b>

## Fixed income ratings<sup>(1)</sup>



## VaR analysis<sup>(2)</sup>

Date	VaR
2/28/19	3.13%

- (1) In the case of non-interest rate instruments, exposure data represents the delta adjusted market value. In the case of interest rate products, exposure data is represented by the 10-year equivalent instrument. Positions of unknown type (if any) are excluded from exposure data. Data is obtained from State Street Fund Services (Ireland) Limited, the administrator for the Fund. The Fund does not guarantee the accuracy of such data. Using the higher Standard & Poor's ("S&P's") and/or Moody's Investor Service ("Moody's") ratings.
- (2) Value at Risk ("VaR") is calculated at a 99% confidence level for a one month holding period (20 business days) using a model based on historical Fund data. Please see the Glossary of Terms for a further explanation of VaR.

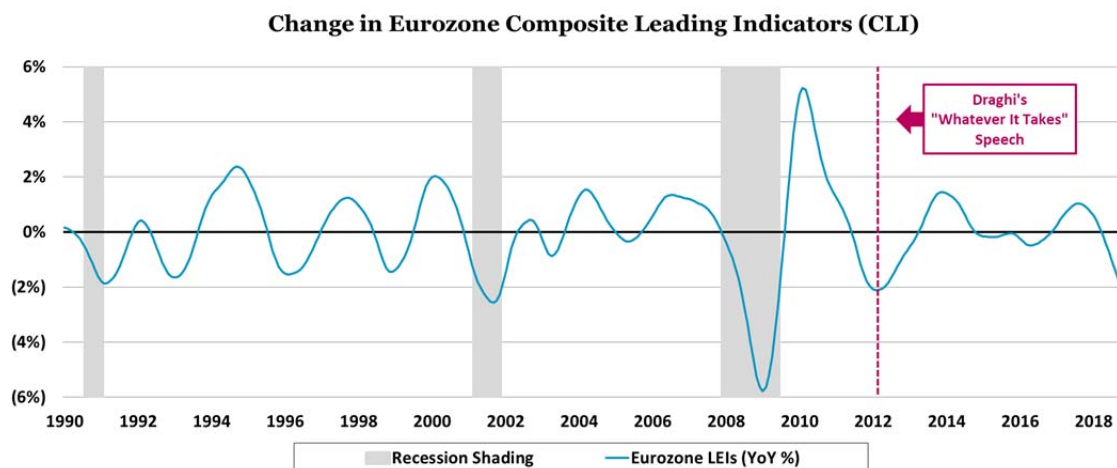
\*Comprised of index futures, options on index futures, ETFs, and ETF options  
 \*\*Underlying instruments do not have a corresponding GICS sector assignment

## February Market Commentary

After posting its first negative year in a decade in 2018, the S&P 500 continued its rebound in February culminating in its best 2-month start in roughly three decades<sup>1</sup> (+11.48%). While this may sound like good news for most investors, financial news outlets were quick to point out that U.S. stocks fell on the last three consecutive days of the month, for the first three-day loss this year<sup>2</sup>, implying that there may be some cracks in the recent risk-on sentiment. While the bulls have had plenty of reason to celebrate over the last ten years, what risks might bears be keeping their eyes on to confirm their suspicions?

One event on the horizon that might be cause for concern is U.S. corporate earnings growth. According to a recent FactSet report, of the 99 companies in the S&P 500 that issued EPS guidance for Q1 2019, 73 issued negative EPS guidance<sup>3</sup>. Much of the strong earnings growth exhibited to date has been supported by corporate tax cuts and a pro-business government. One trending viewpoint is that companies have exhausted these temporary boosts and are now beginning to adjust back to normalcy. However, a competing view is that companies tend to guide analysts lower at the start of the quarter so that they can beat expectations. As Joe Zidle, Blackstone's Chief Investment Strategist, points out in his recent essay<sup>4</sup>, even if a corporate profits recession were to hit in 2019, it would not necessarily spell the end of this economic expansion. Corporate profits ebb and flow over much shorter cycles than economic cycles, and profits growth can contract briefly without necessarily resulting in an economic recession.

Outside of the U.S., there have been plenty of indicators suggesting the onset of a global slowdown which could affect U.S. equity markets. In China, the trade war with the U.S. has taken its toll, as the People's Bank of China (PBOC) has already injected nearly ¥2.2 trillion into the economy to stimulate the economy above 6% growth<sup>5</sup>. In Europe, the European Central Bank (ECB) may have to take a page out of China's book soon, as recessionary conditions are evident in Italy, and France and Germany are likely to fall into recession this year as well<sup>4</sup>. Many European leading indicators are at levels not seen since 2012 (see the chart below), when Mario Draghi famously said the ECB would do whatever it takes to avoid falling into a recession.



Source: OECD Europe Leading Indicators CLI Amplitude Adjusted SA, as of 11/30/18. Euro Area recession shading based on Centre for Economic Policy Research data.

<sup>1</sup> The Wall Street Journal: <https://www.wsj.com/articles/global-stocks-slip-after-u-s-north-korea-summit-collapses-11551344796>

<sup>2</sup> Bloomberg News: <https://www.bloomberg.com/news/articles/2019-02-27/asian-stocks-set-for-muted-start-treasuries-slip-markets-wrap>

<sup>3</sup> FactSet: Earnings Insight (March 1<sup>st</sup>, 2019)

<sup>4</sup> Blackstone's Joe Zidle: <https://www.blackstone.com/insights/article/a-mid-cycle-s-pause>

<sup>5</sup> Evercore ISI: Taxes, Davos, CCTV & Autos, Currency (January 10<sup>th</sup>, 2019)

While it is yet to be seen whether the bulls or the bears are right about the future of financial markets, everyone can agree that the prospects of this decade-long bull market are as uncertain as they have ever been. In these kinds of unsure markets, active managers may be able to provide value. We maintain that active alternative investment strategies, such as those employed by BXDMS, may provide a stream of returns that are less dependent on broader markets.

## Review of February Fund Performance

The investment objective of the Blackstone Diversified Multi-Strategy Fund (the “Fund” or “BXDMS”) is to seek capital appreciation. The Fund aims to achieve its objective by allocating assets among a variety of investment sub-advisers, each with experience managing non-traditional or “alternative” investment strategies and by managing assets directly (via BAIA<sup>6</sup>). In February, the Fund’s Class I share class returned 1.09%<sup>7</sup> net of fees and expenses versus 0.63% and -0.58% for the HFRX Global Hedge Fund and Barclays Global Aggregate Bond indices, respectively, and versus 3.21% and 3.06% for the S&P 500 and MSCI World indices, respectively<sup>8</sup>.

## Equity Strategies

Equity strategies (+1.20%)<sup>9</sup> were a significant contributor to Fund performance in February. Gains were led by Equity Market Neutral sub-strategies. Equity Long/Short sub-strategies also contributed to positive performance. Long exposure to a single name stock in the Health Care sector resulted in a gain, driven by the announcement of a proposed acquisition that was judged favorably by the market. This accretive position was partially offset by another exposure in the Health Care sector that dropped as pressure continued to build on the pharmacy benefit manager (PBM) rebate model, threatening to limit rebates to PBMs from drug companies in exchange for favorable placement on formularies. This pain was exacerbated by the specter of domestic policymakers reviving a “Medicare for all” solution.

The portfolio’s broad-based equity hedge was the biggest detractor as equity markets continued to rally. Additionally, short exposure to a Financials company hurt the portfolio as the entire sector rose, though the sub-adviser remains convicted in its view that the stock is overvalued at the current price.

## Credit Strategies

Credit strategies (+1.26%)<sup>9</sup> were the largest contributor to Fund performance for the month. Fixed Income – Asset Backed sub-strategies were the largest source of gains, as a series of commercial mortgage backed securities (CMBS) indices tightened, reflecting a continuing recovery from the fourth quarter sell-off. Additionally, exposure to corporate credit contributed to returns, particularly in the Telecommunications,

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<sup>6</sup> BAIA manages a portion of the Fund’s assets directly. Such investments include opportunistic trades and hedging. BAIA allocations are subject to change and BAIA’s fees on directly managed assets are not reduced by a payment to a sub-adviser.

<sup>7</sup> Performance is shown net of the Gross Expense Ratio less waived expenses for Class I shares. Performance data quoted represents past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor’s shares, when redeemed, may be worth more or less than their original cost and current performance may be lower or higher than the performance data above. Information is estimated and unaudited. For a summary of Fund performance of other share classes, please refer to the Fund’s website: [www.bxdms.com](http://www.bxdms.com).

<sup>8</sup> **Indices are provided for illustrative purposes only. They have not been selected to represent appropriate benchmarks or targets for the Fund, but rather are disclosed to allow for comparison of the Fund’s performance to that of well-known and widely recognized indices.** The indices may include holdings that are substantially different than investments held by the Fund and do not reflect the strategy of the Fund. Comparisons to indices have limitations because indices have risk profiles, volatility, asset composition and other material characteristics that may differ from the Fund. The indices do not reflect the deduction of fees or expenses. In the case of equity indices, performance of the indices reflects the reinvestment of dividends. Indices are unmanaged and investors cannot invest in indices.

<sup>9</sup> Sub-strategy performance is shown gross of all fees and expenses. Performance is estimated and unaudited.

Health Care, and Utilities sectors. Finally, exposure to trust preferred securities (TruPs) CDOs continued to contribute positive performance.

Though the credit portfolio as a whole was positive, there were some minor detractors within individual sub-advised portfolios. Small corporate credit exposures experienced pain as a loan to a foreign software company was marked down amidst the loss of a major revenue contract. Additionally, a loan to a sovereign government experienced a minor decline during the month.

### **Multi-Asset Strategies**

Multi-Asset strategies (+0.68%)<sup>9</sup> contributed positively to February performance. Multi-Strategy sub-strategies were the largest contributor to gains in the month, as exposures to high-yield European credit and European equities added to positive performance. These gains were offset by long U.S. government rates and short global equity positions.

Discretionary Thematic exposures contributed positively as positive news rippled through emerging markets – in Egypt there was a better than expected inflation reading, in Nigeria the incumbent won the presidential election and ostensibly stabilized the government, and in Brazil there were favorable headlines on pension reform. On the other hand, systematic diversified strategies were the largest detractor this month, with one large negative attribution coming from a short position in sovereign bonds.

### **Fund Commentary Change**

Based on client feedback and industry standards, we will issue commentary at a quarterly cadence beginning in March 2019. Fact cards and detailed exposure information will continue to be made available on a monthly basis via our publicly available website ([www.bxdms.com](http://www.bxdms.com)).

Opinions expressed reflect the current opinions of BAIA as of the date of this material only. Past performance may not be a reliable guide to future performance. The value of BXDMS shares may go down as well as up and there can be no assurance that the Fund will achieve its investment objectives or avoid significant losses. The Fund may shift allocations among sub-advisers, strategies and sub-strategies at any time. Certain of the information provided herein has been obtained from or derived from the Fund's sub-advisers. BAIA does not guarantee the accuracy or completeness of such information.



All investors should consider the investment objectives, risks, charges and expenses of Blackstone Diversified Multi-Strategy Fund (BXDMS) carefully before investing. The Key Investor Information Document ('KIID'), Prospectus and Supplement contain this and other information about BXDMS and are available on the Blackstone website at [www.bxdms.com](http://www.bxdms.com). All KIIDs are available in English, and certain share class specific KIIDs are available in French, German, Dutch, Danish, Finnish, Swedish, Norwegian, Spanish and Italian as indicated on the Blackstone website. All investors are urged to carefully read the Prospectus, Supplement and KIID in their entirety before investing.

#### Conflicts of Interest

Blackstone and the Sub-Advisers have conflicts of interest that could interfere with their management of the Fund. These conflicts, which are disclosed in the Fund's Statement of Additional Information, include, without limitation:

- **Selection of Sub-Advisers.** Blackstone compensates the Sub-Advisers out of the management fee it receives from the Fund. This could create an incentive for Blackstone to select Sub-Advisers with lower fee rates.
- **Financial Interests in Sub-Advisers and Service Providers.** Blackstone, the Sub-Advisers, and their affiliates have financial interests in asset managers and financial service providers. Allocating to an affiliate (or hiring such entity as a service provider) benefits The Blackstone Group L.P. and the relevant Sub-Adviser and redemptions from an affiliate (or terminating such entity as a service provider) would be detrimental to The Blackstone Group L.P. and the relevant Sub-Adviser. For example:
  - Blackstone Strategic Capital Advisors L.L.C. ("BSCA"), an affiliate of BAIA, manages certain funds (the "BSCA Funds") that acquire equity interests in established alternative asset managers (the "Strategic Capital Managers"). One of the Strategic Capital Managers in which the BSCA Funds have a minority interest is Magnetar Capital Partners L.P., a control affiliate of Magnetar Asset Management LLC, a sub-adviser for the Fund. The Fund will not participate in any of the economic arrangements between the BSCA Funds and any Strategic Capital Manager with which the Fund invests.
  - Real Estate Special Situations Advisors L.L.C. ("BRESSA"), an affiliate of BAIA and an indirect wholly-owned subsidiary of The Blackstone Group L.P., serves as a Sub-Adviser Sub-Adviser. BRESSA invests primarily in liquid, commercial and residential real estate-related debt instruments.
  - Blackstone utilizes technology offered by Arcesium LLC ("Arcesium") to provide certain middle- and back-office services and technology to the Fund. The parent company of a Sub-Adviser owns a controlling, majority interest in Arcesium and Blackstone Alternative Asset Management L.P. owns a non-controlling, minority interest in Arcesium.
- **Other Activities of Blackstone or the Sub-Advisers.** The activities in which Blackstone, the Sub-Advisers, or their affiliates are involved in on behalf of other accounts may create conflicts of interest or limit the flexibility that the Fund may otherwise have to participate in certain investments. For example, if Blackstone or a Sub-Adviser comes into possession of material non-public information with respect to a company, then Blackstone or the relevant Sub-Adviser generally will be restricted from investing in securities issued by that company. Further, Blackstone generally will be restricted from investing in portfolio companies of its affiliated private equity business.
- **Allocation of Investment Opportunities.** Blackstone and the Sub-Advisers (or their affiliates) manage other accounts and have other clients with investment objectives and strategies that are similar to, or overlap with, the investment objective and strategy of the fund, creating potential conflicts of interest in investment and allocation decisions. These conflicts of interest are exacerbated to the extent that the other clients are proprietary or pay higher fees or performance-based fees.

#### Glossary of Terms:

**Beta:** A measure of the volatility, or systemic risk, of a security or a portfolio in comparison to the market as a whole. **Standard Deviation:** A measure of the dispersion of a set of data from its mean. The more spread apart the data, the higher the deviation. Standard deviation is calculated as the square root of variance. **Alpha:** A risk-adjusted performance measure that represents the average return on a portfolio over and above that predicted by the capital asset pricing model (CAPM), given the portfolio's beta and the average market return. **Sharpe Ratio:** A ratio to measure risk-adjusted performance. The Sharpe Ratio is calculated by subtracting the risk-free rate – such as that of the 10-year U.S. Treasury bond – from the rate of return for a portfolio and dividing the result by the standard deviation of the portfolio returns. The greater a portfolio's Sharpe Ratio, the better its risk-adjusted performance has been. **Delta:** The ratio comparing the change in the price of the underlying asset to the corresponding change in the price of a derivative. **Gross Exposure:** Reflects the aggregate of long and synthetic short investment positions in relation to the net asset value. For example, if BXDMS has 60% long exposure and 50% synthetic short exposure to a particular asset class, then BXDMS has 110% gross exposure to that asset class. The gross exposure is one indication of the level of leverage in a portfolio. **Net Exposure:** This is the difference between long and synthetic short investment positions in relation to the net asset value. For example, if BXDMS has 60% long exposure and 50% synthetic short exposure to a particular asset class, then BXDMS is 10% net exposure to that asset class. **Long:** A long position occurs when an individual owns securities. **Synthetic Short:** Short selling an underlying security through the use of derivatives. Synthetic Short positions can generate returns when the price of the underlying security declines.

#### Glossary of Indices:

Market indices obtained through Bloomberg. **Barclays Global Aggregate Bond Index (USD-Hedged):** a broad-based measure of the global investment grade fixed-rate debt markets, comprised of the U.S. Aggregate, Pan-European Aggregate, and the Asian-Pacific Aggregate Indexes. **MSCI World Index (USD-Hedged):** A market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world. The MSCI World is maintained by Morgan Stanley Capital International, and is comprised of stocks from 23 developed markets in the world. **HRFX Global Hedge Fund Index:** designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies; including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage. The strategies are asset weighted based on the distribution of assets in the hedge fund industry. The methodology is based on defined and predetermined rules and objective criteria to select and rebalance components to maximize representation of the Hedge Fund Universe.

Indices are presented are indicative and for illustrative purposes only, are unmanaged and investors cannot invest in an index. The volatility of the indices presented may be materially different from that of the performance of BXDMS. In addition, the indices employ different investment guidelines and criteria than BXDMS; as a result, the holdings in BXDMS may differ significantly from the securities that comprise the indices. The performance of the indices has not been selected to represent an appropriate benchmark to compare to the performance of BXDMS, but rather is disclosed to allow for comparison of BXDMS performance to that of well-known and widely recognized indices. In the case of equity indices, performance of the indices reflects the reinvestment of dividends.

#### Important Disclosure:

Blackstone has agreed to waive its fees and/or reimburse expenses of the Fund so that "Other Expenses" will not exceed 0.45% (annualized). For this purpose, "Other Expenses" includes all expenses incurred in the business of the Fund other than (i) establishment expenses relating to the Fund; (ii) investment management fees; (iii) Performance Fees or Additional Performance Fees; (iv) distributor fees; (v) Eligible Collective Investment Scheme fees and expenses, (vi) brokerage and trading costs, (vii) interest payments, (viii) taxes, and (ix) extraordinary expenses. Blackstone may terminate or modify this arrangement at any time in its sole discretion upon 30 days' notice in writing to the Fund's shareholders.

#### Important Risks:

There can be no assurance that BXDMS will achieve its investment objective. It should be appreciated that the value of Shares may go down as well as up. An investment in a Fund involves investment risks, including possible loss of the entire amount invested. The capital return and income of BXDMS is based on the capital appreciation and income on the investments it holds, less expenses incurred. Therefore, the Fund's return may be expected to fluctuate in response to changes in such capital appreciation or income. The following is a summary description of certain principal risks of investing in BXDMS:

- General economic and market conditions can affect the price and volatility of investments.
- The success of the Fund depends upon BAIA's skill in determining the Fund's allocation to alternative investment strategies and in selecting the best mix of sub-advisers. There can be no guarantee that sub-advisers will stick to the investment strategy for which they were selected, or that these strategies will be successful.
- The Fund's investments will include shares, bonds and FDI. Certain investment techniques and FDI may increase the adverse impact to the Fund. In particular, there is a risk of infinite loss when using an FDI that derives its value from other assets decreasing.
- BAIA and sub-advisers have conflicts of interest that could interfere with their management of the Fund, including the allocation of time and investment opportunities.
- Some of the sub-advisers selected may hold only a small number of investments, or assets that move closely in line with assets held by other sub-advisers. Sub-advisers may make investment or hedging decisions which conflict or offset with other sub-advisers
- Increased legal, tax and other regulatory developments may adversely impact the ability of BAIA and the sub-advisers to utilize certain investment techniques or invest in certain assets.
- The Fund may invest in countries or through over investment funds that are subject to a weak legal or financial framework, as a result of which it can be hard to enforce ownership rights or repatriate funds.
- The Fund may invest in currencies other than its base currency. The success of measures to protect the Fund or a Class against currency movements cannot be certain.
- The Fund is dependent on BAIA, sub-advisers and other service providers for certain investment management, operational and financial support services. A deficiency in any of these services may have an adverse impact on the Fund.
- The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss.
- Low trading volumes, lack of buyers, large positions or legal restrictions may limit or prevent the Fund from selling particular assets quickly and/or at desirable prices.

For further information on the risks faced by the Fund, see "Risk Factors" in the Prospectus and Supplement for the Fund, available from [www.bxdms.com](http://www.bxdms.com).