Blackstone Diversified Multi-Strategy Fund

Blackstone

(BXDMSIC: Class I (CHF) 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 November 30, 2018

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)	$1,800.37
NAV per Share	CHF 9.53
Currency	CHF
Fund Inception Date	August 11, 2014
Share Class Inception Date	April 8, 2015
Investment Manager	Blackstone Alternative Investment Advisors LLC
Subscriptions	Daily
Redemptions	Daily
Distributing/Accumulating	Accumulating
Cut-off	3pm (Ireland)
Bloomberg Ticker	BXDMSIC ID
ISIN	IE00BN8SY932

Fund terms – share class I (CHF) acc.[2]

Minimum Initial Investment (Mn)	CHF 5.00
Management Fee	1.40%
Performance Fee[3]	15.00%
Other Expenses[4]	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[1]

Fund Net Performance	MTD	QTD	YTD	ITD	*ITD STATISTICS* St Dev.	Beta	Alpha	Sharpe
BXDMSIC	(0.83%)	(3.15%)	(3.64%)	(1.28%)	3.29%	-	-	(0.09)
MSCI World TR (CHF - Hedged)	(7.85%)	(14.07%)	(11.00%)	2.29%	11.59%	0.15	(1.65%)	0.28
Barclays Glbl Agg (CHF - Hedged)	1.71%	0.31%	(4.21%)	(0.32%)	4.88%	(0.05)	(1.22%)	0.13

12 month performance periods – to last quarter end[1]

	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
BXDMSIC	N/A	N/A	(2.42%)	2.28%	(3.64%)
MSCI World TR (CHF - Hedged)	N/A	N/A	6.53%	20.62%	(11.00%)
Barclays Glbl Agg (CHF - Hedged)	N/A	N/A	0.56%	5.25%	(4.21%)

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. Net performance for the Fund as well as indices is from 4/8/15 to 12/31/18 and is annualized. The indices presented are indicative and for illustrative purposes only. The volatility of the indices presented may be materially different from that of the performance of the Fund. In addition, these indices employ 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 indices. The performance of these indices 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 Fund performance to that of well-known and widely recognized indices. A summary of the investment guidelines for these indices is available upon request. 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.*

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.

(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.

Additional information and current performance data is available at **www.bxdms.com.**

Sub-adviser allocations[4][5]

Manager	Strategy	Sub-Strategy	Classification
Active Managers			
HealthCor	Equity Hedge	Equity Long Short	
Endeavour	Equity Hedge	Equity Market Neutral	Equity
Two Sigma Advisers	Equity Hedge	Equity Market Neutral	
Bayview	Relative Value	Fixed Income - Asset Backed	
EJF	Relative Value	Fixed Income - Asset Backed	
Good Hill	Relative Value	Fixed Income - Asset Backed	Credit
Sorin	Relative Value	Fixed Income - Asset Backed	
Caspian	Event Driven	Distressed/Restructuring	
Magnetar[1]	Event Driven	Risk Arbitrage	
Emso	Macro	Discretionary Thematic	
NWI[1]	Macro	Discretionary Thematic	Multi-Asset
IPM	Macro	Systematic Diversified	
D.E. Shaw	Multi-Strategy	N/A	
BAIA-Direct[2]	Multi-Strategy	N/A	
Inactive Managers[3]			
Cerberus	Relative Value	Fixed Income - Asset Backed	
Waterfall	Relative Value	Fixed Income - Asset Backed	Inactive
H2O	Macro	Discretionary Thematic	
GSA	Macro	Systematic Diversified	

Performance summary

	Allocation at [5]	MTD		QTD		YTD		ITD Cumulative Performance	
Sub-Strategy Performance [1]	12/31/2018	Return	Attribution	Return	Attribution	Return	Attribution	Return	Attribution
Equity	34.01%	1.43%	0.61%	0.40%	0.11%	5.07%	2.15%	7.16%	2.81%
Credit	33.11%	(1.87%)	(0.71%)	(2.86%)	(1.09%)	1.94%	0.11%	24.32%	6.03%
Multi-Asset	32.88%	(0.39%)	(0.16%)	(1.32%)	(0.63%)	(1.69%)	(0.78%)	5.19%	2.01%
Hedging Expenses			(0.42%)		(1.11%)		(3.43%)		(8.72%)
Expenses and Other			(0.14%)		(0.43%)		(1.69%)		(6.83%)
Net Return [2]			(0.83%)		(3.15%)		(3.64%)		(4.70%)

Monthly net performance[2]

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	*BXDMS*	*HFRX Glbl*	*Barclays Glbl*	*MSCI World*
2015	-	-	-	(1.00%)	1.31%	(1.00%)	1.81%	(0.69%)	(1.39%)	0.71%	0.60%	(1.20%)	**(0.90%)**	**(5.59%)**	**(1.26%)**	**(2.71%)**
2016	(2.12%)	(2.58%)	1.16%	1.15%	0.72%	(1.03%)	0.83%	(0.62%)	1.04%	0.41%	(1.84%)	0.52%	**(2.42%)**	**2.50%**	**2.09%**	**8.15%**
2017	1.65%	0.61%	0.61%	0.80%	0.70%	(0.99%)	0.90%	0.20%	(0.40%)	0.60%	(1.38%)	(1.00%)	**2.28%**	**5.99%**	**7.39%**	**23.07%**
2018	(0.10%)	(1.42%)	0.21%	0.51%	(1.33%)	(0.41%)	0.93%	-	1.13%	(2.03%)	(0.31%)	(0.83%)	**(3.64%)**	**(6.72%)**	**(1.20%)**	**(8.20%)**

(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. Net performance for the Fund as well as indices is from 4/8/15 to 12/31/18 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) 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. BXDMSIC launched April 8, 2015, prior allocations are for the share class with the longest track record, BXDMSKE.

(5) 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.

(6) Sub-adviser is not currently managing any Fund assets. Allocations may change at any time without notice.

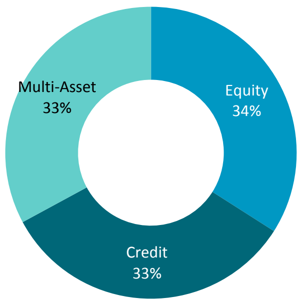
(7) BAIA manages a portion of the Fund's assets directly. BAIA's fees on directly managed assets are typically not reduced by a payment to a sub-adviser.

Blackstone Diversified Multi-Strategy Fund (BXDMS)

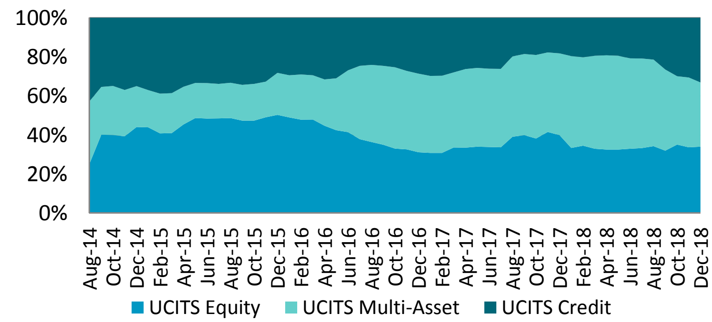
Blackstone

As of December 31, 2018

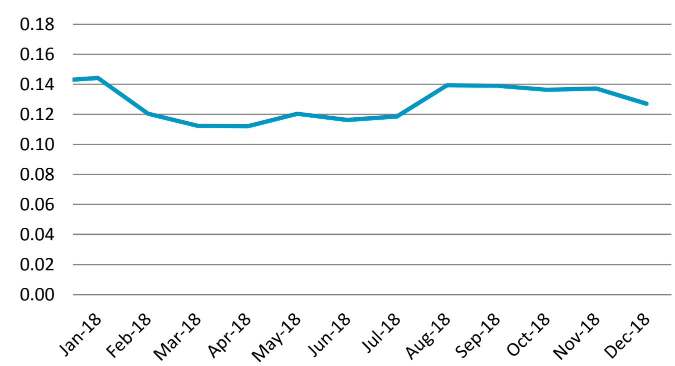
Portfolio allocations(1)



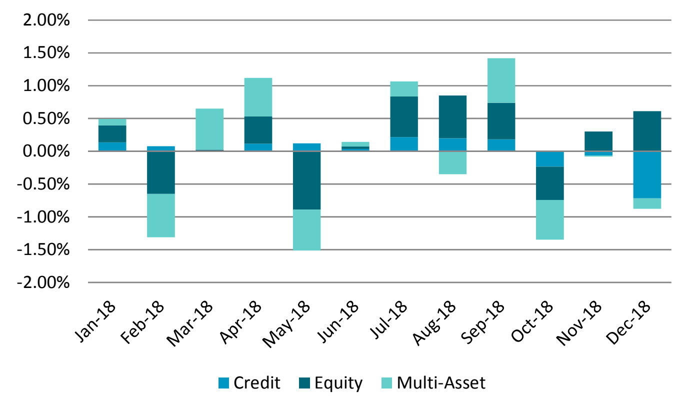
Asset allocation by sub-strategy(1)



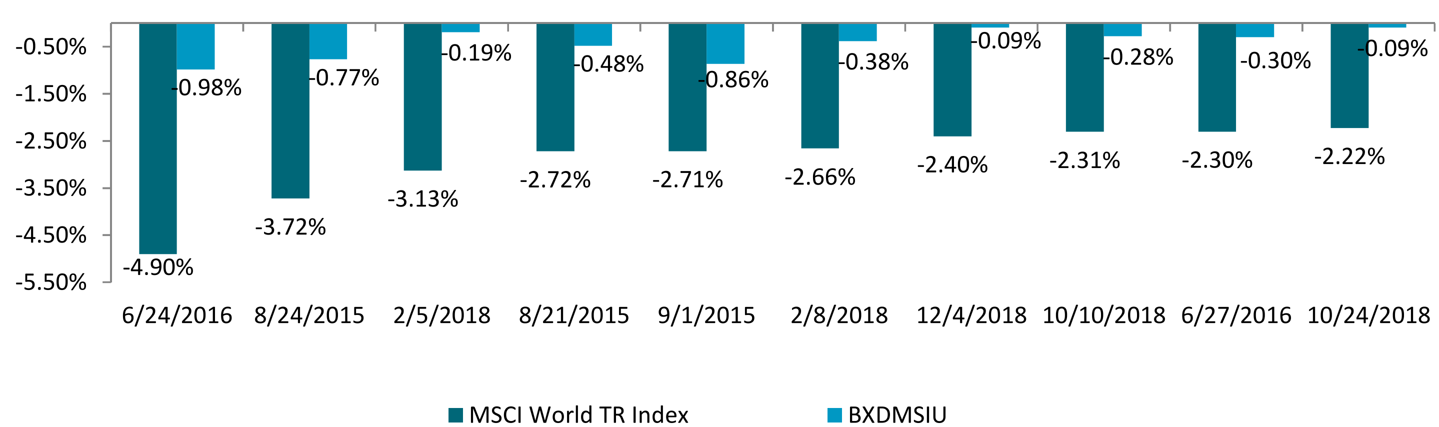
12 months rolling beta against MSCI World(2)



Trailing 12 months performance contribution by sub-strategy(2)



BXDMS performance on worst 10 days for MSCI World since inception(3)

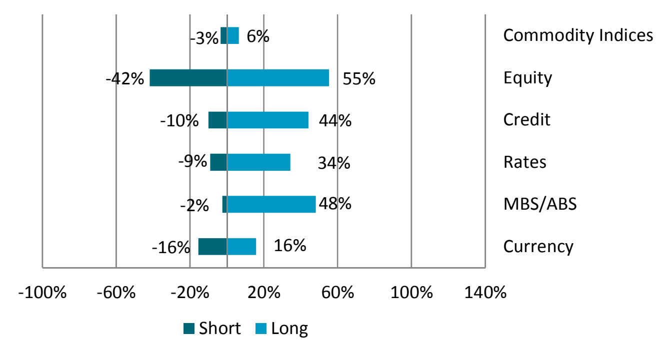


(1) The portfolio allocations in the table/chart reflect allocations as of the date of the report. The Fund may shift allocations among sub-advisers, strategies and sub-strategies at any time. Further, Blackstone, on behalf of the Fund, may determine to not employ one or more of the above-referenced 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.

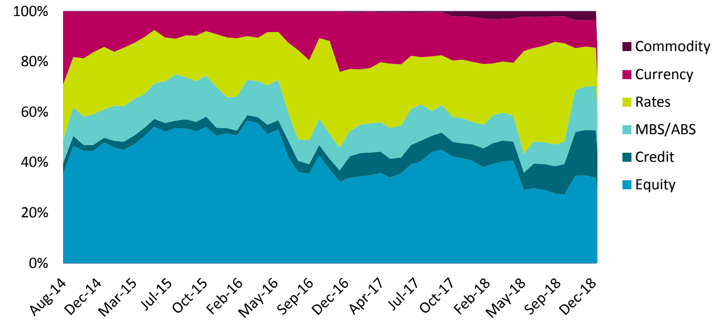
(2) Performance contribution represents the contribution of each strategy or sub-strategy to the Fund's total return. Performance contribution is shown gross of all fees and expenses.

(3) 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 0.34%, while the average return of MSCI World TR for the 10 best MSCI World TR days was 2.12%.

Asset class exposure(1)



Asset class gross historical exposure(1)



Fund geographic exposure(1)

Region	Long	Short	Net
US/Canada	146.63%	56.75%	89.88%
Latin America/Caribbean	9.53%	1.73%	7.80%
Core Europe	32.71%	12.93%	19.78%
Peripheral Europe	3.25%	0.56%	2.69%
Middle East/Africa	3.19%	1.55%	1.65%
China/HK/Taiwan	0.64%	3.40%	-2.75%
Asia general	4.23%	3.83%	0.40%
Japan	4.10%	1.66%	2.44%
Total	**204.29%**	**82.41%**	**121.88%**

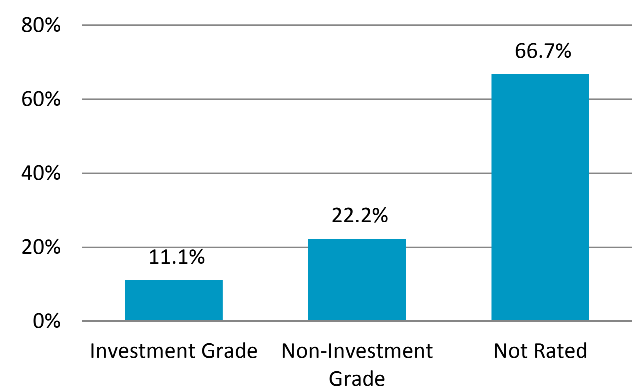
Currency exposure(1)

Region	Long	Short	Net
US/Canada	0.00%	3.51%	-3.51%
Latin America	0.48%	0.33%	0.15%
Core Europe	10.58%	10.09%	0.48%
Peripheral Europe	0.22%	0.17%	0.04%
Middle East/Africa	0.20%	0.30%	-0.10%
China/HK/Taiwan	0.05%	0.21%	-0.16%
Asia general	2.03%	0.35%	1.68%
Japan	2.30%	0.59%	1.71%
Total	**15.85%**	**15.56%**	**0.30%**

Equity exposure – sector breakdown(1)

	Long	Short	Net
Energy	1.84%	(2.66%)	(0.82%)
Materials	0.85%	(1.09%)	(0.24%)
Industrials	4.43%	(1.56%)	2.87%
Consumer Discretionary	6.19%	(6.16%)	0.03%
Consumer Staples	2.01%	(1.83%)	0.17%
Health Care	11.67%	(6.76%)	4.92%
Financials	6.84%	(7.42%)	(0.58%)
Real Estate	2.22%	(0.33%)	1.89%
Information Technology	9.20%	(4.64%)	4.56%
Communication Services	2.55%	(3.13%)	(0.58%)
Utilities	1.29%	(1.39%)	(0.11%)
Index*	5.99%	(4.86%)	1.13%
Unclassified**	0.25%	-	0.25%
Total	**55.31%**	**(41.82%)**	**13.49%**

Fixed income ratings(1)



VaR analysis(3)

Date	VaR
12/31/18	2.91%

(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) Betas are calculated using the MSCI World TR index. The calculated betas use returns daily returns for BXDMS Share Class I Acc from 9/10/2014-12/31/2018. 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.

(3) 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.

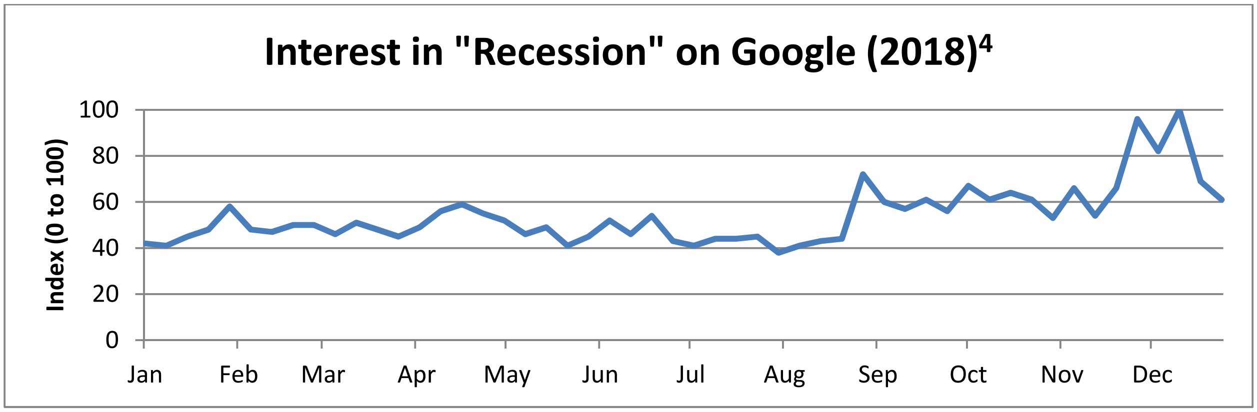
*Comprised of index futures, options on index futures, ETFs, and ETF options

**Underlying instruments do not have a corresponding GICS sector assignment

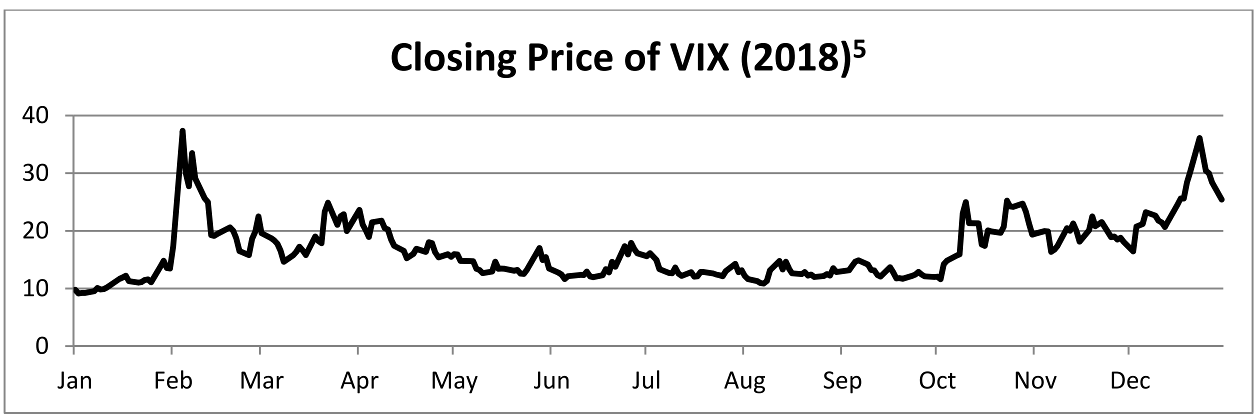
Blackstone

December Market Commentary

Public equity markets closed down for the year (MSCI World TR: -8.20%) for the first time since 2008, driven primarily by the month's returns (MSCI World TR: -7.57%). As such, the month's headlines were negative seemingly everywhere you looked: "Wall St. Ignored Signs of Trouble for Months. Now it Sees Risks Everywhere[1]," "U.S. Stocks Make Emerging Markets Look Placid[2]," "What Is a Recession, and Why Are People Talking About the Next One[3]." Even Google searches for the term "Recession" spiked worldwide[4] (as seen below).



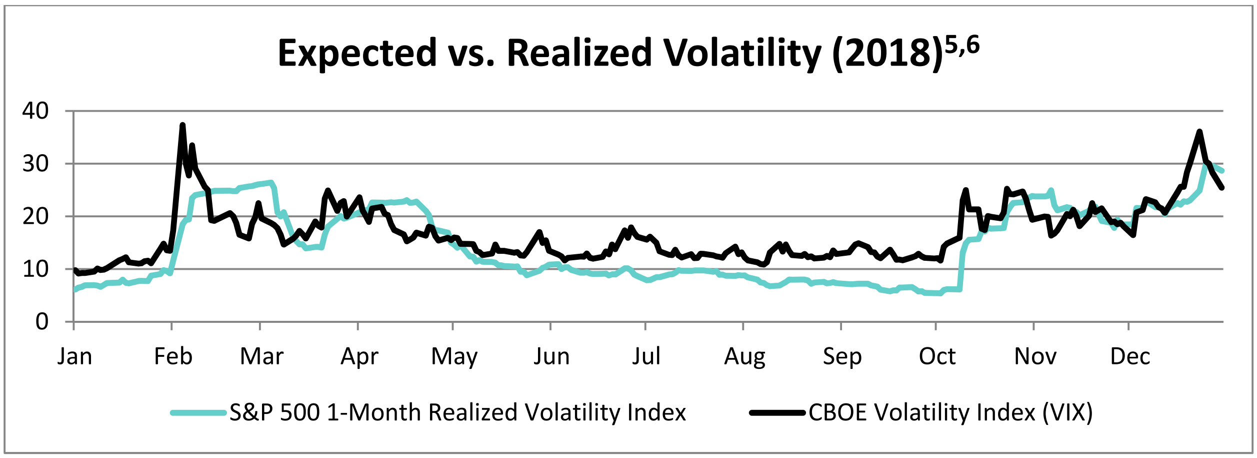
One of the measures commonly mentioned in these articles, and consequently the measure we were interested in exploring more thoroughly, was the CBOE Volatility Index (VIX). As we've mentioned in previous commentaries, the VIX measures market expectations of 30-day forward-looking volatility in the S&P 500, which has led to its "fear gauge" nickname. Fearful market sentiment is reflected in some of the articles above, which point to the recent uptick (pictured below[5]) as a sign that investors may expect even more troubling times ahead for equity markets.



[1] The New York Times: https://www.nytimes.com/2018/12/09/business/stocks-wall-street-trump-economy-trade.html
[2] The Wall Street Journal: https://www.wsj.com/articles/u-s-stocks-make-emerging-markets-look-placid-11546230681
[3] The New York Times: https://www.nytimes.com/2018/12/17/business/economy/what-is-recession-facts-history.html
[4] Information as of 01/03/2019. The data presented above is based on information obtained or derived by BAIA from Google Trends. BAIA does not guarantee the accuracy and completeness of such information.
[5] Information as of 01/03/2019. The data presented above is based on information obtained or derived by BAIA from the Chicago Board Options Exchange (CBOE). BAIA does not guarantee the accuracy and completeness of such information.

Before accepting that expectations for impending heightened volatility will lead to increases in realized volatility, we have three questions we want to better understand: 1) does a recent increase in the VIX accurately predict a sustained period of elevated volatility in the future, 2) are current expectations for future volatility much higher than they have been historically, and 3) are periods of high volatility necessarily bad for investors?

For our first question, we can compare the VIX, which measures investors' volatility expectations, to an index of the 1-month realized volatility of the S&P 500[6] (below).

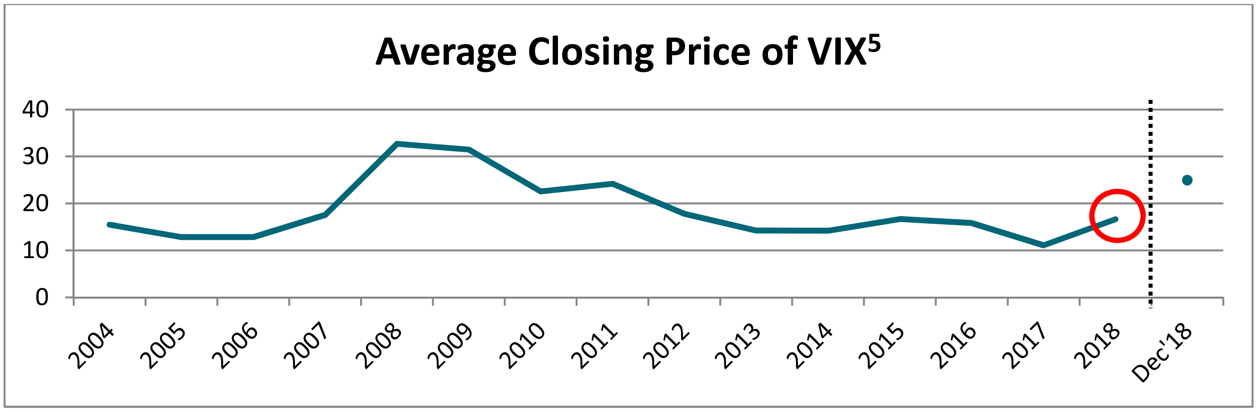


In February, market volatility expectations (measured by the VIX) moved hand in hand with the realized volatility seen on the 5th of the month, after a stronger than expected government report fueled fears about the potential of the Fed raising interest rates faster than previously expected. On that day, realized volatility moved upwards about 60% while the VIX spiked almost double that rate (116%). That means that volatility increased that day, and investors suddenly expected more of it in the future. Over the course of February, expectations of future volatility halved while realized volatility lingered. Outside of that period of overshot expectations, the graphs look remarkably similar. This suggests that throughout 2018, investors' expectations of volatility did not precede any large future increases in realized volatility – instead, expectations seem to have mostly reflected what investors were already seeing in the market.

What if we put December's volatility expectations in broader historical context – are today's expectations much higher than ever before? When we plot out the average daily close of the VIX on a yearly basis (below), we see that 2018 (circled in red) is within the band of "normal." While viewing the VIX in December may look frightening, it actually was not much higher than recent months of elevated VIX, such as September 2015 and January 2016, and those two months were followed by a period of reduced volatility expectations.

[6] Information as of 01/10/2019. The data presented above is based on information obtained or derived by BAIA from S&P Dow Jones Indices. BAIA does not guarantee the accuracy and completeness of such information.

Blackstone



Let's say we don't have much predictive power over the VIX and are instead trying to make the most of the situation – is a month of high volatility necessarily a bad thing? As with the answers to the other questions we have posed, the answer is "not necessarily." Even though volatility may be nerve-racking for some investors, others thrive in such situations as they may view a downward shift in prices as an opportunity to buy assets at a newly available discount.

We won't pretend to know whether heightened volatility is here to stay, however this month's volatility has been a strong reminder of the benefits of a broadly-diversified portfolio that strives for low correlation to broader equity markets. We maintain that alternative investment strategies, such as those employed by BXDMS, may provide a stream of less correlated returns that have the potential to help investors reduce volatility in their portfolio.

Review of December 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[7]). In December, the Fund's Class I share class returned -0.47%[8] net of fees and expenses versus -2.23% and 2.02% for the HFRX Global Hedge Fund and Barclays Global Aggregate Bond indices, respectively, and versus -9.03% and -7.57% for the S&P 500 and MSCI World indices, respectively[9].

---

[7] 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.

[8] 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

[9] **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.

Equity Strategies

Equity strategies (+1.43%)[10] were the largest contributor to Fund performance in December with quantitative equity market neutral sub-strategies leading gains. As a reminder, some quantitative strategies actively trade securities based on factors rather than fundamental indicators underlying individual stocks, constructing portfolios that attempt to capitalize on different risk premia available in the market. In this particular month, factors like momentum and quality in the U.S. experienced strong gains that drove returns.

Sub-strategies with exposures to the financial sector exhibited moderate losses. The sector was broadly affected by the sharp decline in U.S. bank stocks this month with a significant portion of banks now trading at single digit P/E ratios. Banks make money when they can borrow at inexpensive short term rates and lend to businesses and individuals at higher long term rates. This leads to a positive correlation between bank valuations and expectations for future interest rates, which are influenced by the Federal Reserve ("Fed"). Given the lack of clarity around the Fed's expected pace of rate increases provided at this month's Federal Open Market Committee (FOMC) meeting, market jitters led to a slide in bank stocks. Negative market sentiment was exacerbated by growing indications that the U.S.-China trade war may be impacting fundamental economic factors, which in turn could slow future interest rate increases. While market sentiment has been declining, we view this as a temporary dislocation given that bank fundamentals remain strong; however, we are aware that the sector may continue to trade down for a period of time as economic uncertainty persists.

Sub-strategies with exposures to healthcare also experienced a difficult month. On December 14th, a decision invalidating the Affordable Care Act was handed down in a Texas court. While managers do not believe the ruling will stand on appeal, it occurred during a risk off period in the market with limited liquidity, resulting in a broad sell off in the Healthcare sector.

While equity markets were challenged this month, the Fund's low beta profile, helped in part by the broad equity market hedge employed by BAIA, acted as a ballast amidst the volatility.

Credit Strategies

Credit strategies (-1.87%)[8] were the largest detractor from Fund performance in December. Much like equity markets, credit markets experienced significant selling stemming largely from negative market sentiment. Long exposure to CMBX, a synthetic index that tracks 25 commercial mortgage backed securities (CMBS), suffered amid selling pressure. CMBX is one of the few instruments through which investors can attain short exposure, meaning that it is often used as protection against broad market movements. While the position faced pressure in December, we believe the collateral and fundamentals of the underlying securities remain strong. Credit risk transfer bond (CRT) prices fell in sympathy with the broad risk-off sentiment, however this drag on performance was partially offset by rising demand for more seasoned CRT issues. Additionally, relative value trades incurred losses driven by underperforming CLO debt. There were bright spots in the portfolio as well – other exposures to residential and commercial mortgage backed securities continued to perform well, underscoring what we believe are strong fundamentals in the U.S. housing market. Finally, exposure to trust preferred securities ("TRuPS") continued to be a positive contributor to the portfolio.

[10] Sub-strategy performance is shown gross of all fees and expenses. Performance is estimated and unaudited.

Multi-Asset Strategies

Multi-Asset strategies (-0.39%)[8] detracted from Fund performance. Long exposure to REITS also contributed to losses, as rising interest rates are beginning to make REIT yields look less attractive versus other income-bearing alternatives. On the positive side, exposure to European 10-year bonds and nominal rates on long U.S. exposures contributed to the majority of the gains for the month, while additional smaller gains came from risk arbitrage trades and emerging markets.

Discretionary thematic sub-strategies also drove gains, with emerging market credit exposures contributing positively. After being down -5.98% through November, the Emerging Markets Bond Index (EMBI) rallied 1.46% in December, primarily driven by a view that markets have been oversold through the year. In Brazil, the recent election of a president largely viewed as pro-capital markets continued to drive positive market sentiment around quasi-sovereign credit, also contributing to positive returns.

Review of Fund Performance – Fourth Quarter 2018

During the fourth quarter of 2018, the Fund's Class I share class returned -1.92%[6] net of fees and expenses versus -5.85% and 1.20% for the HFRX Global Hedge Fund and Barclays Global Aggregate Bond indices, respectively, and versus -13.52% and -13.31% for the S&P 500 and MSCI World indices, respectively[7].

Equity strategies (+0.40%)[8] were the largest positive contributor to fourth quarter performance. In a difficult quarter for both the Financials and Health Care sectors (-13.11% and -8.71% for the S&P 500 Financials Index TR and S&P 500 Health Care Index TR, respectively), the Fund's exposure to both sectors was a drag on performance. However, the Fund's low beta positioning limited the Fund's participation in this risk-off environment. Additionally, quantitative equity market neutral strategies were accretive to performance, driven primarily by statistical arbitrage and factor premia strategies. While it has been a difficult quarter, we are constructive on underlying economic fundamentals, irrespective of market fears over the various economic uncertainties that have plagued investors.

Credit strategies (-2.86%)[8] were the largest detractor from fourth quarter performance. It was a difficult market environment throughout the fourth quarter, as both the corporate high yield and leveraged loan markets experienced weakness (Barclays U.S. Corporate High Yield Index TR returned -4.53%, while the S&P/LSTA Leveraged Loan Index TR returned -3.45%). As such, select high yield exposures and credit risk transfer bonds tallied losses within the portfolio. Exposures in structured credit, particularly in the commercial mortgage backed securities space, generated positive performance in October and November before declining in December.

Multi-Asset strategies (-1.32%)[8] were a detractor from fourth quarter performance. Within the multi-strategy bucket, the Fund was hampered by the losses in December (discussed above), as well as the volatile environment experienced in October. Within Discretionary Thematic sub-strategies, losses in October and November were driven by volatility in emerging markets which largely reversed in December. On the other hand, certain Event Driven sub-strategies buoyed the portfolio, as gains were made on bets that declared mergers in the pharmaceutical, aerospace and defense, and utilities industries would successfully close. Gains in the directional and relative value fixed income books of Systematic Diversified sub-strategies also benefited the Fund.

Sub-Advisers and Strategies Added/Removed

At Blackstone, we believe that managing the optimal mix of strategies across the portfolio and adjusting it over time are key to generating returns in different market environments. Over the course of the fourth quarter of 2018, we terminated one of our existing sub-advisers.

Q4 2018 Sub-Adviser Terminations:

1. Cerebellum GP, LLC

Sub-adviser and strategy additions and terminations are normal events in Blackstone's hedge fund investment process and result from our dynamic evaluation of the top down assessment of the opportunity set for hedge fund strategies as well as the bottom up evaluation of a manager's ability to deliver alpha in a given environment.

Review of Fund Performance – 2018 Year-End

Over the course of 2018, the Fund's Class I share class returned -0.37%[6] net of fees and expenses versus -7.01% and -1.20% for the HFRX Global Hedge Fund and Barclays Global Aggregate Bond indices, respectively, and versus -4.38% and -8.20% for the S&P 500 and MSCI World indices, respectively[7].

Equity strategies (+5.07%)[8] were the largest contributors to 2018 performance, despite the first negative year for the S&P 500 Index in a decade. Remarkably, if the year had ended in September, the S&P 500 Index TR would have returned 10.56%, matching the double digit returns to which the market has grown accustomed in recent years. Over the next three months, deteriorating U.S.-China Trade relations, mixed reactions to the Fed's guidance, and a partial government shutdown led to increased market fears that dragged the year's returns into negative territory. As a result, many of the fund's exposures in Financials and Healthcare sectors negatively impacted returns, as outlined in the fourth quarter commentary above. Amid this drawdown, the Fund's equity hedge helped stem a majority of the losses. Within Equity Market Neutral sub-strategies, quantitative strategies contributed positive performance.

Credit strategies (+1.94%)[8] contributed positive performance in 2018. All Fixed-Income Asset Backed sub-strategies were accretive to Fund performance. CRT bonds drove strong performance, as did the Fund's exposure to CLOs. The Fund's exposure to Distressed Credit sub-strategies dragged on 2018 performance, as market anxieties over high yield loans pushed performance into negative territory for the year.

Multi-Asset strategies (-1.69%)[8] detracted from 2018 performance. Given the economic uncertainties that led to market swings at the end of the year, some Multi-Strategy sub-strategies suffered losses in December that outweighed gains made throughout the year. Long equity exposures across the U.S., Japan, and Europe all suffered as the S&P 500, the FTSE 100, and the Nikkei 225 all ended the year in the red, driven by building negative sentiment stemming from global trade tensions, political fears, and corruption scandals. The end of the year slide in U.S. corporate high yield debt also contributed to pain, as fears grew that the decline in oil prices could affect energy-related companies, who make up a substantial portion of high yield debt issuers. Discretionary Thematic sub-strategies were minor detractors through the year, managing to protect capital during a trying period which included both Turkish and Argentinian currency crises, among other notable events. On the other hand, certain Event Driven sub-strategies were able to benefit throughout the year, as several large merger arbitrage opportunities in the pharmaceutical and telecommunications sectors added to portfolio returns. Finally, Systematic Diversified sub-strategies were able to help stabilize the portfolio through its more volatile months, as they ended in the black in both October and December, driven by long developed currency exposures in October and short equity and bond exposures in December.

Sub-Advisers and Strategies Added/Removed

2018 Strategy Additions:

1. **EJF Capital LLC ("EJF")**: EJF manages a US financials focused portfolio across corporate and structured credit, with a specialty in TruPS CDOs' capital structures, relying on the founder's decades long experience working with regulators and banks.
2. **Endeavour Capital Advisors LLC ("Endeavor")**: Endeavour is a financial services equity sector specialist that combines bottom-up fundamental research with perspective on the macroeconomic, regulatory, and financial conditions that impact the industry.
3. **Magnetar Asset Management LLC ("Magnetar")[11]:** Magnetar manages a systematic merger arbitrage risk premia capture strategy that leverages Magnetar's event driven investing expertise across various deal types.
4. **NWI Management, L.P. ("NWI")**: NWI is a global macro manager with experience in emerging market interest rates, currency, and credit. NWI's strategy typically pursues investments and transactions in the securities of sovereign and corporate obligors, principally in emerging markets.

For further detail on these sub-advisers and others within the Fund, please see "Sub-Adviser Profiles" in the "Investor Documents" section of our website, www.bxdms.com.

2018 Sub-Adviser Terminations:

1. Cerebellum GP, LLC
2. Chatham Asset Management, LLC
3. Gracian Capital LLC
4. GS Investment Strategies, LLC

[11] The Fund's prospectus describes conflicts of interest that may affect it and the Fund. One of these relates to Blackstone Strategic Capital Advisors L.L.C. ("BSCA"), an affiliate of BAIA. See Conflicts of Interest --Financial Interests in Managers --Blackstone Strategic Capital Advisors L.L.C. in the Fund's current prospectus. BSCA 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. Allocations to Magnetar benefit the BSCA Funds and BSCA and reductions from Magnetar are detrimental to the BSCA Funds and BSCA. Accordingly, there may be a conflict between BAIA's fiduciary obligation to the Fund, on the one hand, and BAIA's interest in the success of the BSCA Funds, on the other hand. The Fund will not participate in any of the economic arrangements between the BSCA Funds and any Strategic Capital Manager with which the BSCA Funds invests.

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. ***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. or 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. or 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.*
    - *BAAM, an affiliate of BAIA, has entered into a joint venture with NWI to create Blackstone NWI Asset Management L.L.C. ("BNAM"), an emerging markets asset manager. BNAM, BAAM and NWI share certain personnel and infrastructure.*
    - *Blackstone is in the process of onboarding 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 BAAM 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. 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.

Barclays Global Aggregate Bond Index (USD-Hedged): provides a broad-based measure of the global investment grade fixed-rate debt markets. It is 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.

HFRX Global Hedge Fund Index: HFRX Global Hedge Fund Index is 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.

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.
- Sub-advisers may make investment decisions which conflict with each other; for example, sub-advisers may hold economically offsetting positions or may purchase or sell the same security at the same time without aggregating their transactions. This may result in unnecessary brokerage and other expenses and the Fund may incur losses as a result.
- 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.
- The Fund's investments will include shares, bonds and FDI. Each of these will be exposed to the risks specific to the type of asset in question. In particular, the use of FDI may result in substantial gains or losses that are greater in magnitude than the original amount invested.
- The Fund may invest in countries with a weak legal or financial framework where 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.
- Changes in exchange rates may have an adverse effect on the value price or income of the product.
- The Fund may invest in FDI that derive their value from other assets in the expectation of making a profit if the price of the assets falls; theoretically, this could result in an infinite loss.
- 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.