

# Blackstone Diversified Multi-Strategy Fund: Class I (JPY) Acc. - BXDMSIJ

A sub-fund of Blackstone Alternative Investment Funds plc, an umbrella fund established as a UCITS with segregated liability between sub funds.



## March 31, 2016 | Investment Summary

| Fund Net Performance <sup>(1)(2)</sup> | MTD   | QTD     | YTD     | ITD     | ITD STATISTICS |        |         |        |
|--|-------|---------|---------|---------|----------------|--------|---------|--------|
|  |       |         |         |         | St Dev.        | Beta   | Alpha   | Sharpe |
| BXDMSIJ                                | 1.27% | (3.38%) | (3.38%) | (0.77%) | 4.11%          | -      | -       | (0.20) |
| MSCI World TR (JPY - Hedged)           | 6.82% | (0.30%) | (0.30%) | 0.86%   | 13.66%         | 0.17   | (1.00%) | 0.06   |
| Barclays Gbl Agg (JPY - Hedged)        | 2.66% | 5.79%   | 5.79%   | 2.02%   | 5.53%          | (0.20) | (0.31%) | 0.35   |

### Fund Highlights

|                                  |  |
|----------------------------------|--|
| Fund Assets (Mn)                 | ¥105,700.98                                    |
| NAV Per Share Class I            | ¥991.10  |
| Inception Date for Share Class I | February 2, 2015                               |
| Investment Manager               | Blackstone Alternative Investment Advisors LLC |
| Subscriptions                    | Daily  |
| Redemptions                      | Daily  |

### Investment Approach

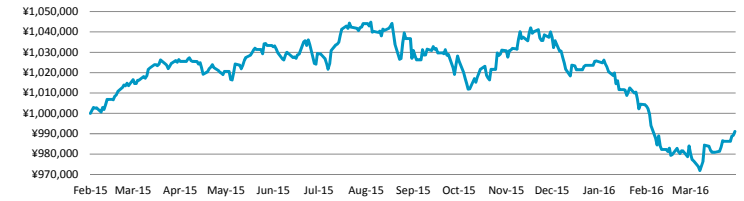
The Fund's investment objective is to seek capital appreciation. The Fund seeks this objective by allocating its assets among a variety of discretionary sub-advisers with experience managing non-traditional or "alternative" investment strategies. Blackstone is responsible for selecting the strategies, 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 Terms – Share Class I (JPY) Acc. <sup>(6)</sup>

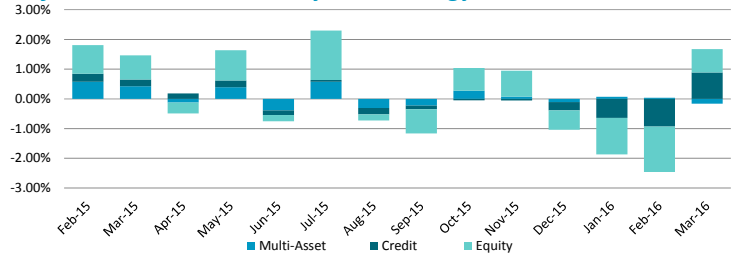
|                                 |        |
|---------------------------------|--------|
| Minimum Initial Investment (Mn) | ¥500   |
| Management Fee                  | 1.40%  |
| Performance Fee <sup>(7)</sup>  | 15.00% |
| Other Expenses <sup>(8)</sup>   | 0.45%  |

- 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 audited for 2016. Net performance for the Fund as well as indices is from 2/2/15 to 3/31/16.
- 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 BXDMSIJ compared to the specific indices. Standard deviation and Sharpe calculations are annualized. All Inception to Date Statistics are calculated using daily performance since Inception.
- This graph represents the hypothetical Net Asset Value if a client were to invest ¥1,000,000 into BXDMSIJ, on February 2, 2015, the inception of BXDMSIJ.
- 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 portfolio allocations in the table 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.
- The above terms are summarised and qualified in their entirety by the more detailed information set forth in the UCITS prospectus and supplement.
- 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.
- 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.
- Blackstone Senfina Advisors L.L.C. "Senfina" is an indirect wholly-owned subsidiary of The Blackstone Group L.P., a publicly traded master limited partnership that has units that trade on the New York Stock Exchange under the symbol "BX." Senfina is an affiliate of BAIA, the Fund's investment adviser, on the basis that it is under common control with BAIA. The investment by BXDMS with Senfina benefits Blackstone and a withdrawal from Senfina would be detrimental to Blackstone.
- Sub-adviser is not currently managing any Fund assets. Allocations may change at any time without notice.

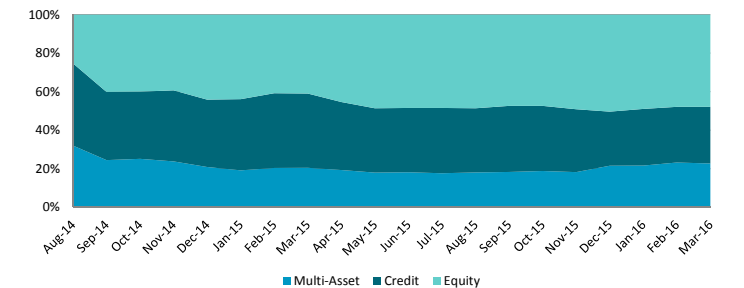
### Growth of ¥1,000,000 Since Inception <sup>(1)(3)</sup>



### Performance Contribution by Sub-Strategy <sup>(4)</sup>



### Asset Allocation by Sub-Strategy <sup>(5)</sup>



### Portfolio Allocation <sup>(5)</sup>

| Sub-Adviser                | Strategy              | Sub-Strategy                   | Current Allocation |
|----------------------------|-----------------------|--------------------------------|--------------------|
| Rail Splitter              | Fundamental           | Equity (Long/Short)            |                    |
| GSIS                       | Fundamental           | Equity (Long/Short)            |                    |
| HealthCor                  | Fundamental           | Equity (Long/Short)            |                    |
| Wellington                 | Fundamental           | Equity (Long/Short)            | 48%                |
| Senfina <sup>(9)</sup>     | Fundamental           | Equity (Market Neutral)        |                    |
| Cerebellum <sup>(10)</sup> | Quantitative          | Equity (Market Neutral)        |                    |
| Two Sigma Advisers         | Quantitative          | Equity (Market Neutral)        |                    |
| Alpha Parity               | Quantitative          | Multi-Asset (Macro Systematic) |                    |
| IPM                        | Quantitative          | Multi-Asset (Macro Systematic) | 23%                |
| Emso                       | Global Macro          | Multi-Asset (Macro EM-Credit)  |                    |
| Chatham                    | Opportunistic Trading | Credit                         |                    |
| Cerberus                   | Opportunistic Trading | Credit (MBS/ABS)               |                    |
| Bayview                    | Fundamental           | Credit (MBS/ABS)               |                    |
| Caspian                    | Fundamental           | Credit                         | 29%                |
| Good Hill                  | Fundamental           | Credit (MBS/ABS)               |                    |
| Sorin                      | Fundamental           | Credit (MBS/ABS)               |                    |
| Waterfall                  | Fundamental           | Credit (MBS/ABS)               |                    |

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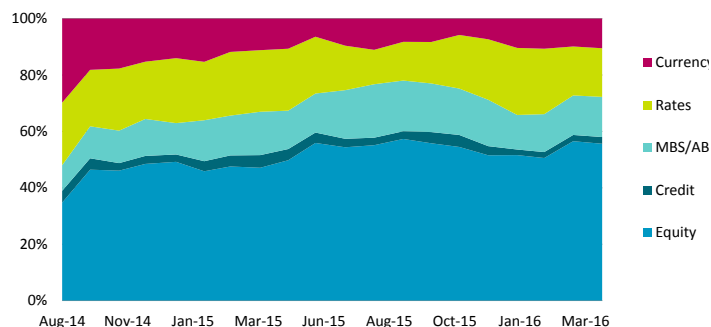
## March 31, 2016 | Investment Summary

| Sub-Strategy Performance <sup>(1)</sup> | Allocation at <sup>(5)</sup> |         | MTD         |         | QTD         |         | ITD Cumulative Performance |  |
|---|------------------------------|---------|-------------|---------|-------------|---------|----------------------------|--|
|   | 3/31/2016                    | Return  | Attribution | Return  | Attribution | Return  | Attribution                |  |
| Equity                                  | 47.93%                       | 1.56%   | 0.79%       | (3.83%) | (1.97%)     | 3.78%   | 1.90%                      |  |
| Credit                                  | 29.40%                       | 2.88%   | 0.89%       | (2.27%) | (0.69%)     | (2.27%) | (0.62%)                    |  |
| Multi-Asset                             | 22.67%                       | (0.65%) | (0.16%)     | (0.19%) | (0.05%)     | 4.48%   | 1.00%                      |  |
| Expenses and Other                      |                              |         | (0.24%)     |         | (0.66%)     |         | (3.16%)                    |  |
| Net Return <sup>(2)</sup>               |                              |         | 1.27%       |         | (3.38%)     |         | (0.89%)                    |  |

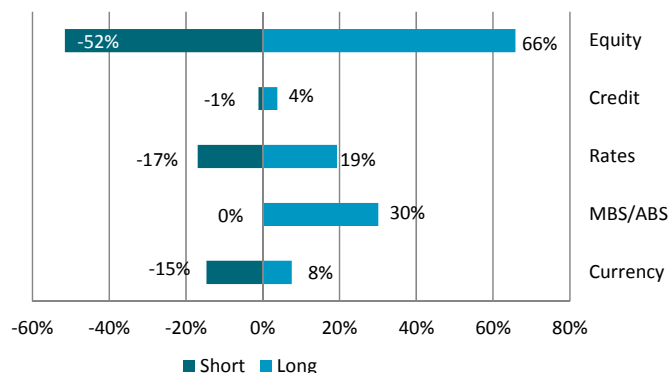
### Monthly Net Performance<sup>(3)</sup>

|      | Jan     | Feb     | Mar   | Apr     | May   | Jun     | Jul   | Aug     | Sep     | Oct   | Nov   | Dec     | YTD     |
|------|---------|---------|-------|---------|-------|---------|-------|---------|---------|-------|-------|---------|---------|
| 2015 | -       | 1.36%   | 1.13% | (0.59%) | 1.40% | (0.89%) | 1.94% | (0.71%) | (1.20%) | 0.66% | 0.61% | (1.12%) | 2.57%   |
| 2016 | (2.08%) | (2.57%) | 1.27% |         |       |         |       |         |         |       |       |         | (3.38%) |

### Asset Class Gross Historical Exposure<sup>(4)(5)</sup>



### Asset Class Exposure<sup>(4)</sup>



### Fund Geographic Exposure<sup>(4)</sup>

| Region                  | Long           | Short         | Net           |
|-------------------------|----------------|---------------|---------------|
| US/Canada               | 85.85%         | 50.34%        | 35.51%        |
| Latin America/Caribbean | 9.01%          | 0.37%         | 8.64%         |
| Core Europe             | 16.64%         | 16.49%        | 0.15%         |
| Peripheral Europe       | 5.68%          | 0.25%         | 5.43%         |
| Middle East/Africa      | 2.94%          | 3.64%         | -0.70%        |
| China/HK/Taiwan         | 0.65%          | 0.99%         | -0.35%        |
| Asia general            | 1.14%          | 8.99%         | -7.85%        |
| Japan                   | 4.64%          | 2.96%         | 1.68%         |
| <b>Total</b>            | <b>126.54%</b> | <b>84.03%</b> | <b>42.51%</b> |

- Sub-strategy performance is shown gross of all fees and expenses. Performance is estimated and unaudited.
- 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 2016. Net performance for the Fund is from 2/2/15 to 3/31/16.
- Performance is presented through March 31, 2016. Net performance is net of all fees and expenses. 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 quoted. Additional information and current performance data is available at [www.blackstone.com/bxdms](http://www.blackstone.com/bxdms). BXDMSIJ launched on February 2, 2015 and thus performance for February 2015 is limited to February 2 through February 28.
- 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.
- Sub-strategy allocations exclude exposures to Fund level cash, hedging and expenses and are adjusted pro-rata to equal 100%.
- BXDMSIJ launched on 2/2/15. Information prior to that date is for BXDMSKE, the BXDMS share class with the longest track record.

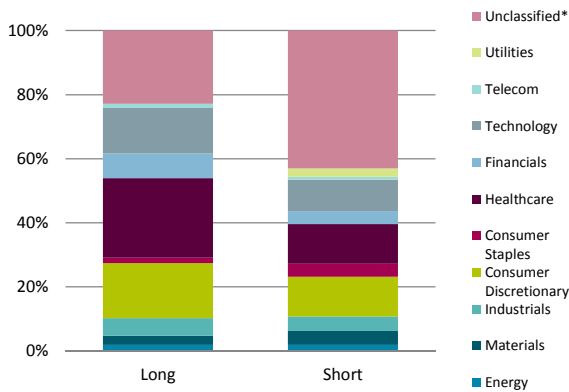
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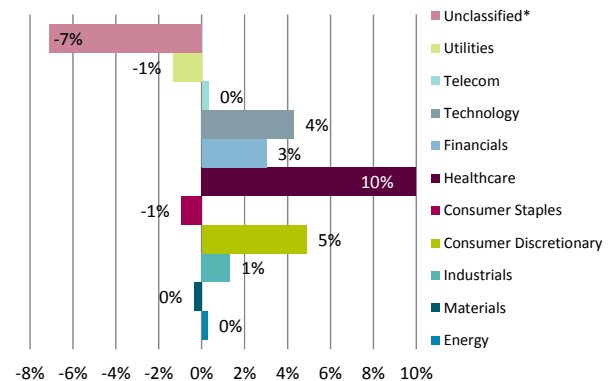


## March 31, 2016 | Investment Summary

### Equity Exposure – Sector Breakdown<sup>(1)</sup>



### Equity Exposure – Net Sector Breakdown<sup>(1)</sup>



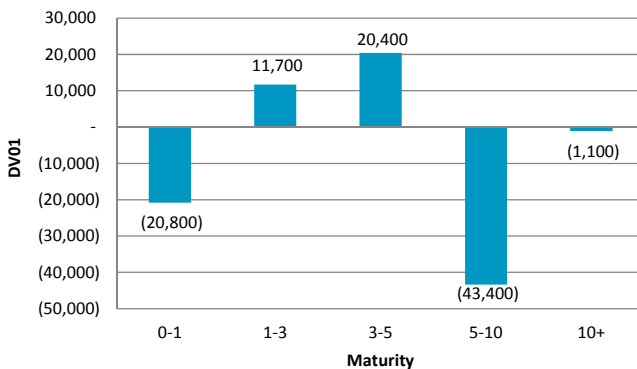
### Currency Exposure<sup>(1)</sup>

| Region             | Long         | Short         | Net           |
|--------------------|--------------|---------------|---------------|
| Asia general       | 0.02%        | 2.80%         | -2.78%        |
| China/HK/Taiwan    | 0.01%        | 0.80%         | -0.79%        |
| Core Europe        | 0.97%        | 6.06%         | -5.09%        |
| Japan              | 0.89%        | 1.83%         | -0.94%        |
| Latin America      | 1.49%        | -             | 1.49%         |
| Middle East/Africa | 1.62%        | 2.65%         | -1.03%        |
| Peripheral Europe  | 1.92%        | 0.18%         | 1.74%         |
| US/Canada          | 0.57%        | 0.05%         | 0.52%         |
| <b>Total</b>       | <b>7.51%</b> | <b>14.39%</b> | <b>-6.88%</b> |

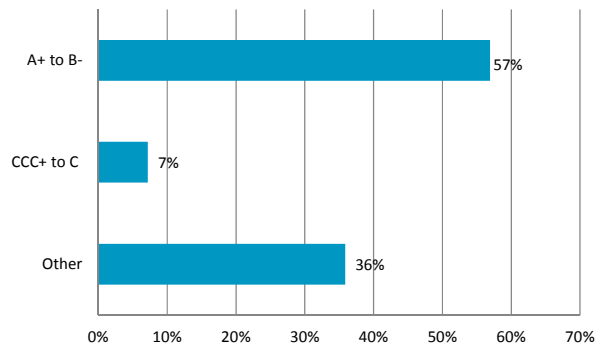
### Equity Exposure – Sector Breakdown<sup>(1)</sup>

|                        | Long          | Short         | Net           |
|------------------------|---------------|---------------|---------------|
| Energy                 | 1.26%         | 0.99%         | 0.27%         |
| Materials              | 1.89%         | 2.25%         | -0.37%        |
| Industrials            | 3.61%         | 2.31%         | 1.31%         |
| Consumer Discretionary | 11.27%        | 6.39%         | 4.88%         |
| Consumer Staples       | 1.14%         | 2.10%         | -0.96%        |
| Healthcare             | 16.36%        | 6.38%         | 9.98%         |
| Financials             | 5.10%         | 2.09%         | 3.01%         |
| Technology             | 9.32%         | 5.02%         | 4.29%         |
| Telecom                | 0.82%         | 0.50%         | 0.32%         |
| Utilities              | 0.01%         | 1.36%         | -1.34%        |
| Unclassified*          | 15.04%        | 22.17%        | -7.13%        |
| <b>Total</b>           | <b>65.82%</b> | <b>51.55%</b> | <b>14.26%</b> |

### Fixed Income Interest Rate Sensitivity<sup>(2)</sup>



### Fixed Income Ratings<sup>(1)</sup>



### VaR Analysis<sup>(3)</sup>

| Date    | VaR   |
|---------|-------|
| 3/31/16 | 3.04% |

- (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) Dv01 represents the change in value of a security for a 1 basis point change in interest rates.
- (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

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March 31, 2016 | Investment Summary

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.blackstone.com/BXDMS](http://www.blackstone.com/BXDMS). 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.

## 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.

**VaR:** A statistical technique used to measure and quantify the level of financial risk within a firm or investment portfolio over a specific time frame. Value at risk is used by risk managers in order to measure and control the level of risk which the firm undertakes. The risk manager's job is to ensure that risks are not taken beyond the level at which the firm can absorb the losses of a probable worst outcome.

## 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 (JPY-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 (JPY-Hedged):** A market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world. The MSCI ACWI is maintained by Morgan Stanley Capital International, and is comprised of stocks from both developed and emerging markets.

## 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 Blackstone'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.blackstone.com/BXDMS](http://www.blackstone.com/BXDMS)

## March Market Commentary

Global markets moved higher in March, closing out a first quarter that took investors for a tumultuous ride. After being down over 10% for the year on February 11<sup>th</sup>, the S&P 500 staged a recovery in the final weeks of the quarter to end up slightly positive. Crude oil had a meaningful turnaround rallying from mid-February lows, with other commodities following suit. This comeback was partially the result of slowing production in the U.S., but also a weakening dollar.

The Federal Reserve's dovish meeting on March 15<sup>th</sup> sparked markets, at least in the short term. Federal Reserve Chair Janet Yellen announced that the Federal Open Market Committee had lowered its previous projection of four rate hikes in 2016 to just two, and the Fed's median expectation for the Fed Funds rate is now expected to rise to about 0.9% by year-end, rather than the previously-anticipated level of about 1.4%. This announcement closed the gap between the Fed's past statements and the market's expectations. Yellen also indicated that slower growth overseas was the primary driver of the decision, saying in her speech that "foreign economic growth now seems likely to be weaker this year than previously expected." In this regard, the Committee backed away from its previous emphasis on domestic economic data, which remains mixed. While the unemployment rate went up slightly to 5% from 4.9%, the participation rate increased, meaning more people are encouraged and are actively looking for jobs. Furthermore, the latest government data also showed an encouraging pickup in wage growth. Still, despite the Fed's confidence on the U.S. outlook, significant structural challenges remain. Retail sales were sluggish, with U.S. consumers appearing to be pulling back despite the strengthening job market. Technology company valuations, particularly among start-ups, have also started to come down, creating a backlog of potential IPOs but also raising questions about whether sentiment in Silicon Valley may be changing. Time will tell, but with the conflicting data, the Fed may be right to move slowly and cautiously.

## Review of Fund Performance

The investment objective of Blackstone Diversified Multi-Strategy Fund (the "Fund") is to seek capital appreciation. The Fund aims to achieve its objective by allocating assets among a variety of investment sub-advisers with experience managing non-traditional or "alternative" investment strategies. In March, the Fund's Class I (USD) share class returned 1.31%<sup>1</sup> net of fees and expenses versus 6.86% and 0.92% for the MSCI World and Barclays U.S. Aggregate Bond Index, respectively<sup>2</sup>. **For a summary of Fund performance of the share class to which this report relates, please refer to the "Investment Summary" section of this report.**

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<sup>1</sup> Performance is shown net of all fees and expenses for Share Class I (USD). Past performance may not be a reliable guide to future performance. The value of 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.

<sup>2</sup> 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.

### ***Equity Strategies***

Equity strategies contributed positively in March, with both the Fund's Equity Long/Short and Equity Market Neutral sub-strategies generating positive returns overall. However, performance across sub-advisers was mixed with some capturing meaningful portions of the equity upside while others continued to struggle in the volatile markets.

As a group, the Equity Long/Short sub-strategies did not capture as much of the market's upside as they have historically. Several of the Equity Long/Short sub-advisers cut risk in February, which limited their ability to fully snap back when markets recovered. However, we did see sub-advisers begin to become more constructive as the month progressed and their levels of risk reflected this view. From a sector perspective, exposures to Financials proved beneficial as this sector rebounded on the month. Meanwhile, Healthcare continued to struggle returning to pre-January levels, with Biotech offsetting broader sector losses in the Fund.

As for Equity Market Neutral sub-strategies, our sub-advisers benefited from a normalization in markets post what we observed to be one of the most extreme short squeeze environments on record. Several of the short exposures that experienced violent, technically-driven upward moves in February began to trade again on fundamentals. This reversal resulted in positive performance for the month and re-capture of some of the mark to market losses from previous months.

### ***Credit Strategies***

Credit strategies performed well in March, with all but one sub-adviser ending the month in positive territory. Some of the Fund's Corporate Credit sub-strategies benefited from the rally in high yield, with the J.P. Morgan High Yield Index posting a 4.73% gain for the month, which was the best performance for the asset class since October 2011's 5.42% gain. Additionally, exposure to credit risk transfer exposures contributed to performance due to spread tightening, which was mostly driven by a reversal of poor technicals and an improvement in market sentiment and the primary markets. The Fund's exposure to these credit risk transfers consists of large, diversified fixed-rate mortgage loans that were issued by Fannie Mae and Freddie Mac.

### ***Multi-Asset Strategies***

Multi-Asset strategies ended the month slightly down, driven by Systematic Diversified sub-strategies that had losses in factor models, including carry, value, and momentum. Offsetting some of these losses were exposures to Greek sovereign debt that snapped back after negative performance in the first two months of the year, and exposures to Brazilian rates contributed positively as well.

### **First Quarter Review**

During the first quarter of 2016, the Fund's Class I share class<sup>1</sup> returned -3.19%, versus -0.19% for the MSCI World Index, and 3.03% for the Barclays U.S. Aggregate Bond Index.

The first quarter was challenging for hedge fund strategies, particularly those that are equity-focused. At the end of the last quarter, we commented that the Fund benefited from Blackstone's decision to reduce allocations to sub-advisers with higher beta and higher market directionality in favor of sub-advisers with less

market directionality. While additive in 2015, these portfolio shifts created headwinds in the first quarter of 2016 as the Fund's Equity Market Neutral sub-advisers were most exposed to the extreme short squeeze that took place in February. As managers sought to de-risk their portfolios, they covered their short positions, which drove prices up despite little to no improvement in fundamentals. The short squeeze was pervasive across Equity Long/Short and Equity Market Neutral strategies and dramatically affected many hedge funds that focus on single-name shorts. Despite the challenges, we continue to believe that single name short exposures are a potential source of alpha over the long term, and may continue to benefit the portfolio over time. Finally, equity strategies were also negatively affected by a reversal in factor returns, particularly momentum. High momentum names tended to be crowded, and traded down due to selling pressure as hedge funds sought to unwind these exposures.

Credit strategies also faced challenging market conditions in the first quarter, detracting from performance. While the Fund's asset-backed sub-strategies experienced mark-to-market losses in January and February, our sub-advisers continued to search for opportunities to take advantage of market dislocations, and these exposures performed well in March. We are also increasingly bullish on some opportunities in corporate credit, which is an area where Blackstone has been underweight for several years. Now that excessive issuance, volatility, interest rate-hikes, and slowing global growth have led to weakness in corporate credit markets, redemptions and fund outflows have created forced sellers of attractive risk across the corporate credit spectrum.

Finally, the Fund's Multi-Asset strategies also experienced weakness during the quarter. Some strategies within this category generated positive returns, particularly those with exposure to emerging markets. Continued dovish, low-interest rate credit conditions in the U.S. are making emerging markets credit exposures increasingly attractive, and we continue to source attractive opportunities in macro strategies. Strategies that avoided trading momentum also performed well, as momentum saw a big reversal in the first part of this year. Exposures that hurt the Multi-Asset category were value strategies that caused losses in fixed income and FX.

We continue to believe that a recession in 2016 is not likely, despite the volatile start to the year. Nevertheless, we are cautious on the prospects for beta-driven returns and, therefore, continue to maintain the low beta of the portfolio by limiting exposure to sub-advisers running with higher market directionality. We believe that the current environment is primed for investment strategies that are diversified and hedged by nature and that offer alpha generation potential through security selection and strategic asset allocation.