

# Blackstone Alternative Asset Management

February 12, 2014

**2014 Credit Suisse Financial Services Forum**

Blackstone

## Important Disclosures

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# **I. Blackstone Alternative Asset Management**

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# BAAM has established its position as the industry leader

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▶ **Largest discretionary allocator to hedge funds in the world<sup>(1)</sup>**

- \$55 billion in AUM<sup>(2)</sup> (over \$20 billion larger than the next largest fund of hedge funds competitor<sup>(1)</sup>)

▶ **Separated from traditional competitors**

- 31% AUM CAGR since 2001 for BAAM, compared to 13% for other fund of funds over \$1 billion<sup>(1)</sup>
- 18% AUM CAGR since the end of 2008 for BAAM, compared to -5% for other fund of funds over \$1 billion<sup>(1)</sup>

▶ **Meaningful business diversification and product innovation**

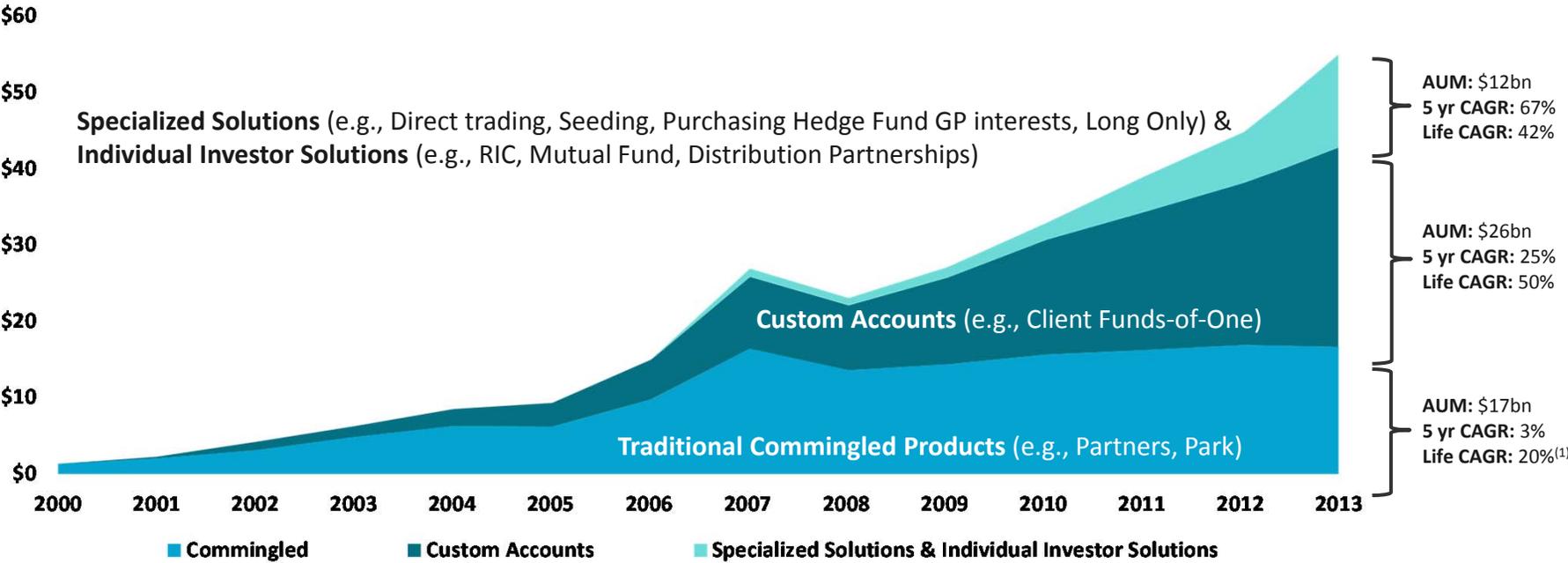
- One of the largest hedge fund seeders in the world – over \$2.6 billion deployed over 2 funds<sup>(2)</sup>
- Creation of Special Situations Investing Group – \$5.4 billion deployed<sup>(2)</sup>
- Long-Only solution business utilizing hedge fund talent – \$3.4 billion in AUM<sup>(2)</sup>
- Significant growth opportunity in the liquid registered fund market – \$1.5 billion raised to date<sup>(2)</sup>
- Purchasing of GP interests in established hedge funds – closed on \$1.4 billion, expected to close on up to \$3 billion in total<sup>(2)</sup>

(1) Source: InvestHedge Billion Dollar Club. Data as of June 2013. Please note, 2001 is the earliest date industry data is available.

(2) AUM data is as of 1/1/14 and is estimated and unaudited. AUM excludes unfunded commitments, which are included in total AUM for external reporting purposes.

# Innovation has been the key to BAAM's growth

Historical Growth by BAAM Business Segment  
(\$ in billions)



Note: AUM data is as of 1/1/14 and is estimated and unaudited. Past performance is not necessarily indicative of future results. There can be no assurance any Blackstone fund will achieve its objectives or avoid significant losses.

(1) Life CAGR for Traditional Commingled Products is calculated since the institutionalization of BAAM in 2000.

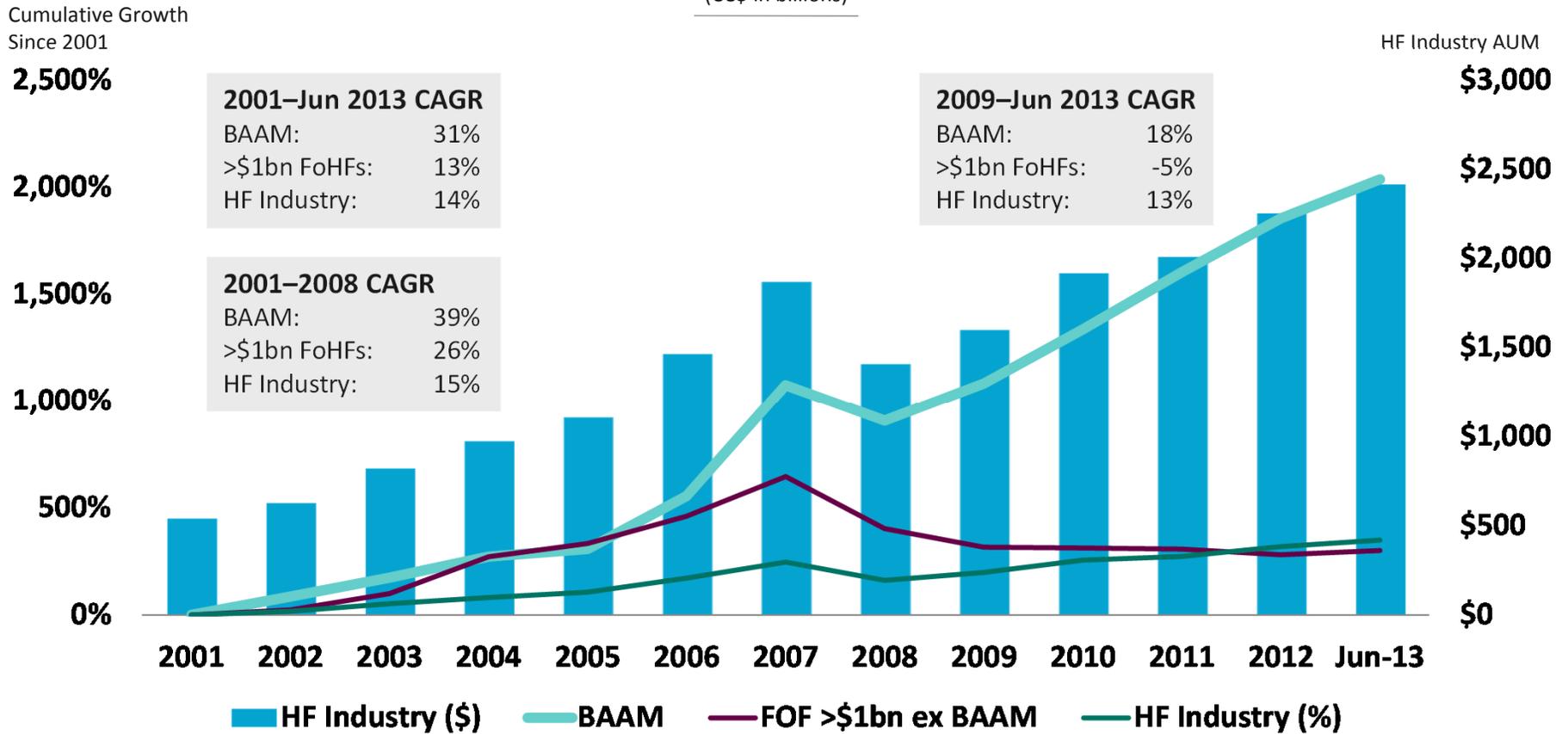
# Diverse array of commingled and customized investor solutions

	Commingled Products	Customized Investment Solutions	Ventures	Long Only / Long Biased	Special Situations	Individual Investor Solutions
AUM <sup>(1)</sup>	\$19.3bn	\$27.9bn	\$2.6bn invested \$1.8bn committed	\$3.4bn	\$4.8bn	\$1.6bn
Description	Diversified, specialty & strategy focused funds	Tailored accounts to meet individual client needs	Capitalize on robust supply of managers needing early-stage funding and acquiring strategic minority stakes	Response to client desires for long only replacement utilizing hedge fund talent	Capitalize on increased supply of special situation trades	Registered & Individual-Focused Investment Solutions

AUM is as of 1/1/14 and is estimated and unaudited.

# BAAM's growth has outpaced the industry

Cumulative Growth in Assets for HF Industry, FoHFs >\$1 billion, and BAAM<sup>(1)(2)</sup>  
(US\$ in billions)



(1) Source: InvestHedge Billion Dollar Club. Data as of June 2013. Please note, the time period of this analysis coincides with all the available industry data.

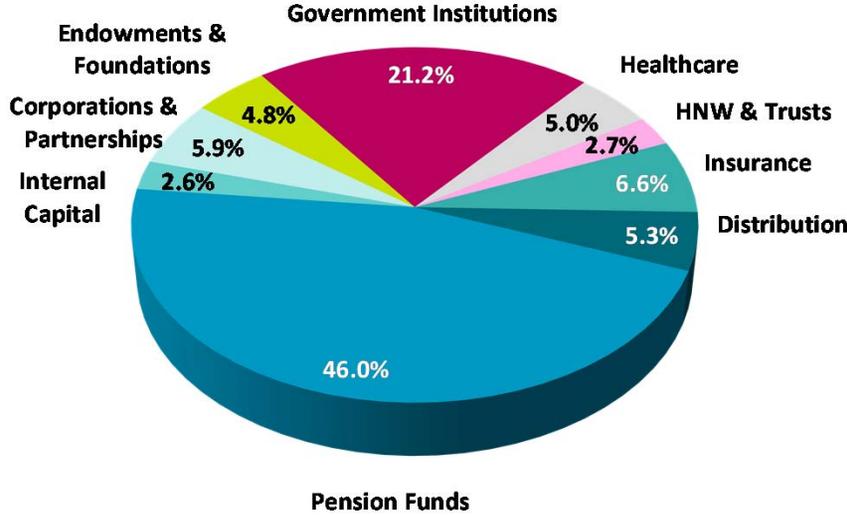
(2) HFR Global Hedge Fund Industry Report, 2Q 2013.

# Diverse and institutional client base

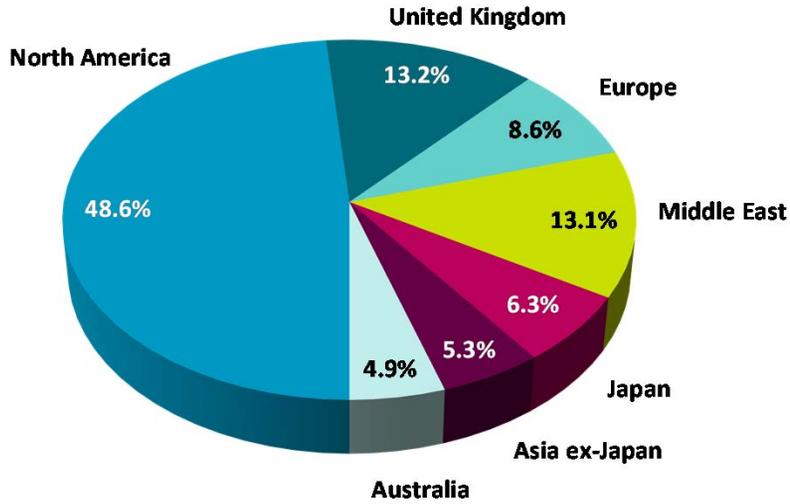
Institutional composition of our client base provides the business with stability

- ▶ Emphasis on **transparency, knowledge transfer and investor education**
- ▶ Institutional investor base allows for **customization and innovation**

BAAM Client Breakdown by Investor Type<sup>(1)</sup>



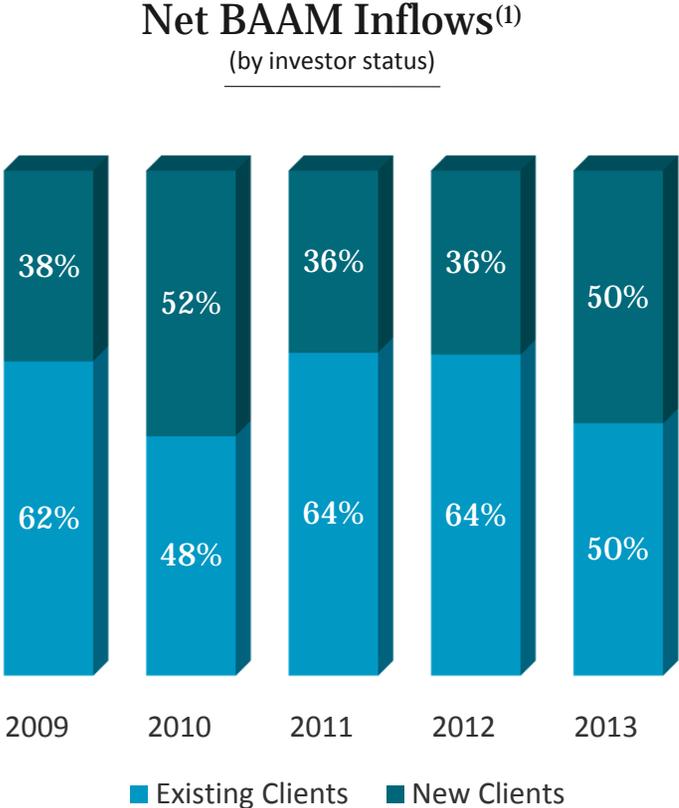
BAAM Client Breakdown by Geography<sup>(1)</sup>



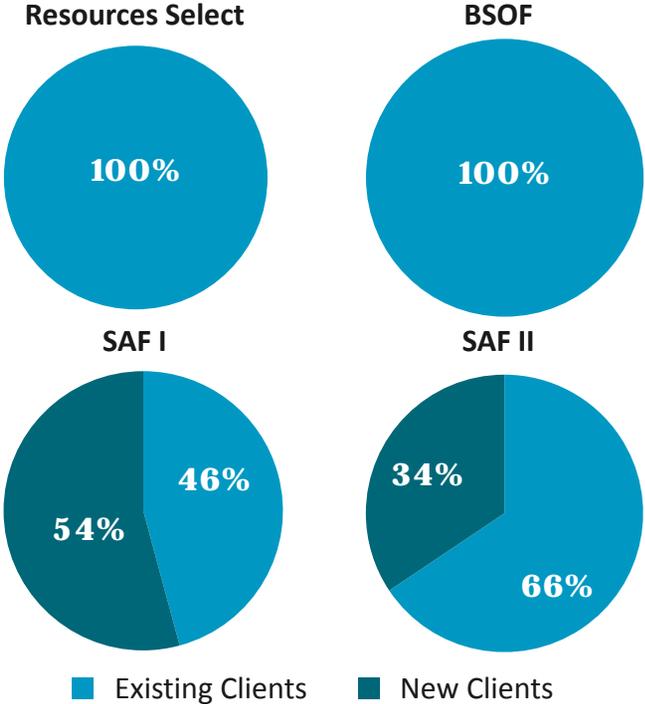
(1) Based on assets under management, as of 1/1/2014. Data is estimated and unaudited for 2013 and 2014.

# Deep relationships with institutional investors: Asset flows from existing vs. new clients

Flows from existing investors remain the majority of BAAM's gross external inflows



BAAM's existing client base often provides seed capital for new products<sup>(2)</sup>



(1) Data for 2013 is presented through 12/31/2013.  
 (2) Includes internal contributions.

# Select financial highlights

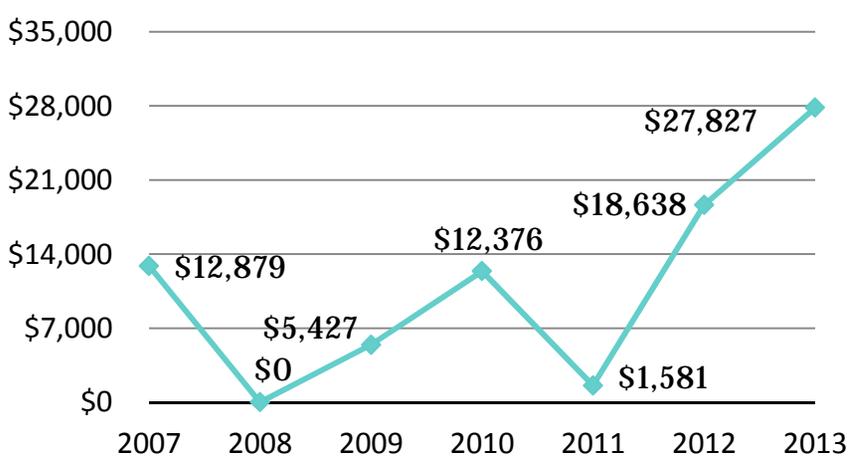
### BAAM Fee Breakdown



### BAAM Loss Carryforward



### BAAM Assets Accruing Incentive Fees



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## BAAM continues to be a high-growth business

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- ▶ BAAM has maintained strong financial performance across major metrics...

### Hedge Fund Solutions (“HFS”) Summary Financials

(\$ in millions)

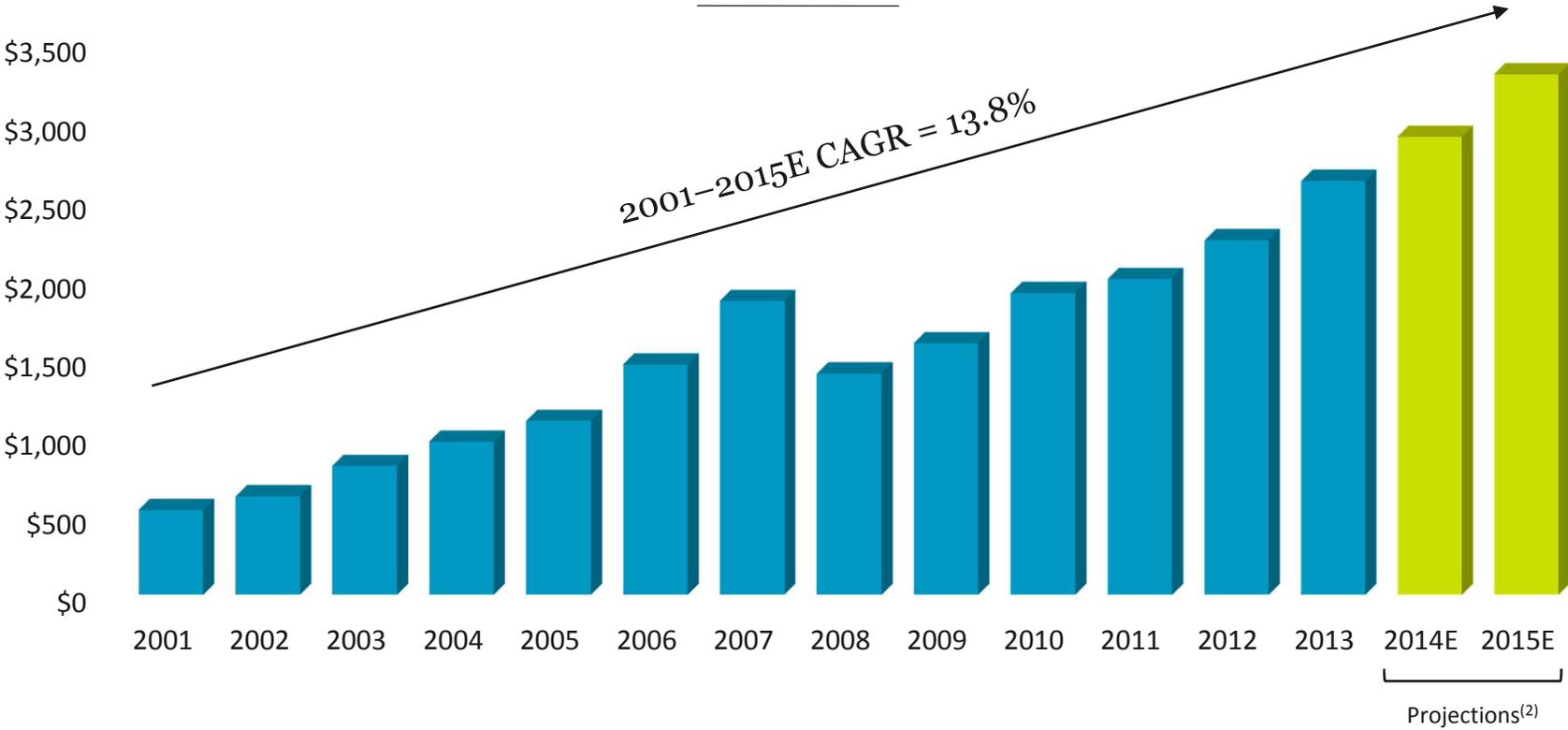
	2009	2013	CAGR
<b>AUM</b>	\$28,799	\$55,657	18%
<b>Revenue</b>	313	649	20%
<b>Economic Income</b>	170	377	22%

Note: This information is sourced from Blackstone’s publicly available 8-K.

## **II. Industry Dynamics Have Supported BAAM's Rapid Growth**

# Hedge fund industry growth continues after financial crisis

AUM Growth (Hedge Fund Industry)<sup>(1)</sup>  
 (\$ in billions)

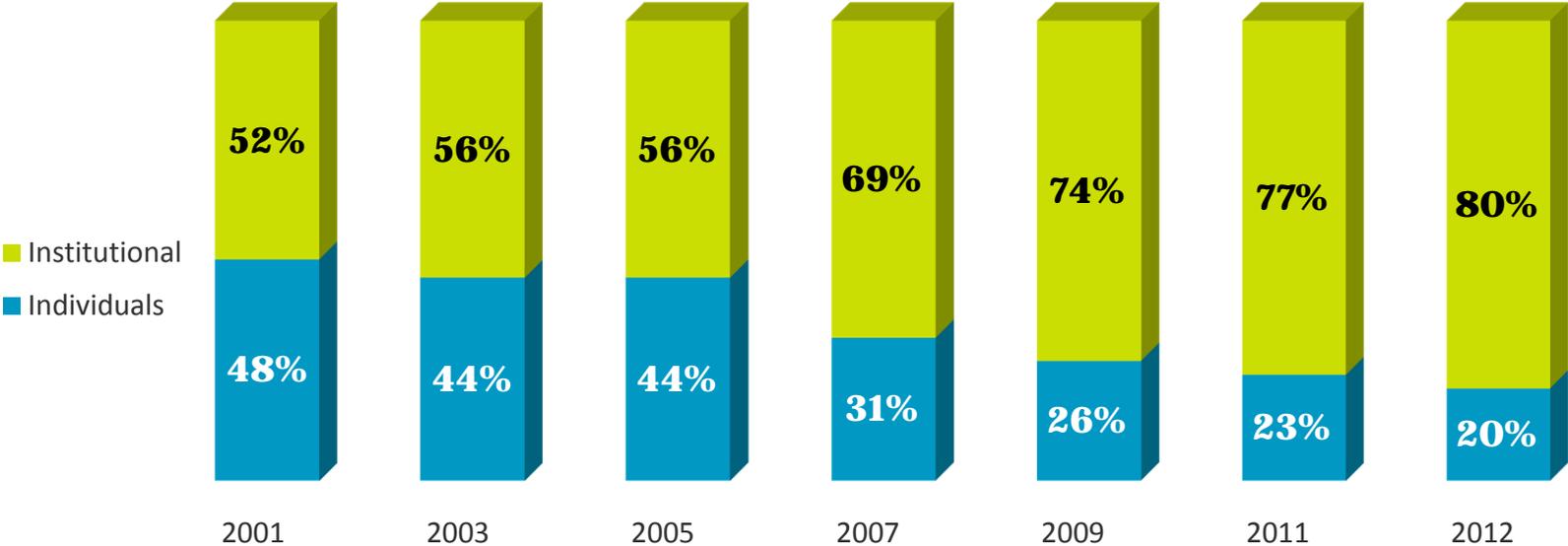


(1) HFR Global Hedge Fund Industry Report, 12/31/13.  
 (2) Credit Suisse 2013 Global Survey of Hedge Fund Investor Appetite and Activity.

# Institutions driving recent growth in hedge fund industry AUM

▶ Hedge Fund investor base is now predominantly institutional<sup>(1)</sup>

Hedge Fund Industry AUM by Investor Type<sup>(1)</sup>



**BAAM expects individuals to return, albeit a different market segment (retail) requiring more liquid, regulated investment vehicles**

(1) Source: Hennessee Group LLC; FSA; The City U.K. estimates, May 2013.

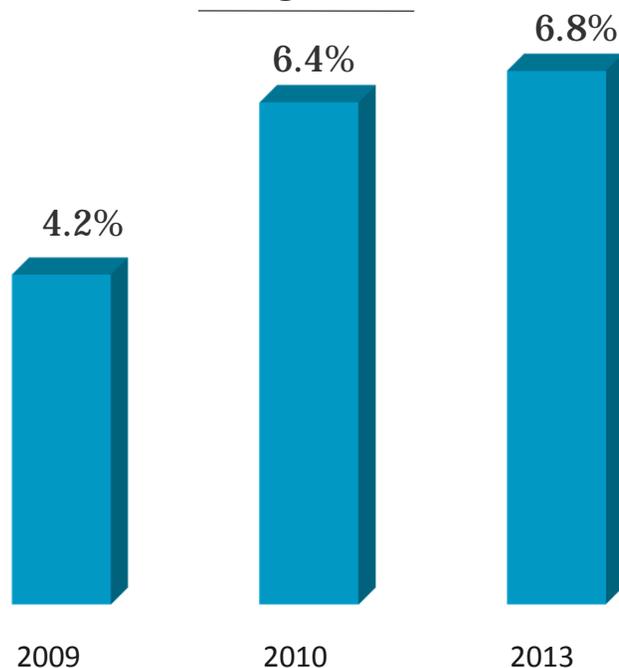
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# Hedge funds becoming a larger part of institutional portfolios

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- ▶ Pension Funds are increasing allocations to hedge funds

Average Pension Fund Allocation  
to Hedge Funds<sup>(1)</sup>



- ▶ A majority of institutions, including pension plans, endowments, foundations and insurers, reported increased hedge fund holdings last year<sup>(2)</sup>
- ▶ Pension funds, in particular, are increasing their hedge fund investments, with over 60% of them having increased such holdings in 2012<sup>(2)</sup>
- ▶ 65% of investors, including 79% of institutions, targeted returns between 5% and 10% for their hedge fund investments in 2013<sup>(2)</sup>

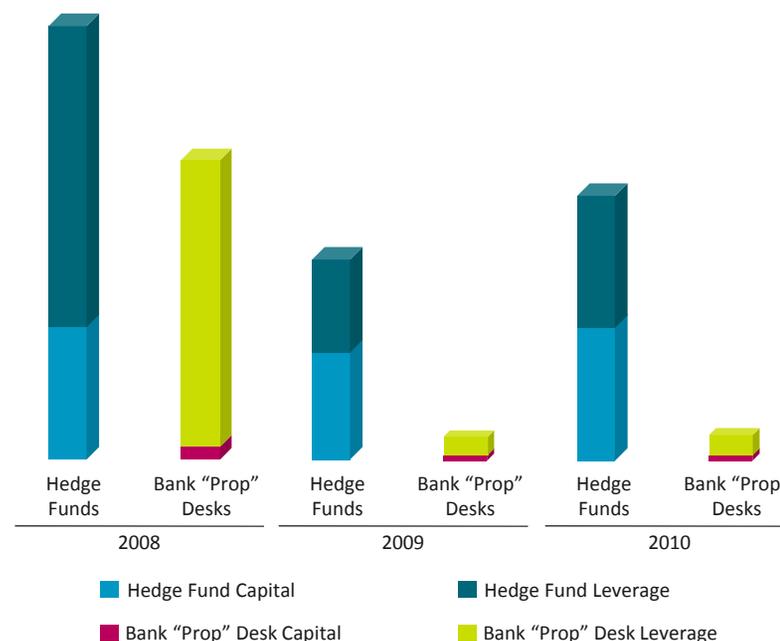
(1) McKinsey, "The Mainstreaming of Alternative Investments," 2013. Represents pension funds in the U.S., Canada, Australia, Japan, Netherlands, Switzerland and U.K.

(2) Source: Deutsche Bank's Annual Alternative Investment Survey, 2013.

# Hedge funds continue to attract talent given their flexibility

- ▶ Dodd-Frank, Basel III, and other global regulatory changes are reducing the ability of investment banks, commercial banks, and insurance companies to compete with hedge funds
- ▶ Human capital is leaving the sell side as it is forced to reduce capital allocation to opportunistic and quantitative trading strategies, thus increasing the flow of top talent to hedge funds
- ▶ The market recovery has heightened entrepreneurial ambitions for talented asset managers seeking the most favorable compensation structures

Capital Leverage Employed by Hedge Funds and Bank Proprietary Trading Desks<sup>(1)</sup>  
 (\$ in billions, 2008–2010)



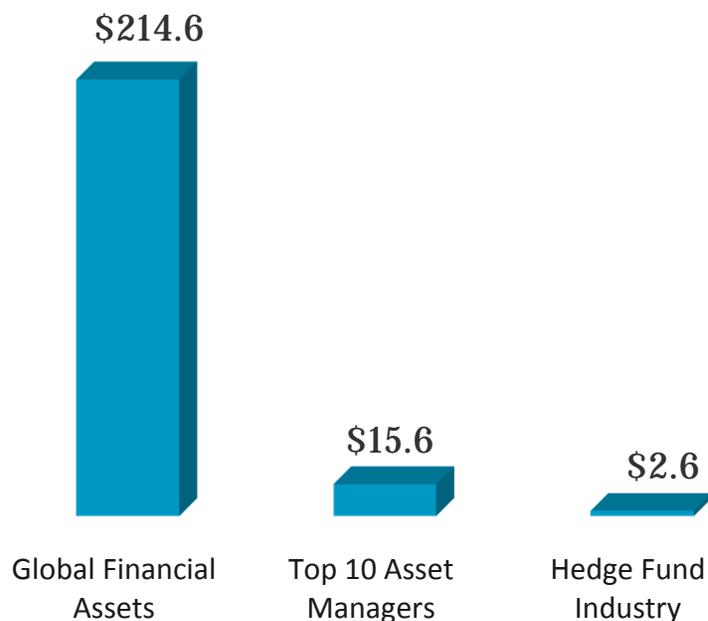
(1) Source: Cambridge Associates, 2011.

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# Hedge funds currently represent only a fraction of global assets

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Comparison of Global Financial Assets<sup>(1)(2)(4)</sup>  
(\$ in trillions)



- ▶ Total capital invested in hedge funds exceeded **\$2 trillion** for the first time in 2012<sup>(1)</sup>
- ▶ Hedge funds represent **less than 2.0%** of global financial assets<sup>(2)</sup>
- ▶ Average 10-year rolling **Sharpe ratio of 1.2** for the HFRI Composite<sup>(3)</sup>

(1) Hedge Fund Industry Assets: HFR Global Hedge Fund Industry Report, 4Q 2013.

(2) Global financial assets include equity market capitalization and outstanding bonds and loans; McKinsey Global Institute Financial Stock Database. Assets are as of 12/31/11.

(3) Refers to the HFRI Composite. Past performance is not indicative of future results. Jan-1990 – December 2013.

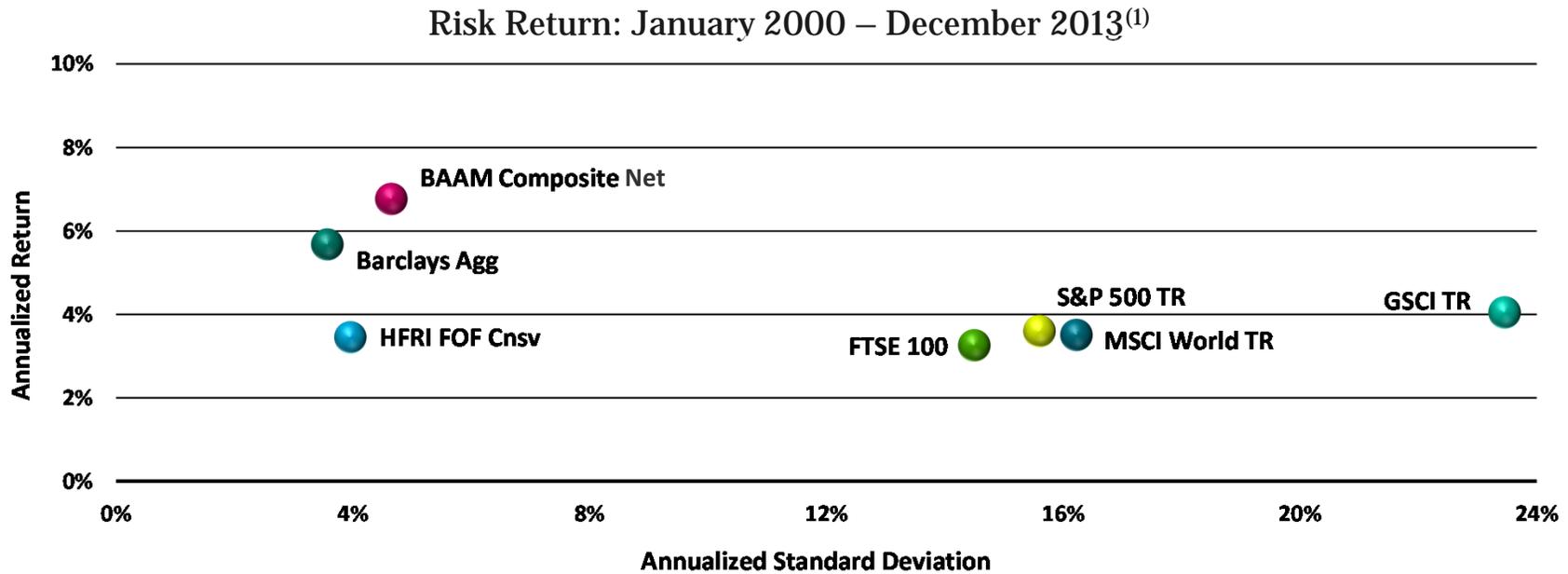
(4) Top 10 firms include BlackRock, State Street, Vanguard, Fidelity, PIMCO, JP Morgan, BNY Mellon, Capital Research, Prudential, and Amundi. Assets are as of 12/31/11.

### **III. BAAM's Strategy and Positioning**

# BAAM has produced attractive risk-adjusted performance

## BAAM Principal Solutions Composite Beta to Indices: January 2000 – December 2013<sup>(1)</sup>

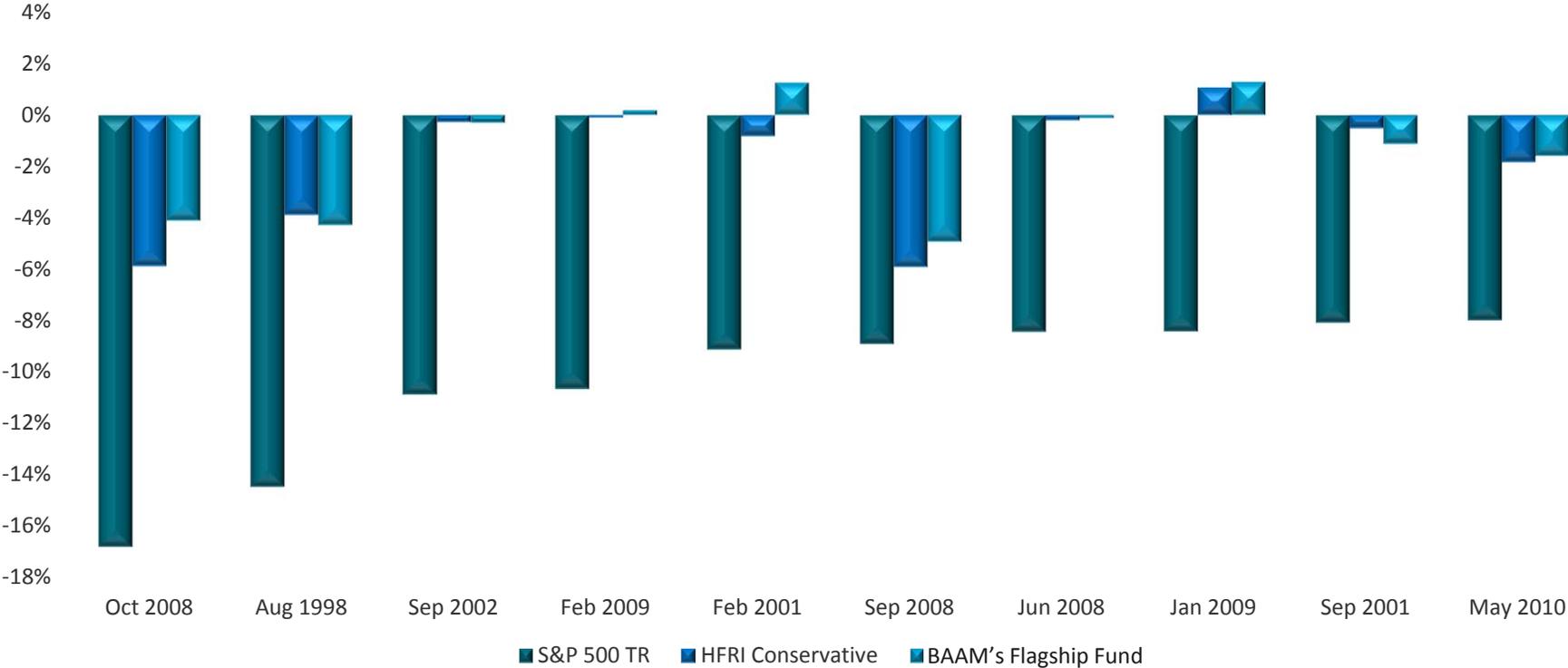
	HFRI FOF Cnsv	MSCI World TR	S&P 500 TR	FTSE 100	Barclays Agg	CSFB HY	GSCI
Beta to BAAM Composite	1.07	0.18	0.17	0.18	0.03	0.31	0.73



(1) BAAM returns and volatility reflect BAAM's Principal Solutions Composite and cover the period from January 2000 to present, although BAAM's inception date is September 1990. BAAM's Principal Solutions Composite does not include BAAM's long-only equity, long-biased commodities, seed, strategic opportunities (external investments), or advisory platforms. Performance for 2013 is estimated and unaudited. Annualized return represents the unaudited compounded annual return on investment. Past performance is not necessarily indicative of future results. There can be no assurance that the Funds will achieve their objectives or avoid significant losses. Please refer to the "Index Disclosure" located on the Additional Disclosures slide at the end of this presentation.

# Historically, BAAM has mitigated loss in severe equity market downturns

Largest 10 S&P 500 Monthly Losses (July 1996– December 2013<sup>(1)(2)</sup>)



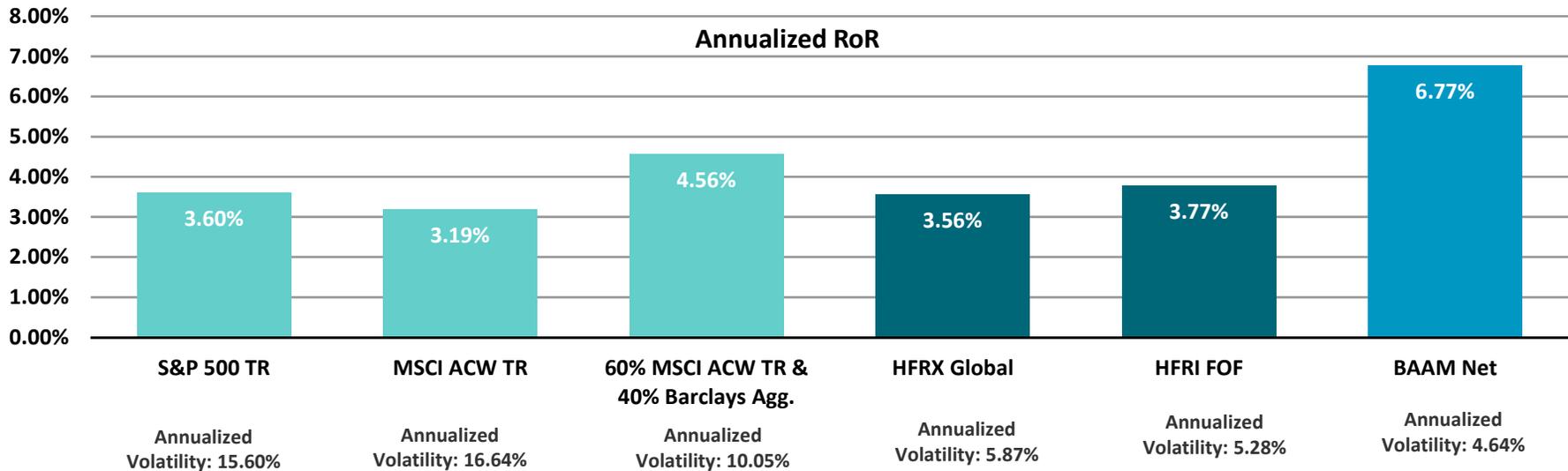
(1) BAAM results are net of all fees and expenses. Past performance is not necessarily indicative of future results. There can be no assurance that any BAAM fund will achieve its investment objectives or avoid significant losses.

(2) Please refer to the "Index Disclosure" located on the Additional Disclosures slide at the end of this presentation.

# BAAM has produced attractive risk-adjusted performance

Since the institutionalization of BAAM’s business in 2000, on an annualized basis the BAAM Principal Solutions Composite is up 6.77%, outperforming the HFRI FOF Composite Index (+3.77%), HFRX Global HF Index (+3.56%), MSCI ACW TR Index (+3.19%) and S&P 500 TR Index (+3.60%)<sup>(1)(2)</sup>

## Historical RoR and Volatility (Annualized) January 2000 – December 2013<sup>(1)(2)</sup>



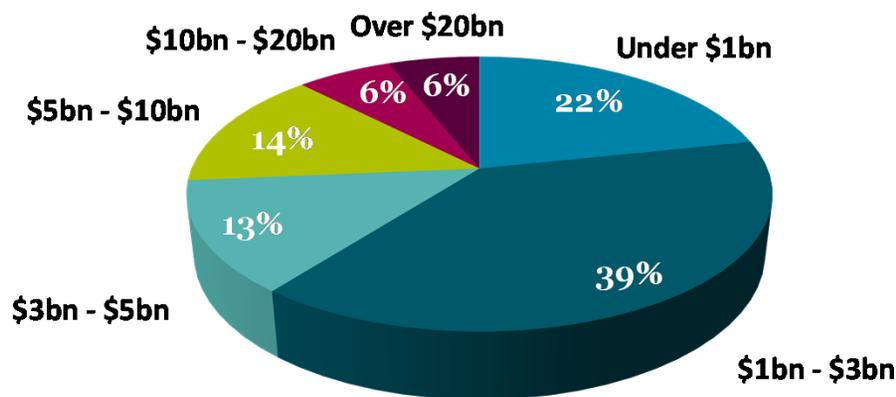
(1) BAAM returns and volatility reflect BAAM’s Principal Solutions Composite and cover the period from January 2000 to present, although BAAM’s inception date is September 1990. BAAM’s Principal Solutions Composite does not include BAAM’s long-only equity, long-biased commodities, seed, strategic opportunities (external investments), or advisory platforms. Details of the performance of all BAAM funds are available upon request. Performance for 2013 is estimated and unaudited. Annualized return represents the unaudited compounded annual return on investment. Past performance is not necessarily indicative of future results. There can be no assurance that the Funds will achieve their objectives or avoid significant losses.

(2) Please refer to the “Index Disclosure” located on the Additional Disclosures slide at the end of this presentation.

# BAAM: Negotiating attractive exposures and terms with managers

## Underlying Manager Strategy Size<sup>(1)</sup>

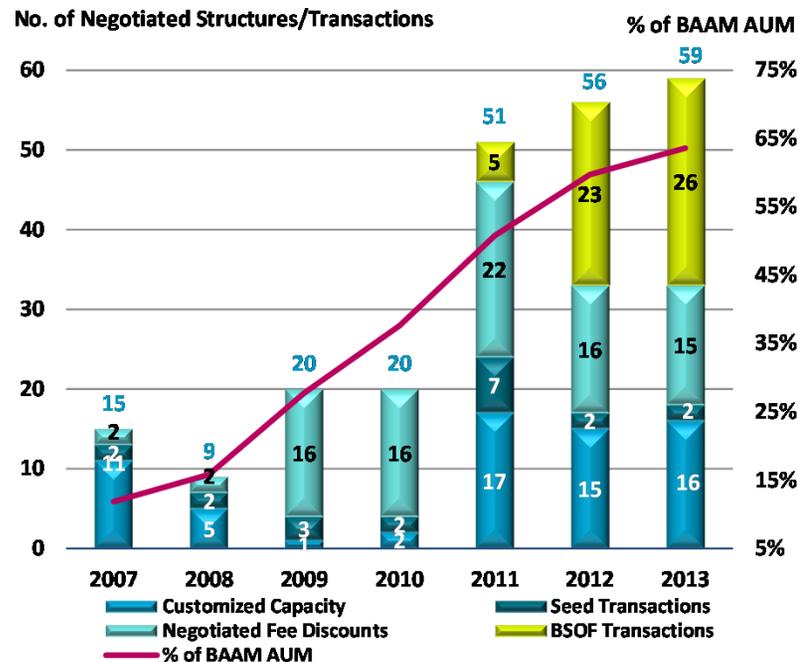
Asset Weighted as of January 1, 2014



## Negotiated Structures & Transactions<sup>(2)</sup>

As of January 1, 2014

64% of AUM is in negotiated structures & transactions

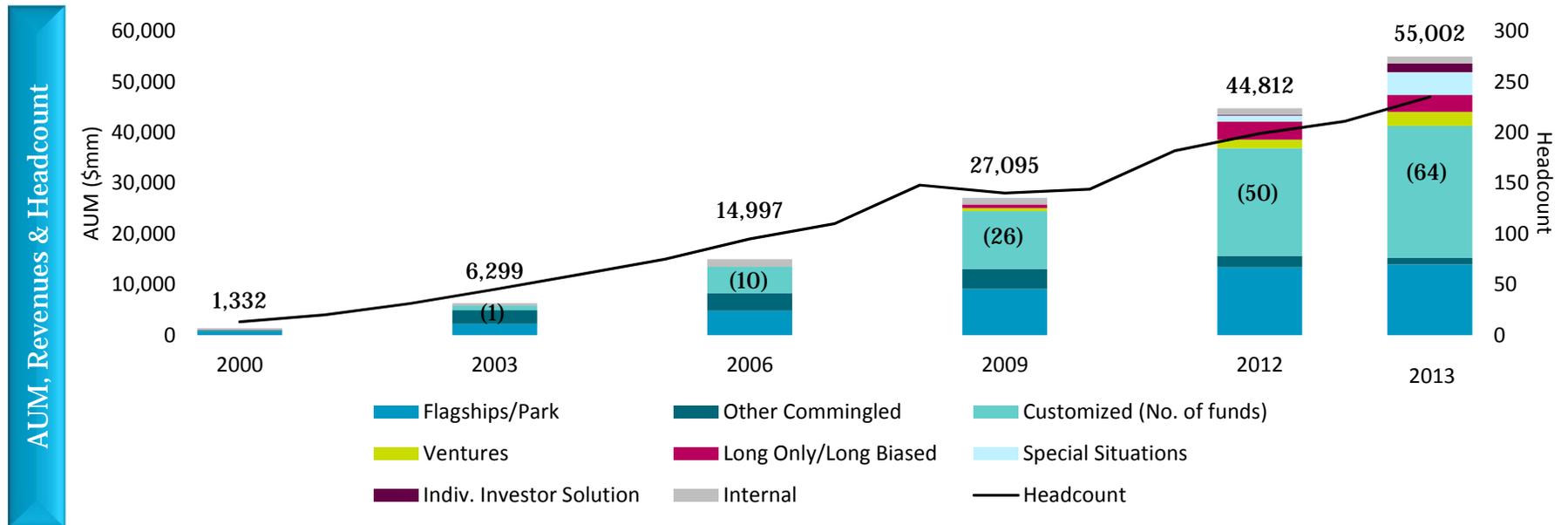


(1) This analysis was performed utilizing the 1/1/2014 active manager strategy list for only BAAM Principal Solutions (i.e., BAAM's fund of funds platform). Active strategies exclude those strategies where full redemptions have been submitted by BAAM but BAAM has not yet received full redemption proceeds and strategies that are in liquidation. Active strategies also exclude those strategies organized in a called capital structure that are in their harvest period unless there is an active strategy with a substantially similar investment mandate in its investment period. AUM data is as of June 30, 2013 or later for all strategies.

(2) Please see important disclosures on slide titled "Disclosures Relating to Negotiated Structures / Transactions" at the end of this presentation explaining how each category was calculated and defined.

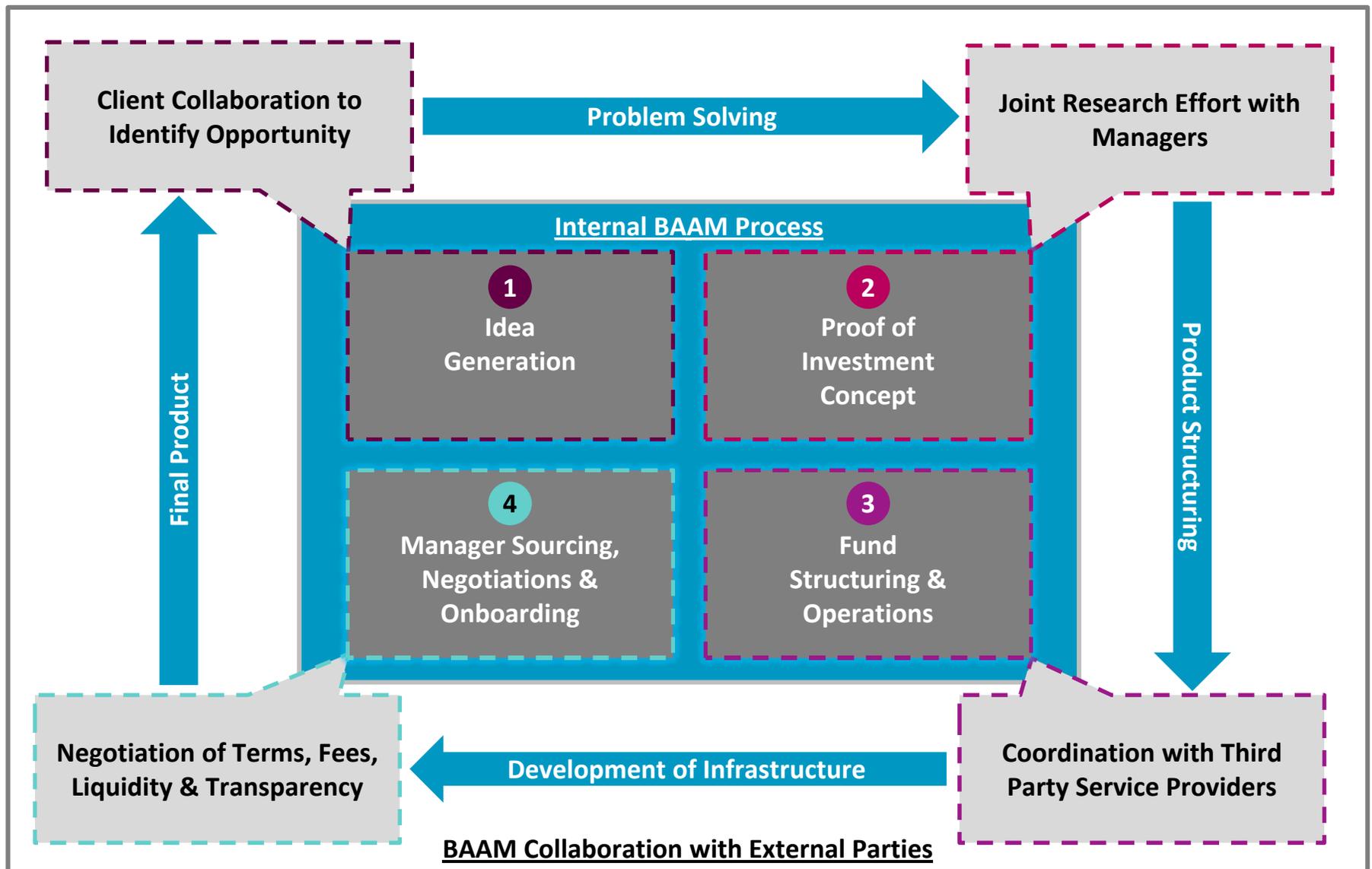
## BAAM: A Global Business Constantly Evolving

- ▶ **2000:** Tom Hill joins BAAM as President & CEO
- ▶ **2001:** BAAM establishes its presence in London
- ▶ **2002:** Structures and launches first customized account
- ▶ **2002:** Establishes a separate, dedicated back office due diligence team
- ▶ **2006:** Opens Hong Kong office
- ▶ **2006:** Begins making first customized investments with hedge fund managers
- ▶ **2007:** BAAM launches two new innovative strategies:
  - Resources Select (long-biased commodities)
  - Strategic Alliance (hedge fund seeding)
- ▶ **2008 / 2009:** In the wake of the financial crisis, BAAM does not restrict investor liquidity and provides \$8.4 billion in capital to investors
- ▶ **2011:** BAAM augments its senior investment talent and launches the Strategic Opportunity Fund, focused on making direct co-investments with hedge fund managers
- ▶ **2013:** BAAM launches first open-ended mutual fund product that allocates to hedge fund exposures
- ▶ **2014:** Blackstone Strategic Capital Holdings fund is raised, which will acquire GP stakes in established hedge funds
- ▶ **2014:** Continue to build out direct manufacturing capabilities

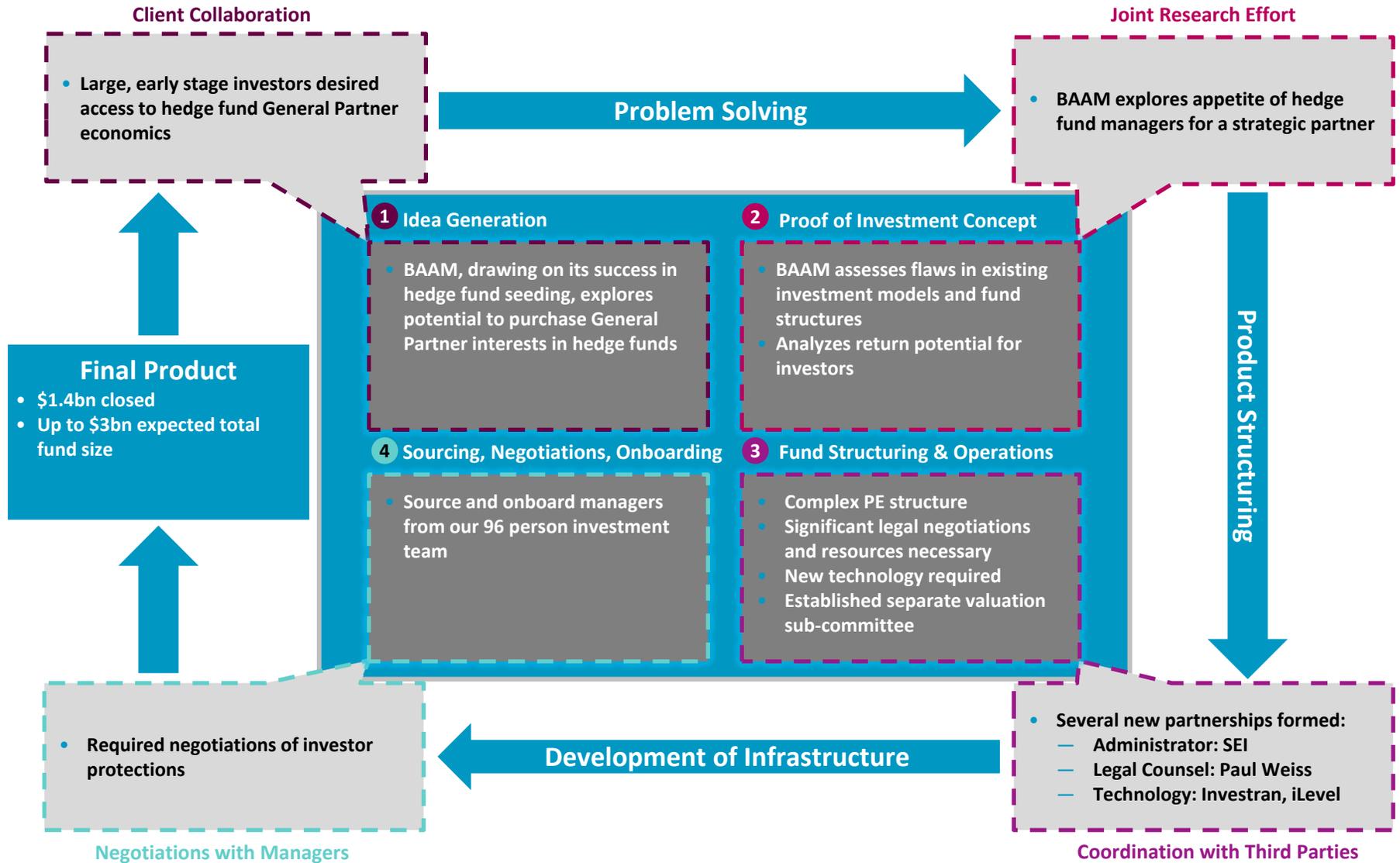


AUM data for 2013 is estimated and unaudited.

## Innovation Process



# Innovation Process Case Study: Blackstone Strategic Capital Advisors (“BSCA”)



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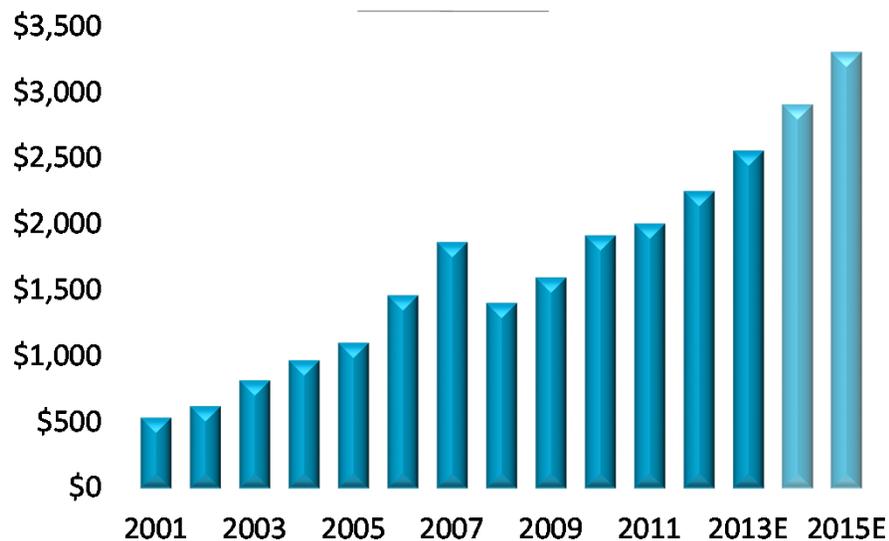
# Hedge Fund Ownership: Blackstone Strategic Capital Advisors

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## Overview

- ▶ BSCA will focus on acquiring meaningful, strategic minority positions in established alternative managers
- ▶ Among other compelling market factors, BSCA will look to capitalize on expected growth in the hedge fund industry and ongoing consolidation trends

**AUM Growth of Hedge Fund Industry<sup>(1)</sup>**  
(\$ in billions)



## Opportunity Set

- ▶ Hedge fund managers continue to capture market share, while industry dynamics are ideal for consolidation
- ▶ Valuations for hedge fund GPs do not reflect long-term value

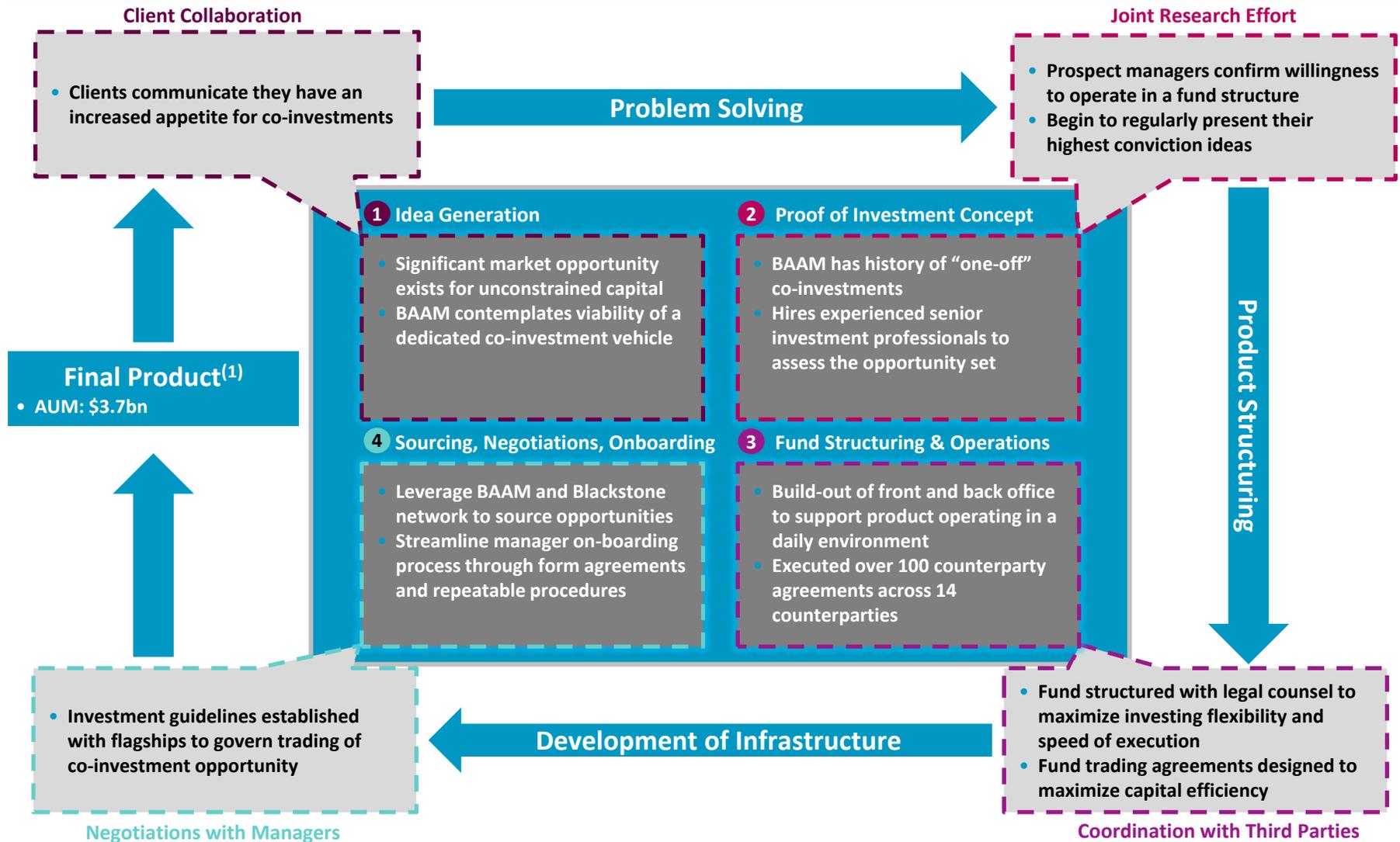
## Value Proposition & Business Results

- ▶ Strategic capital is highly valuable to managers looking to grow and strengthen their franchises
- ▶ Offers BAAM longer duration capital, a potentially high current yield on invested capital, and greater alignment with key hedge fund flagships

Opinions expressed reflect the current opinions of BAAM as of the date appearing in this material only.

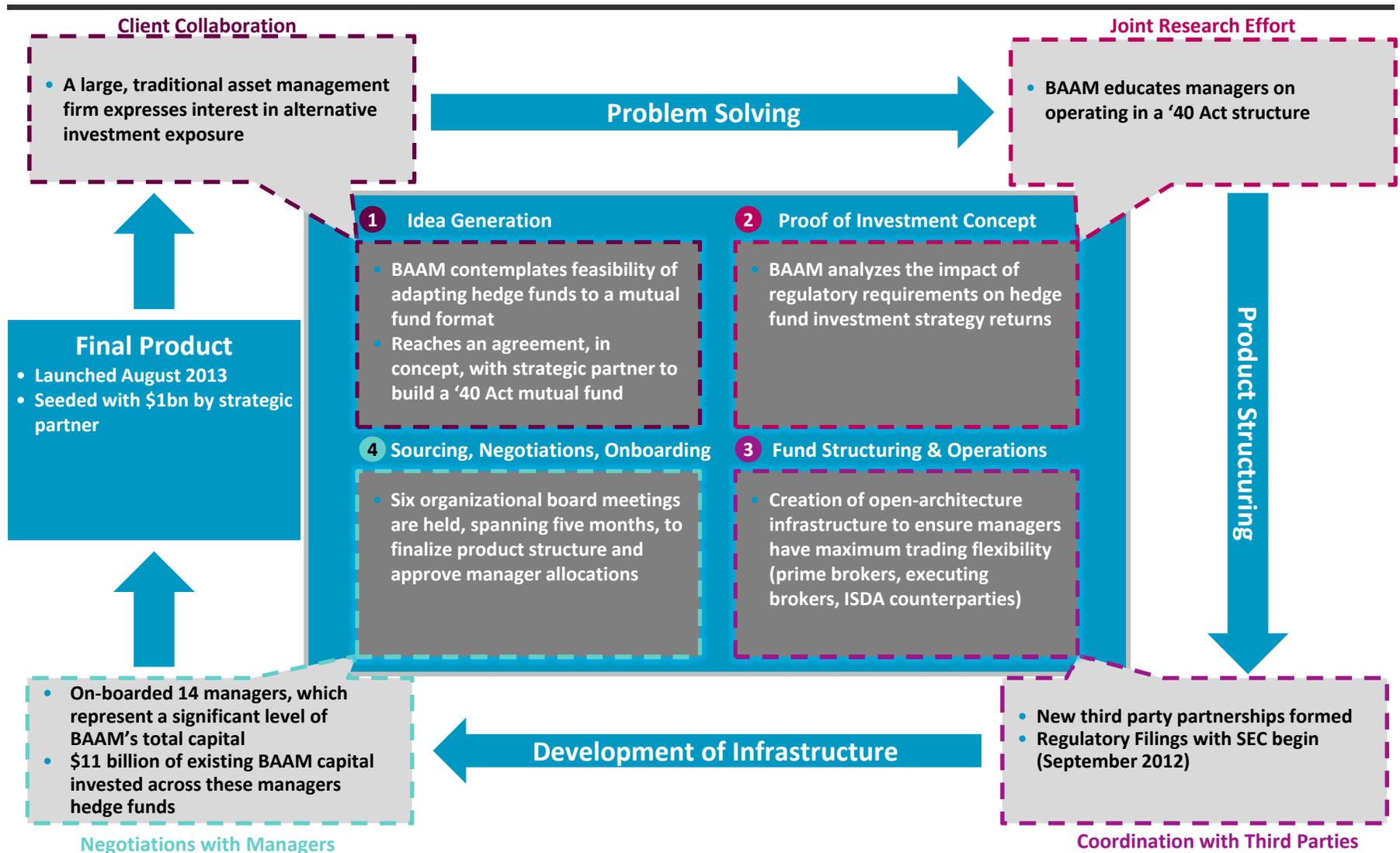
(1) HFR Global Hedge Fund Industry Report, 4Q 2013.

# Innovation Process Case Study: Blackstone Strategic Opportunity Fund (“BSOF”)



(1) AUM data as of 1/1/14.

# Innovation Process Case Study: Blackstone Multi-Manager Fund



## Additional Disclosures

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### **Index Disclosure:**

The volatility of the indices presented throughout this material may be materially different from that of the performance of the BAAM funds presented. In addition, the indices may employ different investment guidelines and criteria than the Funds; as a result, the holdings in the Funds 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 the Fund, but rather is disclosed to allow for comparison of the Fund's performance to that of a well-known and widely recognized indices. A summary of the investment guidelines for the indices presented are available upon request. In the case of equity indices, performance of the indices reflects the reinvestment of dividends.

## Disclosures Relating to Negotiated Structures / Transactions

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### Number of Negotiated Structures / Transactions:

- ▶ Data as of 1/1/14. Count includes customized vehicles, vehicles with negotiated fee discounts, seeding platform funds and co-investment deals that occurred during each year presented. Volume does not double count (i.e., where a vehicle is customized capacity and has a negotiated fee discount, that vehicle is counted only once)

### Percent of BAAM AUM:

- ▶ Calculated by dividing total amount invested by BAAM in all customized vehicles, seeding platform funds, vehicles with negotiated fee discounts, and co-investments (BSOF transactions) by BAAM's total AUM as of January 1 of the following year for each year presented. For purposes of this slide, BAAM includes Blackstone Strategic Alliance Advisors L.L.C. and Blackstone Alternative Solutions L.L.C., BAAM's affiliated advisors

### Customized Capacity Vehicles:

- ▶ Includes funds where BAAM is the sole external investor and funds with which BAAM has negotiated guaranteed capacity

### Co-Investments (BSOF Transactions):

- ▶ Includes deals that have been funded by Blackstone Strategic Opportunity Funds or approved for investment as of 12/31/2013. Deals that have been approved for investment but not yet funded are not included in the percentage of BAAM AUM in negotiated structures

### Vehicles with Negotiated Fee Discounts:

- ▶ Based on negotiations completed through 2013
- ▶ Includes both beneficial fees exclusively negotiated for BAAM and beneficial fees applicable to some or all other investors where BAAM participated in the negotiations
- ▶ Negotiated benefits to BAAM funds will fluctuate depending on related AUM

### Seeding Platform Funds (Seed Transactions):

- ▶ Includes all underlying managers seeded by the Blackstone Strategic Alliance Funds