

Disclosure

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The Hedge Fund Industry

Hedge Fund Relative Performance Over the Past Three Years

Risk / Reward: September 2009 – August 2012 ⁽¹⁾⁽²⁾⁽³⁾

| | BAAM Composite Net ⁽¹⁾ | HFRI Composite | MSCI World | Barclays Global Agg | 60% Equities / 40% Bonds ⁽²⁾ |
|-----------------------|--------------------------------------|----------------|------------|------------------------|--|
| Annualized Net Return | 5.6% | 4.5% | 8.5% | 5.4% | 7.5% |
| Volatility | 3.9% | 6.3% | 17.2% | 5.7% | 11.5% |
| Sharpe Ratio | 1.40 | 0.70 | 0.49 | 0.92 | 0.65 |

Risk / Reward: July 1996 – August 2012 ⁽¹⁾⁽²⁾⁽³⁾

| | BAAM Composite Net ⁽¹⁾ | HFRI Composite | MSCI World | Barclays Global Agg | 60% Equities / 40% Bonds ⁽²⁾ |
|-----------------------|--------------------------------------|----------------|------------|------------------------|--|
| Annualized Net Return | 8.2% | 7.8% | 5.4% | 5.9% | 5.9% |
| Volatility | 5.3% | 7.5% | 16.5% | 5.8% | 10.7% |
| Sharpe Ratio | 1.02 | 0.66 | 0.15 | 0.50 | 0.28 |

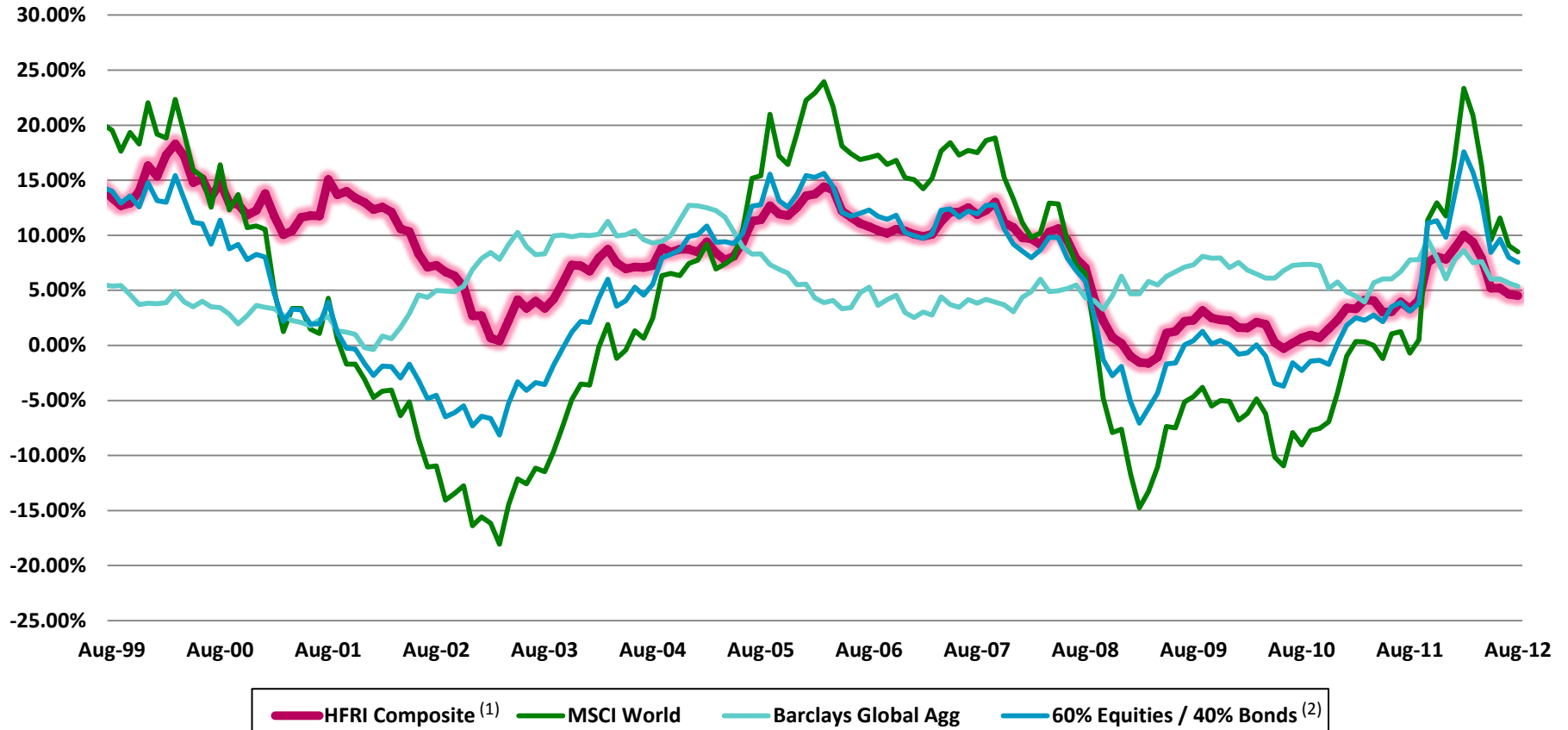
(1) The BAAM Core Composite is shown from July 1996 (the inception of BAAM's flagship offshore fund) and September 2009 to August 2012. The BAAM Core Composite does not include BAAM's long-only equity, long-biased commodities, seed, strategic opportunities (external investments), and advisory platforms. Details of the performance of all BAAM funds are available upon request. Past performance is not indicative of future results and there is no assurance that any Blackstone fund will achieve its objectives or avoid significant losses.

(2) The volatility of the indices presented may be materially different from that of the performance of Partners OS. In addition, the 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 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 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. As of 9/30/2012. These indices have been selected as well-known and widely recognized indices

(3) The 60% Equities / 40% Bonds Portfolio represents 60% of the MSCI World TR Index and 40% of Barclays Global Agg Bond Index.

Hedge Fund Relative Performance Over the Past Three Years (Continued)

Rolling 3-Year Returns



(1) HFRI Composite is presented as proxy for hedge fund industry. Past performance is not necessarily indicative of future results. There can be no assurance that hedge funds in general will achieve their objective or avoid significant losses.

(2) The 60% Equities / 40% Bonds Portfolio represents 60% of the MSCI World TR Index and 40% of Barclays Global Aggregate Bond Index.

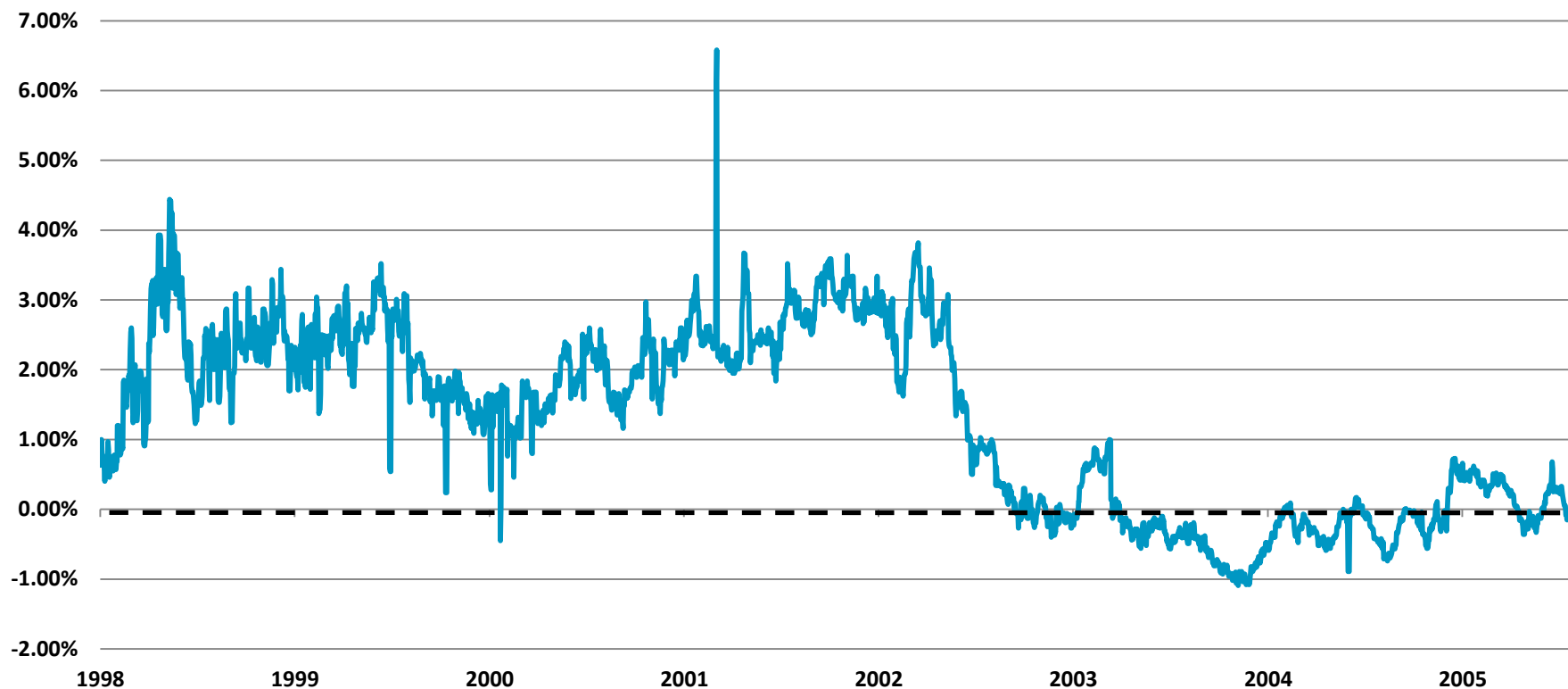
Is Something Broken?

Does **SIZE Matter?**

What About **ALPHA?**

Too Much Capital Has Negatively Impacted Certain Opportunities

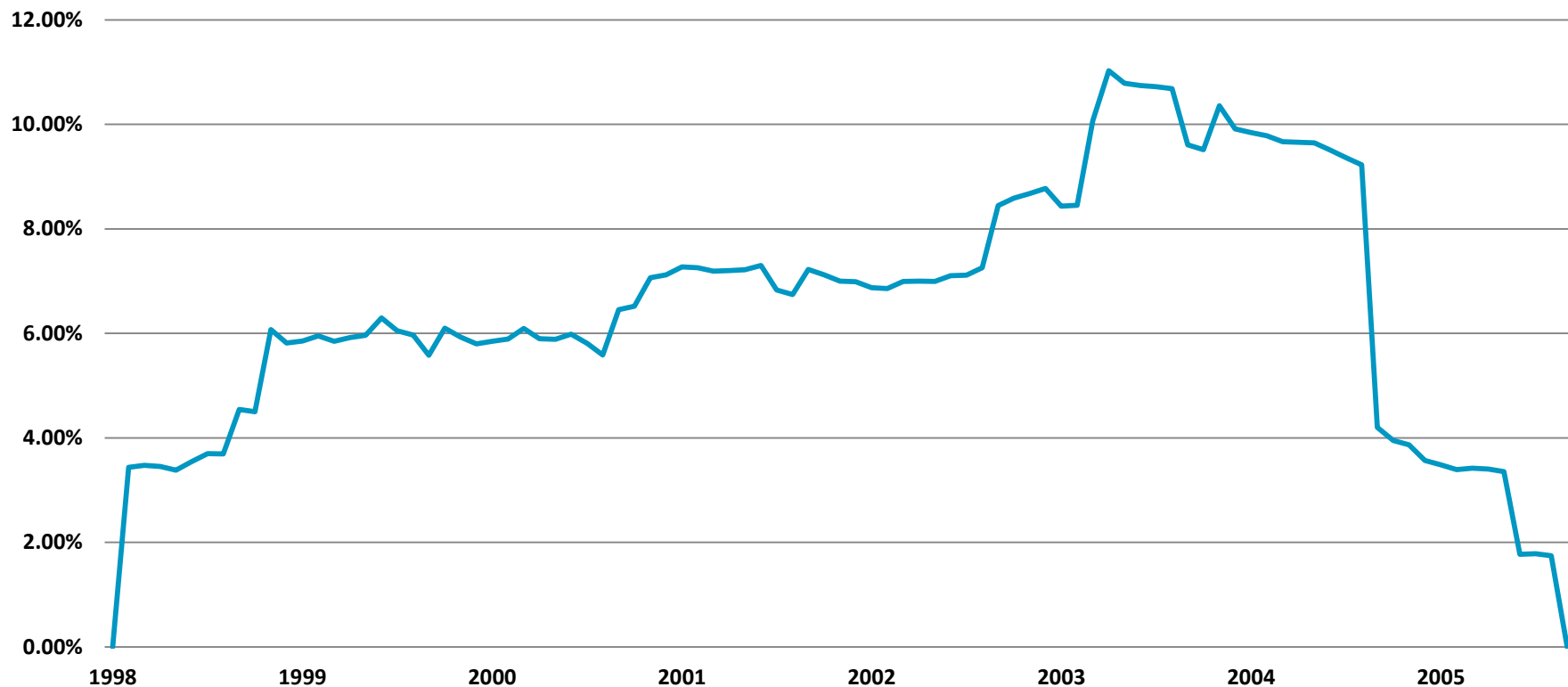
Richness / Cheapness of Convertible Bonds



Source: Merrill Lynch data through 9/28/12. Information presented above has been provided by, or is based on information provided by, third parties that are not affiliated with BAAM. BAAM has not independently verified such information and makes no representation or warranty as to the accuracy or completeness of such information.

And BAAM Has Responded Accordingly

Allocation to Convertible Arbitrage



Reflects a BAAM broadly diversified fund's allocations to convertible arbitrage from 5/1/98 through 1/1/06. BAAM funds are actively managed and allocations are subject to ongoing revision.

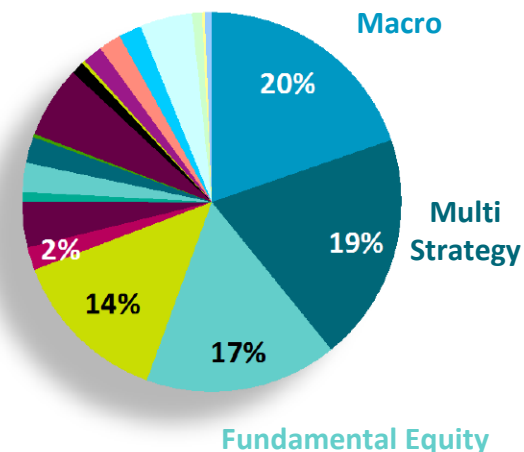
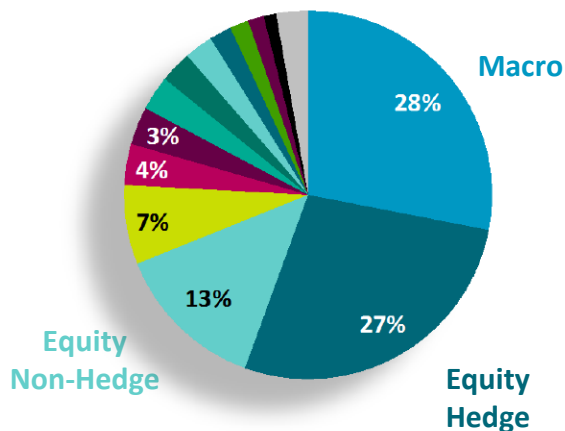
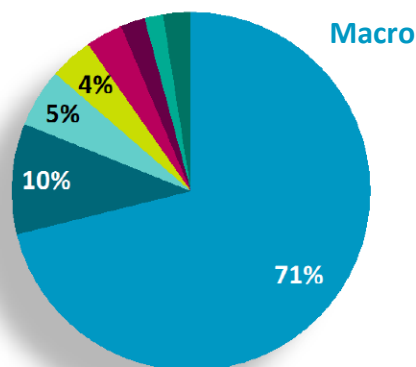
But, the Opportunity Set Has Grown

Strategy Composition by AUM⁽¹⁾

1990

2000

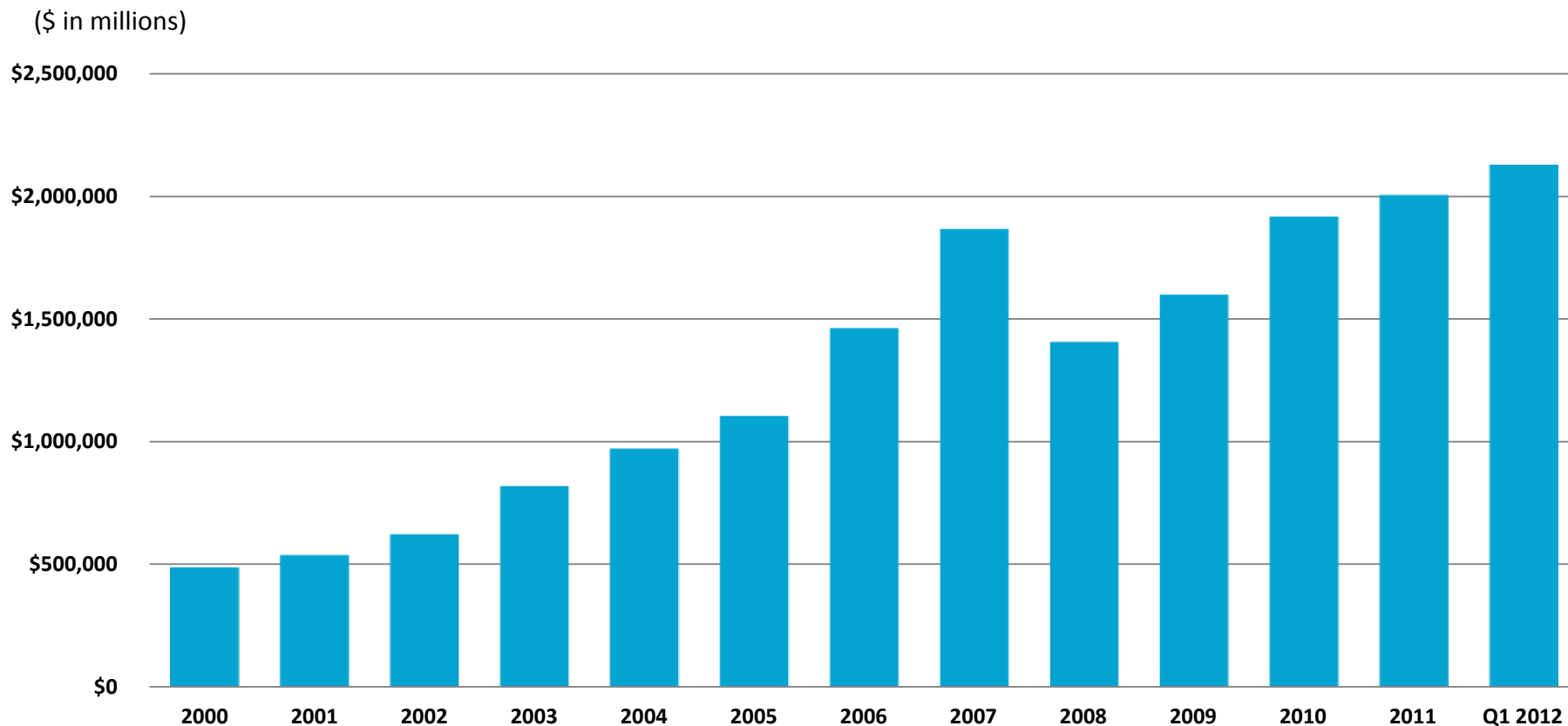
2011



(1) Source: Hedge Fund Research Global Hedge Fund Industry Reports. Information presented above has been provided by, or is based on information provided by, third parties that are not affiliated with BAAM. BAAM has not independently verified such information and makes no representation or warranty as to the accuracy or completeness of such information.

The Hedge Fund Industry Has Grown

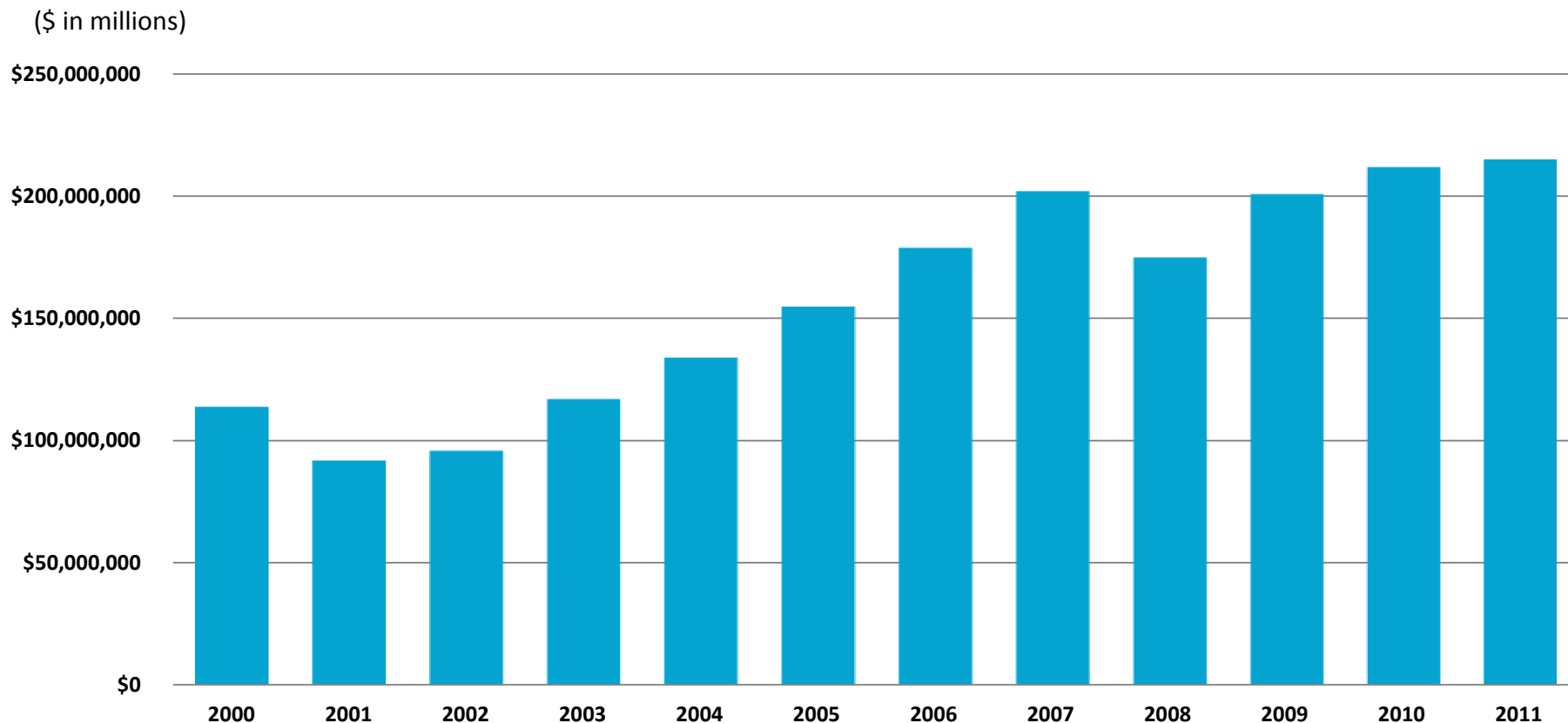
Hedge Fund Assets Under Management ⁽¹⁾



(1) Source: HFR Global Hedge Fund Industry Report (Q1 2012). Information presented above has been provided by, or is based on information provided by, third parties that are not affiliated with BAAM. BAAM has not independently verified such information and makes no representation or warranty as to the accuracy or completeness of such information.

But Global Financial Assets Have Grown As Well

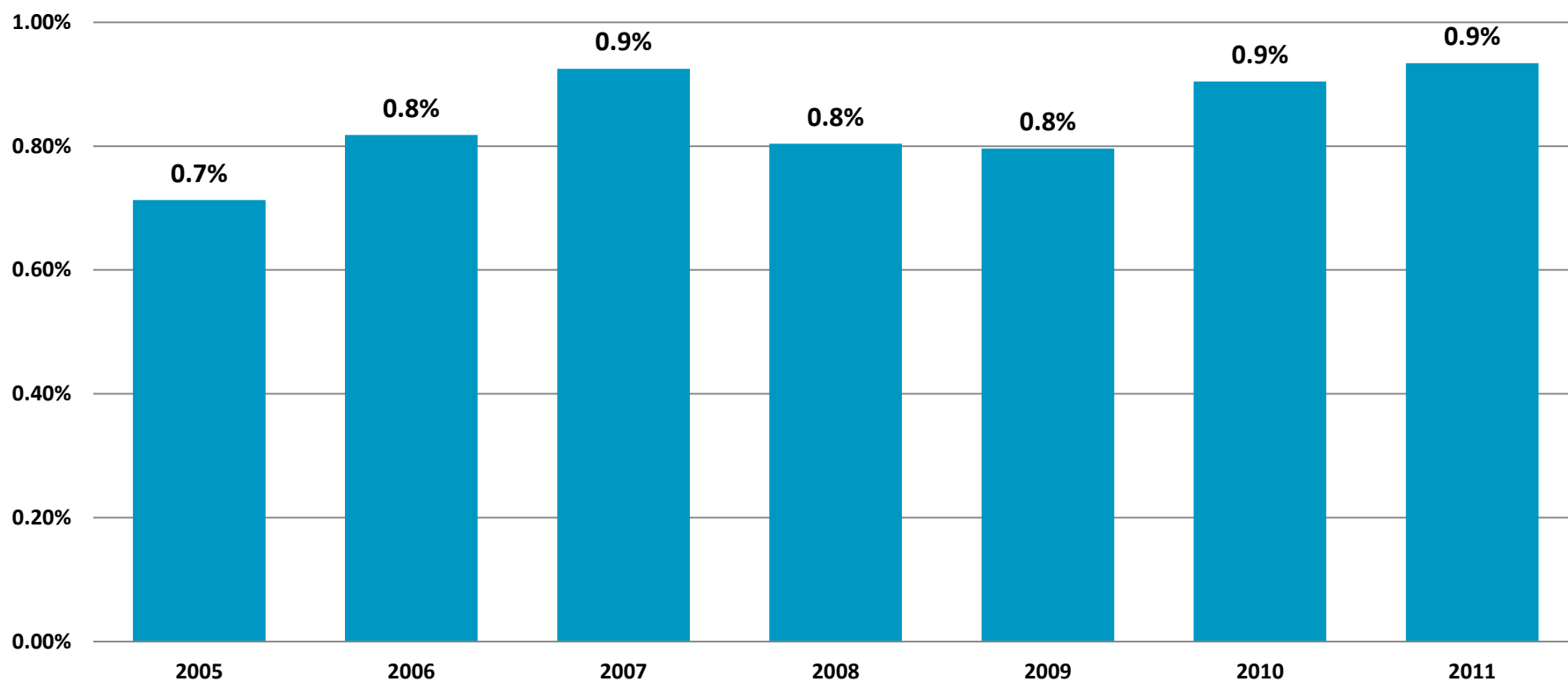
Global Financial Assets ⁽¹⁾



(1) Source: McKinsey & Co: Mapping Global Capital Markets 2008 & 2011. Information presented above has been provided by, or is based on information provided by, third parties that are not affiliated with BAAM. BAAM has not independently verified such information and makes no representation or warranty as to the accuracy or completeness of such information.

Hedge Fund Assets Have Grown in Lockstep with the Broader Capital Markets

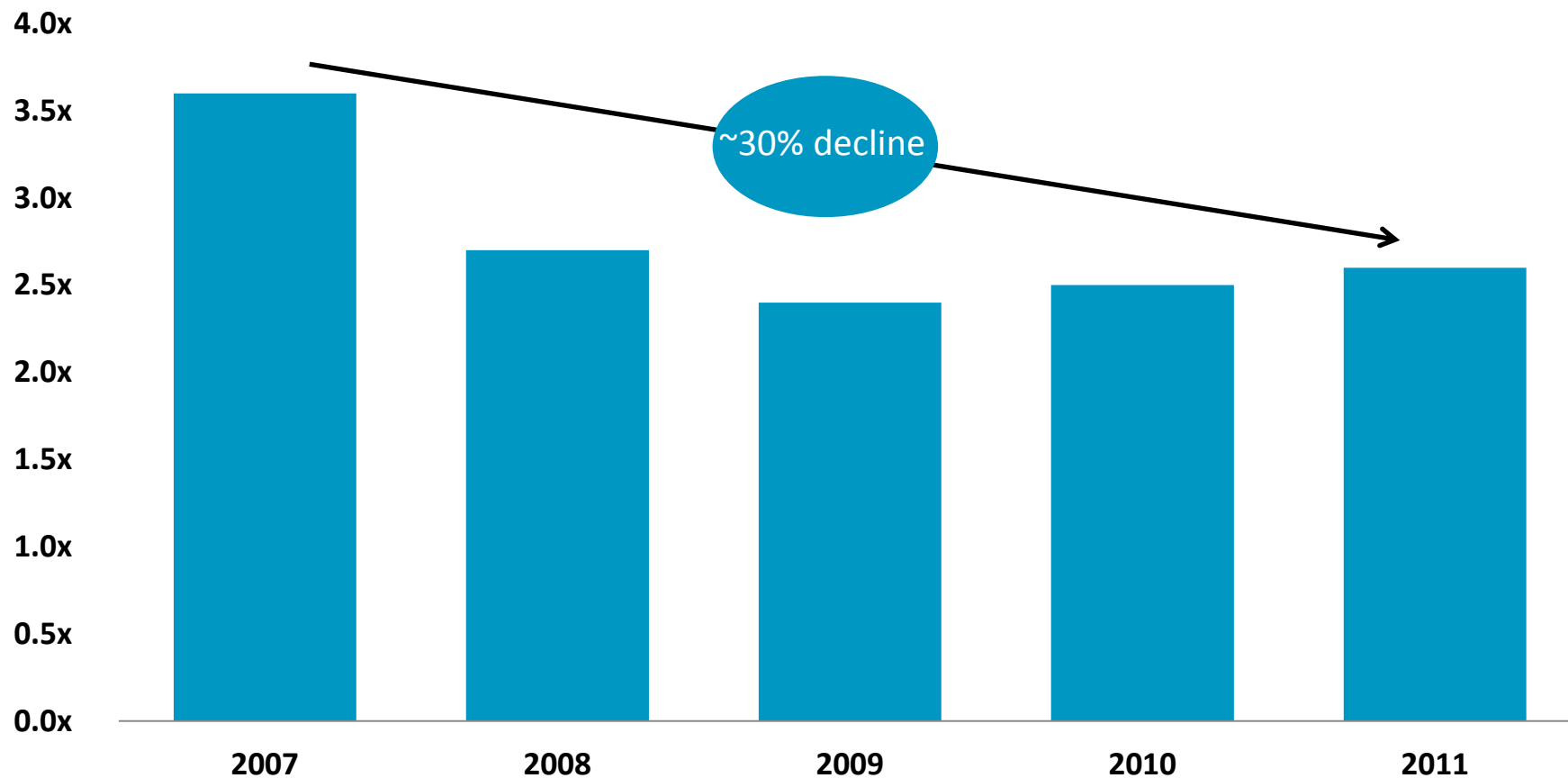
Hedge Funds as a Percentage of Global Financial Markets ⁽¹⁾



(1) Source: McKinsey & Co: Mapping Global Capital Markets 2011. Information presented above has been provided by, or is based on information provided by, third parties that are not affiliated with BAAM. BAAM has not independently verified such information and makes no representation or warranty as to the accuracy or completeness of such information.

Hedge Fund Leverage Has Declined

Hedge Fund Leverage

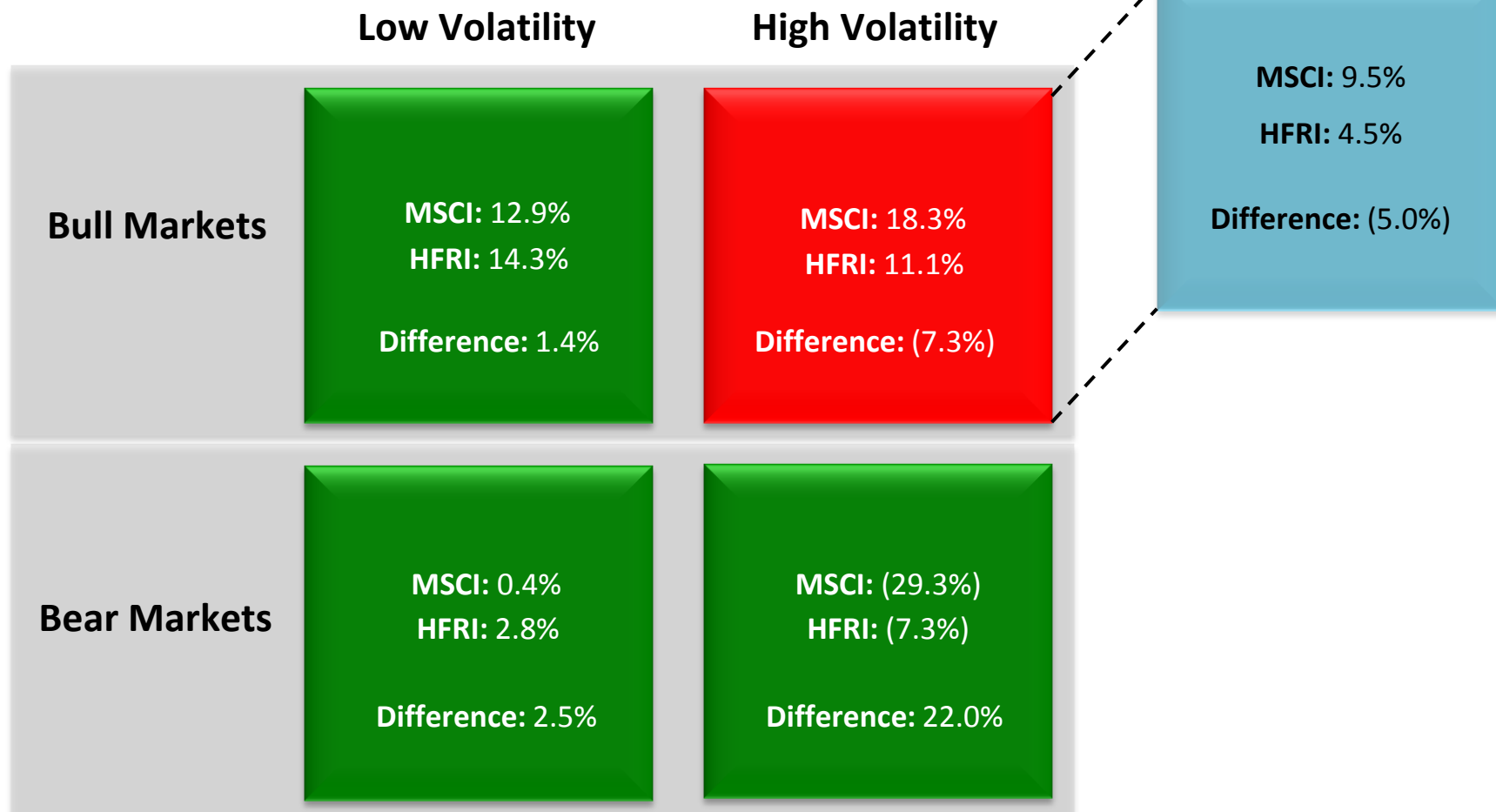


Source: NBER; OCED; FSA Hedge Funds Survey; Strategic Consulting analysis.

Hedge Funds Have Historically Underperformed in Bull Markets with High Volatility

January 1990 – August 2012

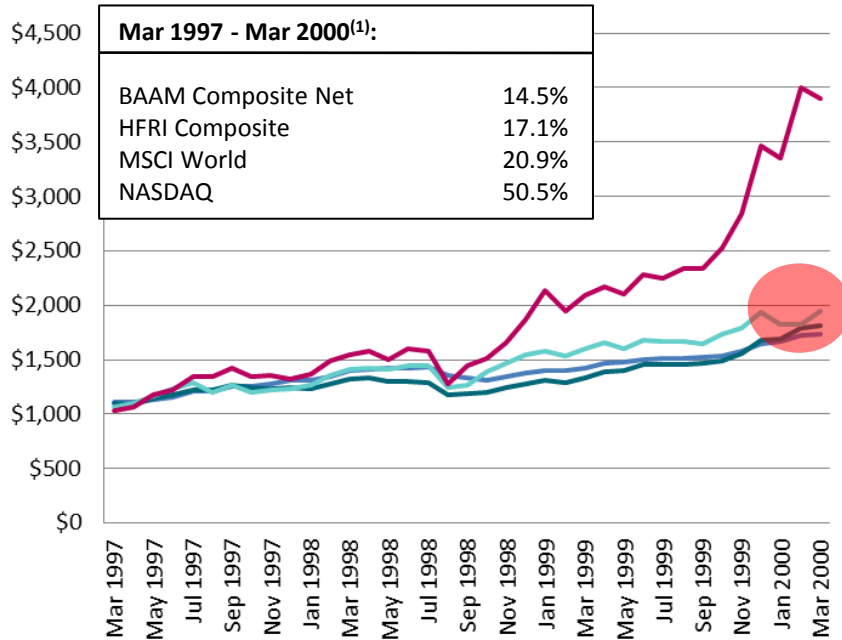
September 2009 – August 2012



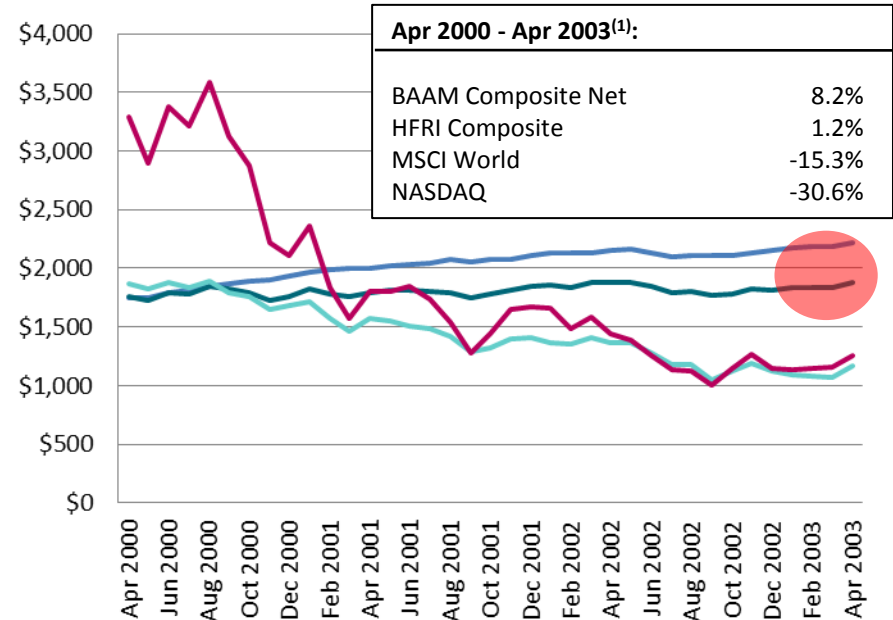
Indices above are the MSCI World TR Index and the HFRI Composite Index. Bull and Bear markets are reflective of the S&P 500 historical returns from January 1990 to August 2012. Bear Market time periods were from (i) Jan 1990 – Oct 1990, (ii) Nov 1993 – Dec 1994, (iii) Apr 1998 – Sep 1998, (iv) Jun 2000 – March 2003, (v) Oct 2007 – Feb 2009. Bull markets were considered to be all other time periods. High and Low Volatility periods were defined using a combination of S&P 500 TR returns and VIX from Jan 1990 – Aug 2012. Low Volatility time periods were (i) Nov 1990 – Apr 1996, (ii) May 2003 – Jun 2007. The remaining time periods were classified as high volatility. Use of alternate assumptions may yield different results. Past performance is not necessarily indicative of future results. There can be no assurance hedge funds will achieve their objectives or avoid significant losses.

The Last High Volatility Bull Market

Last Highly Volatile Bull Market



Post Highly Volatile Bull Market



— BAAM All net live — HFRI Composite (Bloomberg) — MSCI World Index TR — NASDAQ

Mar 1997 - Apr 2003⁽¹⁾:

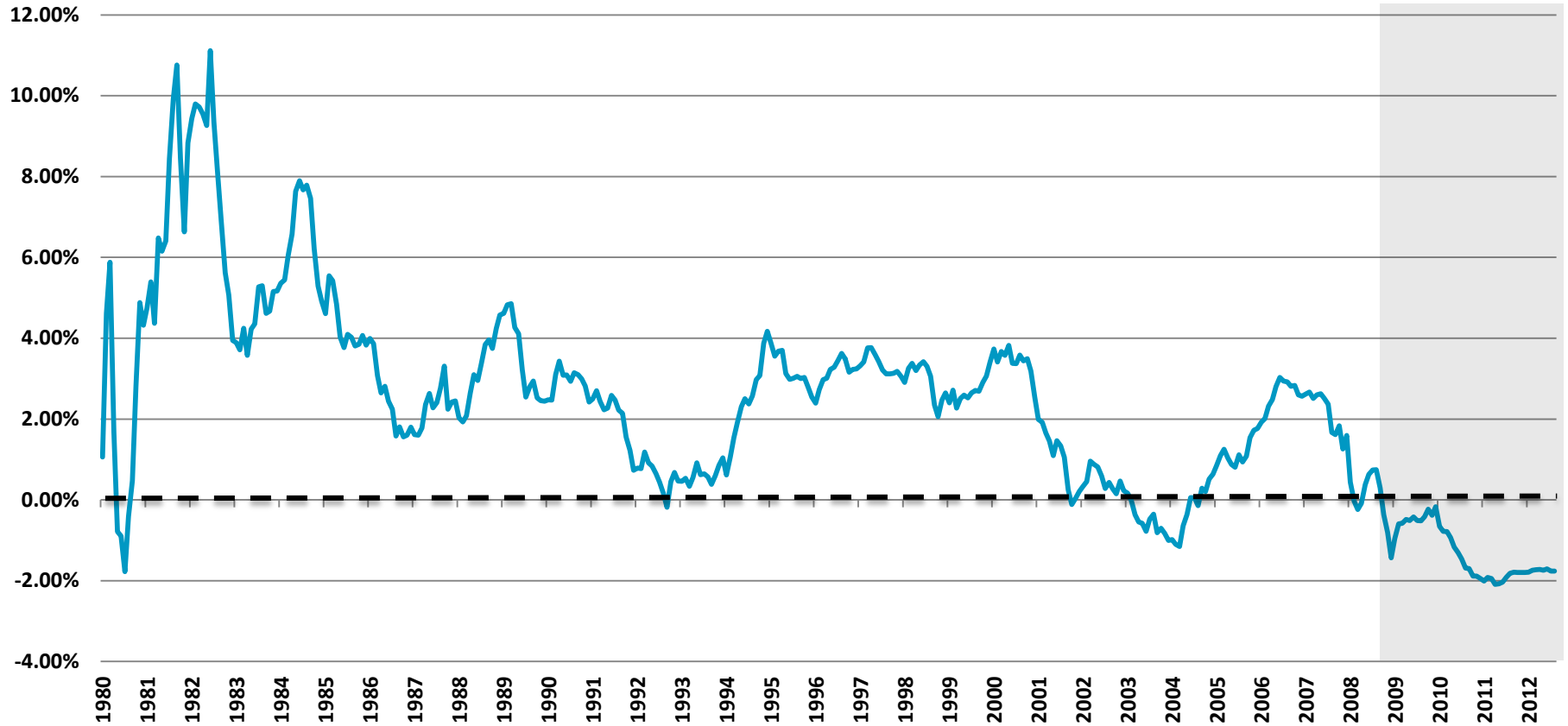
| | |
|--------------------|--------|
| BAAM Composite Net | 11.76% |
| HFRI Composite | 8.9% |
| MSCI World | 1.2% |
| NASDAQ | 2.2% |

See prior slide for time periods considered high volatility/bull market. This graph represents the hypothetical Net Asset Value if a client were to invest \$1,000 into the BAAM Composite, the HFRI Composite Index, the MSCI World TR Index and the NASDAQ on March 1997. The BAAM Core Composite does not include BAAM's long-only equity, long-biased commodities, seed, strategic opportunities (external investments), and advisory platforms. Details of the performance of all BAAM funds are available upon request. Past performance is not necessarily indicative of future results. There can be no assurance that BAAM funds will achieve their objective or avoid significant losses. The volatility of the indices presented may be materially different from that of the performance of the BAAM Composite. In addition, the indices employ different investment guidelines and criteria than the BAAM Composite; as a result, the holdings in the BAAM Composite 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 BAAM Composite, but rather is disclosed to allow for comparison of the BAAM Composite'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.

(1) Represents annualized returns.

It is a Tough Environment to be an Investor

Real Interest Rates (1)

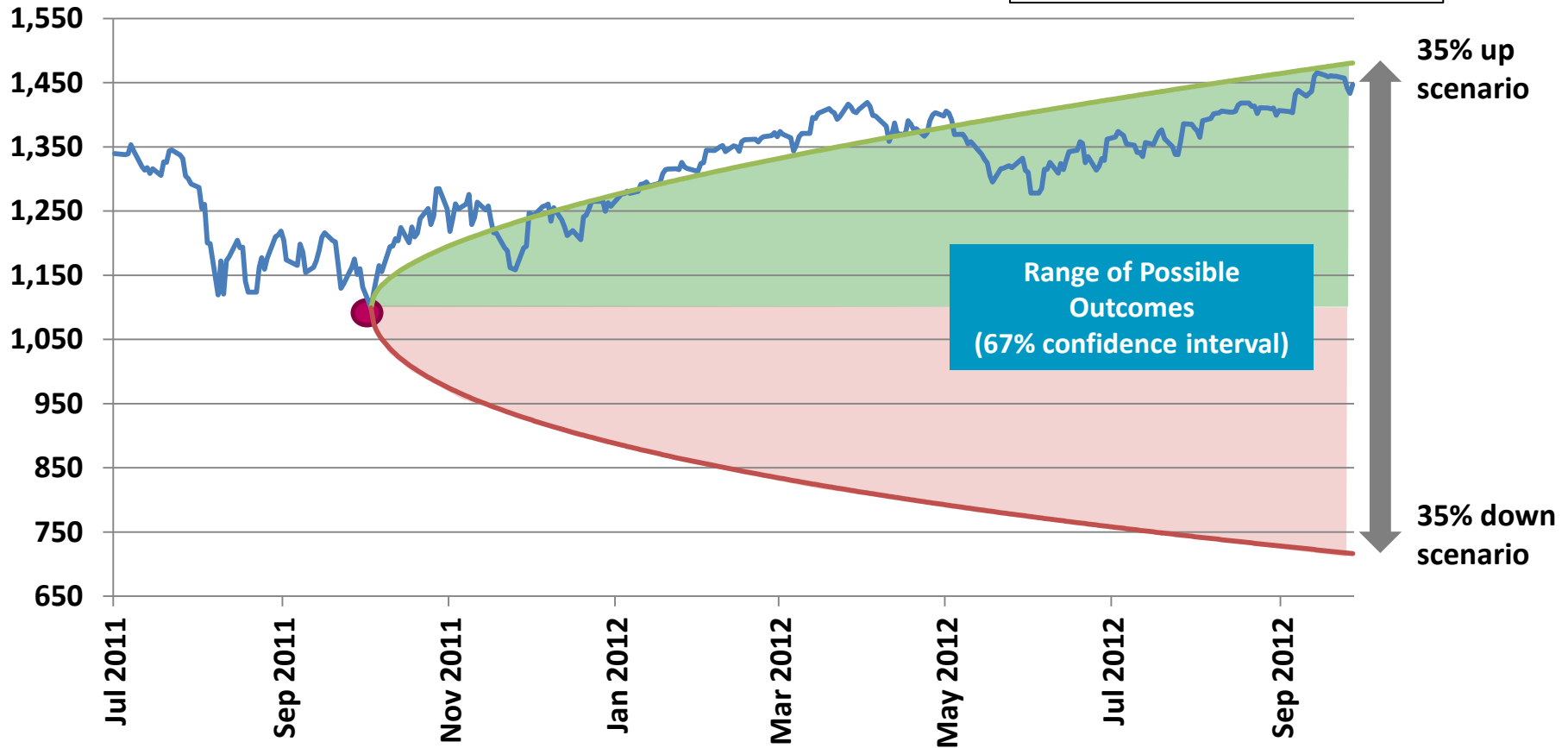


(1) Source: Macrobond. Information presented above has been provided by, or is based on information provided by, third parties that are not affiliated with BAAM. BAAM has not independently verified such information and makes no representation or warranty as to the accuracy or completeness of such information.

And Even Though the S&P Has Performed Well

VIX 12-Month Forward Curve (1-Year Implied Volatility = 35%)

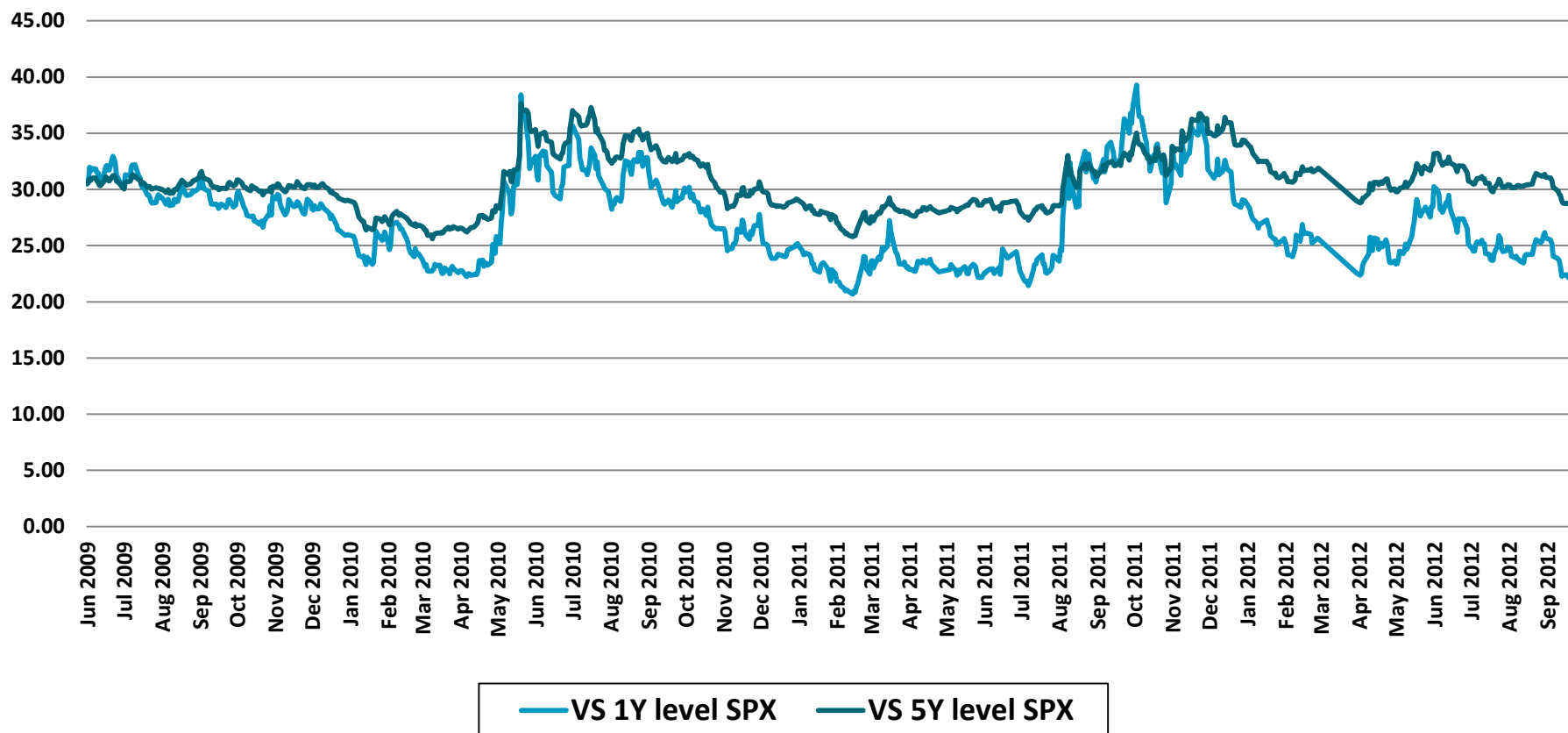
| Annualized Return (Oct 2011 – Sep 2012) | |
|---|-------|
| S&P 500 | 30.8% |
| HFRI Composite | 4.5% |



Source: Bloomberg. Information contained herein has been provided by, or is based on information provided by, third parties that are not affiliated with BAAM. BAAM has not independently verified such information and makes no representation or warranty as to the accuracy or completeness of such information.

The World Is Still a Scary Place

Implied and Realized Volatility



Source: Societe Generale, 2012. Information contained herein has been provided by, or is based on information provided by, third parties that are not affiliated with BAAM. BAAM has not independently verified such information and makes no representation or warranty as to the accuracy or completeness of such information.

Beware of Overreacting to Recent Performance

| 1990 – 1993 | | 1993 – 1996 | | 1996 – 1999 | | 1999 – 2002 | | 2002 – 2005 | | 2005 – 2008 | | 2008 – 2011 | | 2011 – Present | | 1990 – Present | |
|--------------|-------------|-------------|-------------|--------------|--------------|-------------|-------------|--------------|-------------|-------------|-------------|---------------|--------------|----------------|--------------|----------------|-------------|
| Return | Vol. | Return | Vol. | Return | Vol. | Return | Vol. | Return | Vol. | Return | Vol. | Return | Vol. | Return | Vol. | Return | Vol. |
| 10.1% | 9.5% | | | | | | | | | | | | | | | | |
| 12.2% | 5.7% | | | | | | | | | | | | | | | | |
| 12.8% | 6.3% | | | | | | | | | | | | | | | | |
| | | 9.7% | 3.7% | | | | | | | | | | | | | | |
| | | 9.7% | 5.1% | | | | | | | | | | | | | | |
| | | 9.7% | 5.8% | | | | | | | | | | | | | | |
| | | | | 20.0% | 10.3% | | | | | | | | | | | | |
| | | | | 8.4% | 6.6% | | | | | | | | | | | | |
| | | | | 4.7% | 6.7% | | | | | | | | | | | | |
| | | | | | | 2.9% | 6.3% | | | | | | | | | | |
| | | | | | | 5.4% | 8.2% | | | | | | | | | | |
| | | | | | | 6.2% | 9.5% | | | | | | | | | | |
| | | | | | | | | 10.5% | 6.2% | | | | | | | | |
| | | | | | | | | 12.3% | 6.4% | | | | | | | | |
| | | | | | | | | 12.8% | 7.4% | | | | | | | | |
| | | | | | | | | | | 7.0% | 5.4% | | | | | | |
| | | | | | | | | | | 8.2% | 6.1% | | | | | | |
| | | | | | | | | | | 8.6% | 6.5% | | | | | | |
| | | | | | | | | | | | | (2.3%) | 18.3% | | | | |
| | | | | | | | | | | | | 0.6% | 15.4% | | | | |
| | | | | | | | | | | | | 1.5% | 14.9% | | | | |
| | | | | | | | | | | | | | | 7.7% | 2.4% | | |
| | | | | | | | | | | | | | | 7.4% | 9.5% | | |
| | | | | | | | | | | | | | | 7.1% | 12.3% | | |
| | | | | | | | | | | | | | | | | 8.1% | 9.3% |
| | | | | | | | | | | | | | | | | 8.0% | 8.4% |
| | | | | | | | | | | | | | | | | 7.9% | 8.9% |

Frequency of Superior Portfolio Returns
 Optimized Portfolio 38%
 Equal Weighted Portfolio 0%
 Contrarian Portfolio 62%

Asset Classes Used in Analysis:

- Equities
- High Yield
- Treasuries
- Commodities

Optimized Portfolio
Equal Weighted Portfolio
Contrarian Portfolio

Note: Bolded figures denote superior realized performance. Returns are annualized. Present represents September 2012.
 Assumptions: The Optimized, Equal Weighted, and Contrarian example Portfolios ("Portfolios") are for illustrative purposes only and no such Blackstone portfolios or funds exist. The Portfolios were constructed using four representative asset classes, Equities, High Yield, Treasuries, Commodities; index proxies were then assigned to each asset class and are the S&P 500 TR, CSFB HY, Barclays US Agg and GSCI, respectively. For each of the time frames presented, each of the indices' returns from the prior three years were analyzed to construct each Portfolio. The Optimized Portfolio targets a standard deviation of 6% and seeks to achieve maximum returns; the Equal Weighted Portfolio equally weights each of the four asset classes; the Contrarian Portfolio is constructed using one minus the allocation amounts of the Optimized portfolio, scaled down so the sum of the portfolio allocations equals 100%. Superior Returns are defined as (i) assumed to be the maximum average return between each of the three portfolios over each time period presented (ii) where the returns are equal or nearly equal, standard deviation is taken into consideration by assessing how far it strays from the target volatility of 6%. Use of alternate assumptions would yield different results. Past performance is not necessarily indicative of future results.

Ten Principles of Effective Portfolio (and Risk) Management

1. **Always know why you made an investment in the first place**
 - Research
 - People
 - Process
2. **The future is always unpredictable** – seek a margin of safety
3. **Have an exit strategy** – not just for when things go wrong
4. **Be contrarian** – The consensus view is inevitably wrong in the long term
5. **Look for catalysts** – it reduces market dependence
6. **Excessive diversification dilutes returns** – and diversification only matters at all if it is “real”
7. **Be opportunistic / benefit from dislocations** – look for situations where you can understand why smart people should be able to make money... then find a smart person
 - Forced sellers
 - Regulatory Change
8. **Understand your comparative advantages and leverage them** – Illiquidity carries a risk premium
9. **Embrace complexity** – it limits competition
10. **But Beware** – If you don't know who the sucker at the table is, it's probably you

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