

# BLACKSTONE DEBT ADVISORS L.P.

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Form ADV, Part 2 – the “Disclosure Brochure” or “Brochure” – as required by the Investment Advisers Act of 1940 (the “**Advisers Act**”) provides important information about Blackstone Debt Advisors L.P. (the “**Registrant**”).

This Brochure provides information about the Registrant’s qualifications and business practices. If you have any questions about the contents of this brochure, please contact the Registrant at +1 (212) 503-2100. Additional information about the Registrant also is available at the SEC’s website [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) (click on the link “Investment Adviser Search”, select “Investment Adviser Firm” and type in the Registrant’s name). Results will provide you with Parts 1 and 2 of the Registrant’s Form ADV.

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “**SEC**”) or by any state securities authority. The Registrant is a registered investment adviser with the SEC. The Registrant’s registration as an Investment Adviser does not imply any level of skill or training. The oral and written communications provided to you, including this Brochure, may be used to evaluate the Registrant and should be considered in your decision to hire the Registrant or to continue to maintain a mutually beneficial relationship.

## **Item 2 – Material Changes**

This brochure contains important information about the Registrant. There have been no material changes since the Form ADV Part II dated as of March 31, 2010.

In future filings, this section will address only those “material changes” that have been incorporated since the Registrant’s last delivery or posting of this document on the SEC’s public disclosure website (IAPD) [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

The Registrant may, at any time, update this Brochure and either send you a copy or offer to send you a copy (either by electronic means (email) or in hard copy form).

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## **Item 4 – Advisory Business**

### **A. Description of Blackstone Debt Advisors L.P.**

The Registrant serves as investment manager for pooled investment vehicles operating as private investment funds, including collateralized loan obligation (“**CLO**”) vehicles, draw down funds and funds in which affiliates or employees of the Registrant invest alongside such other private investment funds (the “**Clients**”).

BCLO Advisors L.L.C. is the general partner of the Registrant. Blackstone Holdings I L.P. is the sole member of BCLO Advisors L.L.C. Blackstone Holdings I/II GP Inc. is the general partner of Blackstone Holdings I L.P. The Blackstone Group L.P. (“**Blackstone**”) is the controlling shareholder of Blackstone Holdings I/II GP Inc. Blackstone is a publicly traded entity on the New York Stock Exchange (Ticker: BX).

### **B. Description of Advisory Services**

The Registrant provides investment advice to Clients which may include state or municipal government entities. The Registrant offers advice primarily in respect of investments in leveraged loans, second lien loans, CLOs, high yield bonds, distressed securities, mezzanine securities, public and private equity and credit derivatives.

### **C. Assets Under Management**

The Registrant’s assets under management were approximately \$7.6 billion as of December 31, 2010.

## **Item 5 – Fees and Compensation**

### **A. Management Fees and Performance Fees**

For its investment advisory services, the Registrant or an affiliated entity may receive a management fee at an annual rate of up to 2.0% of the net assets, invested capital or aggregate principal balance of the assets (in the case of CLOs), as the case may be, of such Client and a performance fee (or incentive allocation) of up to 20.0% of such Client's net profits, which may be subject to a loss carryforward provision or clawback provision, as the case may be. All fees for the Clients will be disclosed in the relevant offering documents, which are provided to prospective investors.

While the Registrant's policy is that its fees are not negotiable, the Registrant reserves the right to waive or reduce its fees for certain investors. In particular, certain affiliates or employees of the Registrant that are investors in the Clients do not pay management or performance fees. Note that the existence of a performance fee may incentivize the Registrant to manage the Clients' assets in a more aggressive manner than if there was no performance fee. Further, the existence of differing performance fees for Clients of the Registrant or its affiliates trading side-by-side may create a conflict of interest to the Registrant and its affiliates with respect to the allocation of investment opportunities. The Registrant has a trade allocation policy (see **Item 16 – Investment Discretion**) that addresses this conflict of interest.

The management fee payable by a Client to the Registrant may be reduced by any placement, origination or other transaction fees (including commitment, closing, amendment, waiver, directors, organizational, break-up or other similar fees in respect of a Client's purchase, monitoring or disposition of an investment) received by the Registrant for transactions effected for such Client's account.

### **B. Timing of Fee Payments**

Management fees are payable monthly or quarterly in arrears, as the case may be, and incentive fees or incentive allocations may be payable at the end of the fiscal year or upon disposition of the applicable asset. The Registrant may elect to defer payment of all or part of the management fee and/or incentive fee. Management fees and incentive fees are generally deducted from the applicable Fund assets. Alternatively, certain Clients may be invoiced for such management fees or incentive fees.

### **C. Additional Fees and Expenses**

The organizational and offering documents of each Client provide a description of any additional fees and expenses for which such Client may be responsible. Generally, each Client will be responsible for all costs and expenses relating to the organization of such Client and of maintaining the operations of such Client and the investments paid by or on

behalf of such Client, including, without limitation, (i) legal, filing, auditing, consulting, administration, accounting and other professional fees and expenses; (ii) expenses associated with periodic reporting to Clients; (iii) financial statements and tax returns; (iv) insurance, interest and other expenses incurred in respect of borrowings, if any; (v) other expenses associated with the acquisition, holding, monitoring, settlement and disposition of such Client's investments (including, without limitation, any brokerage, custody or hedging costs); (vi) the costs and expenses of any custodians, lenders, investment banks and other financing sources; (vii) any indemnity expenses; and (viii) the costs and expenses of any litigation involving such Client.

**D. Employee Compensation for Sales of Securities**

No employee of the Registrant accepts or otherwise receives, directly or indirectly, any compensation for the sale of securities or other investment products.

## **Item 6 – Performance-Based Fees and Side-By-Side Management**

Please refer to Item 5, Part A for a discussion on performance-based fees and side-by-side management.

## Item 7 – Types of Clients

The Registrant provides its services and markets its funds to a limited number of institutional investors and sophisticated, high-net worth individual investors capable of understanding the risks of their investments, including the following types of clients:

- Banks and other financial institutions
- Insurance companies
- Investment companies
- Public and private retirement and pension plans
- Public and private profit sharing plans
- Trusts and estates
- Charitable organizations
- State and municipal government agencies
- Sovereign wealth funds
- Hedge funds and fund of funds
- High net worth individuals
- Corporations
- Business entities other than those listed above

All potential clients must go through certain suitability and compliance procedures (including anti-money laundering procedures), prior to acceptance of any subscription or investment amount for any Client. In addition, any separate maintenance- or other investment-related provisions (*e.g.*, minimum account sizes) will be provided in the organizational and offering documents of each Client, which documents are made available to each potential client prior to investment.



## **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**

### **A.**

#### **Methods of Analysis**

The Registrant employs a rigorous investment process to evaluate potential opportunities and investments and may use a variety of proprietary and non-proprietary research models and methods in its analyses. The Registrant derives information used to make investment decisions on behalf of its Clients from a variety of both internal and external resources, such as financial newspapers and magazines, research and reports provided by third parties and corporate ratings services. In addition, the Registrant conducts an in-depth review of the target companies/investments through (i) analyses of corporate activities and financials, (ii) reviews of annual reports, prospectuses and other filings with the SEC, if any, and (iii) where appropriate, interviews and meetings with senior management of such target companies.

Generally, the Registrant seeks to capitalize on both long- and short-term inefficiencies in the market by investing across a spectrum of products (which may be subject to Client guidelines), often employing bottom-up analysis, utilizing market technicals and fundamentals to select investments. There may be occasions when (consistent with applicable Client guidelines), the strategy may be weighted to deep value or be more opportunistic and seek short term gains.

#### **Investment Strategies**

The specific investment strategy and corresponding method of analysis for each Client will be specified in the offering documents of such Client. Generally, the Registrant's investment objective for each Client is to invest opportunistically in a broad range of credit and credit-related securities and instruments, including, without limitation, leveraged loans, second lien loans, CLOs, high yield bonds, distressed securities, mezzanine securities, public and private equity and credit derivatives.

### **B. Risk of Loss**

The offering documents of each Client will contain detailed descriptions of certain of the risks associated with Client investments. Below are a few of the key risks associated with such investments.

### Investment and Trading Risk

Client investments are speculative and involve a high degree of risk, including the risk that such Client may receive little or no return on its investment or may lose part or even all of its investment. A Client portfolio may lack diversification and its performance may be volatile, thereby increasing the risk of loss. In addition, the fees and expenses associated with the Client may offset its profits. Client investments are suitable only for sophisticated investors who are in a position to tolerate such risk and satisfy themselves that such investment is appropriate for them. Note that while certain Clients may trade on a daily basis, the Registrant does not engage in any high frequency trading or computer-driven trading (“black box”) strategies.

### General Market and Economic Conditions

The success of the Client’s investments will be affected by general economic and market conditions, such as interest rates, availability of credit, credit defaults, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation of the Client’s investments), trade barriers, currency exchange controls, and national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect the level and volatility of financial instruments’ prices and the liquidity of the Client’s investments. Volatility or illiquidity could impair the Client’s profitability or result in losses. The Client may maintain substantial trading positions that can be adversely affected by the level of volatility in the financial markets — the larger the positions, the greater the potential for loss.

The economies of non-U.S. countries may differ favorably or unfavorably from the U.S. economy in such respects as growth of gross domestic product, rate of inflation, currency depreciation, asset reinvestment, resource self-sufficiency and balance of payments position. Further, certain non-U.S. economies are heavily dependent upon international trade and, accordingly, have been and may continue to be adversely affected by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. The economies of certain non-U.S. countries may be based, predominantly, on only a few industries and may be vulnerable to changes in trade conditions and may have higher levels of debt or inflation.

### General Risk Related to Investments in the Credit and Debt Markets

The Clients’ investments are expected to consist of non-investment grade senior secured loans, notes, bonds and securities that are subject to liquidity, market value, credit, interest

rate, reinvestment and certain other risks. It is anticipated that any such investments will generally be subject to greater risks than investment grade corporate obligations. These risks could be exacerbated to the extent that a portfolio is concentrated in one or more particular types of such Client's investments.

Prices of a Client's investments may be volatile and will generally fluctuate due to a variety of factors that are inherently difficult to predict, including, but not limited to, changes in interest rates, prevailing credit spreads, general economic conditions, financial market conditions, domestic and international economic or political events, developments or trends in any particular industry, and the financial condition of the obligors of such Client's investments. Additionally, non-investment grade senior secured loans, notes and bonds and interests therein have significant liquidity and market value risks since they are not traded in organized exchange markets but are traded by banks and other institutional counterparties. Furthermore, because such loans are privately syndicated and the applicable loan agreements are privately negotiated and customized, such loans are not purchased or sold as easily as publicly listed securities.

While loans purchased by a Client are generally intended to be secured by collateral, the Client may be exposed to losses resulting from default and foreclosure. Therefore, the value of the underlying collateral, the creditworthiness of the borrower and the priority of the lien are each of great importance. The Registrant cannot guarantee the adequacy of the protection of a Client's interests. Furthermore, the Registrant cannot assure a Client that claims may not be asserted that might interfere with enforcement of such Client's rights. In the event of a foreclosure, a Client may assume direct ownership of the underlying asset. The liquidation proceeds upon sale of such asset may not satisfy the entire outstanding balance of principal and interest on the loan, resulting in a loss to such Client. Any costs or delays involved in the effectuation of a foreclosure of the loan or a liquidation of the underlying property will further reduce the proceeds and thus increase the loss.

Please also refer to Item 10 for a discussion on certain conflicts of interest associated with the Registrant.

## **Item 9 – Disciplinary Information**

On occasion, the Registrant is named as a party to certain lawsuits in connection with its management of the Clients. The Registrant does not believe that any current or pending litigation to which it or its affiliates is a party is material or otherwise would have a material adverse effect on its investment or advisory activities.

## Item 10 – Other Financial Industry Activities and Affiliations

The Registrant is an affiliate of GSO Capital Partners LP (“**Cap Partners**”), GSO / Blackstone Debt Funds Management LLC (“**DFM**”), GSO Capital Advisors LLC (“**Cap Advisors**”), Blackstone Alternative Asset Management L.P. (“**BAAM**”), Blackstone Mezzanine Advisors L.P. (“**BMEZ**”), Blackstone Mezzanine Advisors II L.P. (“**BMEZ II**”), Blackstone Distressed Securities Advisors L.P. (“**BDSA**”), Blackstone Management Partners L.L.C. (“**BMP**”), each a registered investment adviser, as well as Park Hill Group LLC (“**PHG**”), a registered broker-dealer, GSO Capital Partners International LLP (“**GSO International**”), a Financial Services Authority (United Kingdom) registered entity, and Blackstone Group International Partners LLP (“**BGIP**”).

Certain employees who provide services to the Registrant also provide services to Cap Partners, DFM, Cap Advisors, BMEZ, BMEZ II, BDSA, GSO International and BGIP. PHG acts as a placement agent for various funds managed by the Registrant. BGIP acts as sub-adviser to the Registrant in connection with certain Clients. Investment funds managed or advised by BAAM may invest in various funds managed by the Registrant. The Registrant may coordinate with Cap Partners, DFM, Cap Advisors, BMEZ, BMEZ II and BDSA from time to time on particular investments although there is no formal arrangement in place. Additionally, in certain circumstances the Registrant’s employees will work closely with and have access to BMP’s employees, and funds managed by the Registrant may provide financing to or invest alongside clients of BMP from time to time.

The Registrant is also affiliated with several other investment advisors and broker-dealers that are listed in Item 7.A. of its Form ADV Schedule D. At this time there are no material arrangements between the Registrant and any such affiliated investment advisor or broker-dealer, but in the future there may be.

Certain direct and indirect partners, members, officers and employees of the Registrant (i) may serve as directors or hold executive positions with entities in which Client investments are held, or (ii) are partners, members, directors, officers or employees of Blackstone Advisory Partners L.P. (“**BAP**”), a registered broker-dealer, and/or its affiliates. A portion of their time in varying degrees is spent on matters relating to those entities.

As part of their regular business, BAP and its affiliates provide a broad range of financial and business advisory services. In addition, BAP and its affiliates may provide advisory services in the future beyond those currently provided.

In the regular course of their advisory businesses, affiliates of Blackstone may represent potential purchasers, sellers and other involved parties, including corporations, financial buyers, management, shareholders and institutions, with respect to businesses that may be suitable for investment by the Clients. In such a case, Blackstone's client may require Blackstone to act exclusively on its behalf, thereby precluding the Clients from acquiring or investing in such business. Blackstone will be under no obligation to decline such engagements in order to make the investment opportunity available to the Clients.

In connection with its advisory businesses, Blackstone may come into possession of information that limits its ability to engage in potential transactions. The Clients' activities may be constrained as a result of Blackstone's ability to use such information.

Blackstone has long-term relationships with a significant number of corporations and their senior management. In determining whether to engage in a particular transaction on behalf of the Clients, the Registrant will consider those relationships, and there may be certain transactions that will not be undertaken on behalf of the Clients in view of such relationships.

BAP may represent creditors or debtors in proceedings under Chapter 11 of the Bankruptcy Code or prior to such filings. From time to time, BAP may serve as advisor to creditor or equity committees. This involvement, for which BAP may be compensated, may limit or preclude the flexibility that the Clients may otherwise have to make investments. Blackstone is under no obligation to decline any engagements or investments in order to make an investment opportunity available to the Clients. The Clients may be forced to sell or hold existing investments as a result of investment banking relationships or other relationships that Blackstone may have or transactions or investments Blackstone may make or has made. Other investment activities of Blackstone also may result in limitations or restrictions on the Registrant's investment activities.

Certain clients managed or advised by affiliates of the Registrant may purchase or sell debt or equity securities or loans of companies in which the Clients have invested, either in the same or different level of such company's capital structure. Such situations may create conflicts of interest for the Registrant in respect of advice that it and its affiliates give to various clients managed or advised by the Registrant or any of its affiliates, for example, with respect to the terms of subordinated debt securities or other debt instruments, the enforcement of covenants, the terms of recapitalizations and the resolution of workouts or bankruptcies and decisions made with respect to obligations pursuant to the each client's investment management agreement. The Registrant shall work in good faith and in accordance with the terms of the applicable investment management agreement to resolve such conflicts in a fair and equitable manner.

Further, certain clients managed by affiliates of the Registrant (in both an investment advisory role, as well as in the position of general partner or manager of such clients) may co-invest with Clients. The Registrant affiliates also provide investment advice to other pooled investment vehicles that invest alongside Clients, including those in which employees represent a majority of the investors.

The Registrant may make cash payments to third parties for solicitation activities in accordance with Rule 206(4)-3 of the Advisers Act, to the extent applicable. PHG may receive cash payments from the Registrant in connection with such activities.

A complete description of the conflicts of interest applicable to the management of each Client is set forth in that Client's offering documents.

Below is a listing of the Registrant's affiliates:

<b>Broker/Dealer</b>	
Blackstone Advisory Partners L.P.	Provides a variety of investment banking services
Park Hill Group LLC	Places alternative investment products in private offerings to mostly institutional investors
Park Hill Real Estate Group LLC	Places real estate alternative investment products in private offerings to mostly institutional investors
<b>Investment Advisor</b>	
Blackstone Asia Advisors L.L.C.	Provides investment advice to two closed ended mutual funds and one internal long/short hedge fund
Blackstone Alternative Asset Management L.P. ("BAAM")	Manages a series of private funds engaged in multi-manager investment programs ( <i>e.g.</i> , fund of hedge funds)
Blackstone Fund Services India Private Limited	Provides sub-advisory services to one closed end mutual fund
Blackstone Communications Advisors I L.L.C.	Provides investment advisory services to a private investment fund specializing in communications-related private equity investments

Blackstone Distressed Securities Advisors L.P.	Provides investment advisory services to private investment funds specializing in distressed securities (these funds are in liquidation mode)
Blackstone Management Partners III L.L.C.	Provides investment advisory services to various private equity funds
Blackstone Management Partners IV L.L.C.	Provides investment advisory services to various private equity funds
Blackstone Management Partners L.L.C.	Provides investment advisory services to various private equity funds
Blackstone Clean Technology Advisors L.L.C.	Provides investment advisory services to private investment funds specializing in the cleantech energy sector
Blackstone Mezzanine Advisors L.P.	Provides investment advisory services to private investment funds specializing in mezzanine financing
Blackstone Mezzanine Advisors II L.P.	Provides investment advisory services to private investment funds specializing in mezzanine financing
Blackstone Real Estate Advisors III L.P.	Provides investment advisory services to various private real estate investment funds
Blackstone Real Estate Advisors IV L.L.C.	Provides investment advisory services to various private real estate investment funds
Blackstone Real Estate Advisors V L.P.	Provides investment advisory services to various private real estate investment funds
Blackstone Real Estate Advisors L.P. (formerly Blackstone Real Estate Advisors VI L.P.)	Provides investment advisory services to various private real estate investment funds
Blackstone Real Estate Advisors International L.L.C.	Provides investment advisory services to various private real estate investment funds
Blackstone Real Estate Advisors Europe L.P.	Provides investment advisory services to various real estate investment funds
Blackstone Real Estate Special Situations Advisors L.L.C.	Provides investment advisory services to private investment funds which invest primarily in public and private debt and other interests of real estate assets and real estate-related holdings



Blackstone Strategic Alliance Advisors L.L.C.	Manages a series of private funds engaged in a multi-manager investment program
Blackstone Group International Partners LLP	Provides investment sub-advisory services to a number of debt-focused private investment funds
GSO / Blackstone Debt Funds Management LLC	Provides investment advisory services to a number of debt-focused private investment funds, registered investment companies and separately managed accounts
GSO Capital Advisors LLC	Provides investment advisory services to a number of debt focused private investment funds and separately managed accounts
GSO Capital Partners LP	Provides investment advisory services to a number of debt focused private investment funds and separately managed accounts
GSO Capital Partners International LLP	Provides investment advisory services to a number of debt focused private investment funds
Bayview Asset Management, LLC	Provides investment advisory services focusing on real estate backed loans and mortgage securities
Pátria Investimentos	Alternative investment management and corporate advisory firm based in Brazil
<b>Commodity Trading Advisor &amp; Commodity Pool Operator</b>	
Blackstone Alternative Asset Management L.P.	Manages a series of private funds engaged in multi-manager investment programs ( <i>e.g.</i> , funds of hedge funds)
<b>Commodity Pool Operator</b>	
Blackstone Alternative Asset Management Associates L.L.C.	Serves as general partner of BAAM Funds which are structured as limited partnerships

## Item 11 – Code of Ethics

### A. Code of Ethics

The Registrant has adopted a Code of Ethics (the “**Code**”), pursuant to Rule 204A-1 of the Advisers Act, to ensure that the Registrant’s high ethical standards are maintained and to preclude circumstances which may lead to or give the appearance of conflicts of interest, insider trading or unethical business conduct.

The Code is distributed to each employee at the time of hire and is otherwise available to all employees on the Registrant’s intranet or by request. Clients or prospective clients may obtain a copy of the Code by contacting the Chief Compliance Officer, Marisa Beeney, at (212) 503-2100.

The Code addresses, among other things, the following issues:

- Standards of Business Conduct, including general fiduciary duties of employees
- Conflicts of Interest
- Treatment of Confidential Information
- Compliance with Federal Securities Laws
- Prohibitions on Insider Trading
- Personal Trading Policy, including pre-clearance of certain trades and transactions and periodic reporting of personal securities transactions
- Prohibition on the acceptance or provision of gifts and entertainment that exceed the Registrant’s policy standards
- Pre-clearance of Political Contributions.

### B. Participation and Interests in Client Transactions; Insider Trading

From time to time, various potential and actual conflicts of interest may arise from the overall advisory, investment and other activities of the Registrant, its affiliates and personnel (each an “**Advisory Affiliate**” and, collectively, the “**Advisory Affiliates**”). The Registrant has established policies and procedures to monitor and resolve conflicts and will endeavor to resolve conflicts with respect to investment opportunities in a manner it deems equitable to the extent possible under the prevailing facts and circumstances. Potential conflicts may arise due to the fact that (i) the Advisory Affiliates may have investments in some Clients but not in others, (ii) there may be different levels of investments in the various Clients and (iii) different Clients may pay different levels of fees to the Registrant. Further, various potential or actual conflicts of interest may arise due to the fact that the Registrant also provides investment advice to other commingled funds that

invest alongside other Clients of which employees represent a majority of the investors. Please also refer to Item 12 for a discussion on the Registrant's Allocation and Aggregation Procedures.

In addition, the Registrant may give advice or take action with respect to the investments of one or more Clients that may not be given or taken with respect to other Clients with similar investment programs, objectives and strategies. Accordingly, Clients with similar strategies may not hold the same securities or instruments or achieve the same performance. The Registrant also may advise Clients with conflicting programs, objectives or strategies. These activities also may adversely affect the prices and availability of other securities or instruments held by or potentially considered for one or more Clients. Finally, the Registrant and its personnel may have conflicts in allocating their time and services among the various Clients. The Registrant will devote as much time to each Client as the Registrant deems appropriate to perform its duties in accordance with its management agreements.

The Registrant also maintains Insider Trading policies and procedures (the “**Insider Trading Policies**”) that are designed to prevent the misuse of material, non-public information. The Registrant's personnel are required to certify to their compliance with the Code, including the Insider Trading Policies, on a periodic basis.

The Registrant's Insider Trading Policies prohibit the Registrant and its personnel from trading, or recommending to trade, for the Clients or other portfolios or themselves in securities of a company while in possession of material, non-public information (“**Inside Information**”) about such company, and from disclosing such information to any person not entitled to receive it. By reason of its various activities, the Registrant may have access to Inside Information or be restricted from effecting transactions in certain investments that might otherwise have been initiated. Where applicable, the Registrant has designed and implemented policies and procedures reasonably designed to shield its investment professionals from access to Inside Information where investment decisions are to be made on the basis of public information only. Among other things, such policies seek to control and monitor the flow of Inside Information to and within the Registrant, as well as prevent trading based on Inside Information. Accordingly, the Registrant may not have access to Inside Information that other market participants or counterparties are eligible to receive.

Notwithstanding such policies and procedures, there may be certain cases where the Registrant either may receive Inside Information due to its various activities on behalf of itself, its affiliates or their respective clients or may otherwise be restricted in acting for its Clients, resulting in limited liquidity or the inability to use such information for the benefit of certain clients in specific securities. The Registrant seeks to minimize those cases

whenever possible, consistent with applicable law and its Insider Trading Policies, but there can be no assurance that such efforts will be successful and that such restrictions will not occur.

### **C. Personal Trading and Insider Trading**

The Code provides the various rules and restrictions governing personal trading by the Registrant's personnel. The Registrant's personnel are restricted from buying and selling for their own accounts securities that the Registrant buys and sells for Clients' accounts. For most personal securities transactions, personnel must obtain pre-clearance from the Chief Compliance Officer. Generally, all purchases and sales of (i) Blackstone securities or (ii) any closed-end fund managed by the Registrant or one of its affiliates must be cleared through Blackstone's or the Registrant's, as applicable, personal trading request system. Purchases and sales of such securities may be subject to blackout periods where no trading will be permitted.

Pre-clearance generally will be denied if the proposed transaction involves an asset that is currently held in or by any client of the Registrant or its affiliates, is contemplated by or would reasonably be expected to be considered by any client of the Advisory Affiliates for investment, or in the opinion of the Chief Compliance Officer, creates the appearance of a potential conflict with the ongoing activities of the Registrant or its affiliates. Among other requirements, the Code requires the Registrant's access persons to report certain of their personal securities transactions and holdings (in reportable securities) to the Registrant, and the Registrant is required to review such reports.

## Item 12 – Brokerage Practices

### Best Execution

Portfolio transactions for Clients will be allocated to brokers and dealers on the basis of best execution (which may include, among other items, the consideration of such broker's or dealer's ability to effect transactions, its facilities and financial responsibility). The SEC generally describes "best execution" as a duty to execute securities transactions so that a client's total costs or proceeds in each transaction are the most favorable under the circumstances. The SEC also has stated that when seeking best execution the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution.

Accordingly, the Registrant considers the full range and quality of a broker's services including, (i) for executing brokers: expertise and ability to perform execution services; ability to execute transactions in liquid markets at competitive prices without disrupting the market for a particular security; ability to execute transactions in illiquid markets at competitive prices without disrupting the market for a particular security; range of services provided and products offered (*e.g.*, securities lending, margin lending, capital introduction, start-up services, reporting, research, valuation); quality and timeliness of market information provided; ability of broker to maintain confidentiality; credit worthiness and financial responsibility and (ii) for clearing brokers: operational expertise; ability to maintain confidentiality; credit worthiness; financial responsibility; fees; and commission rate or spread involved.

The Clients' securities transactions can be expected to generate brokerage commissions and other compensation, all of which the Clients, and not the Registrant or any of its affiliates, will be obligated to pay.

The Registrant's brokers and other service providers also may be Clients or investors in the Clients. As consideration for services provided, these brokers and other service providers will receive reasonable and customary fees or commissions.

Notwithstanding the foregoing, the Registrant does not "pay up" for research or other services provided by any brokers through the commission rate (*e.g.*, the Registrant does not use "soft dollars").

The Registrant's compliance with its best execution policy is reviewed by its Risk and Valuation Committee on a quarterly basis. Among its other duties, the Risk and Valuation

Committee is responsible for developing, evaluating and changing, when necessary, the Registrant's best execution practices. The Risk and Valuation Committee will monitor broker-dealers to assess the quality of execution of brokerage transactions effected on behalf of the Clients.

#### Allocation and Aggregation Procedures

The Registrant is committed to transacting in securities and loans in a manner that is consistent with the investment objectives of each of the Clients, and to allocating investment opportunities (including purchase and sale opportunities) among the Clients on a fair and equitable basis. The Registrant will generally execute client transactions on an aggregated basis when the Registrant believes that to do so will allow the Registrant to obtain best execution and to negotiate more favorable commission rates or other transaction costs that might have otherwise been paid had such orders been placed independently. When aggregating orders, all Clients will be treated in a fair and equitable manner. As used herein, "aggregated order" shall mean when the Registrant places an order on behalf of one or more clients and does not specify to the counterparty prior to execution the allocation between the clients or groups of clients. Generally, any partial fills will be allocated *pro rata* between the clients or groups of clients in accordance with the specified allocation.

It is the policy of the Registrant to generally share appropriate investment opportunities (including purchase and sale opportunities) with clients of the Advisory Affiliates. In general, this means that such opportunities will be allocated *pro rata* among the clients based on targeted acquisition size (generally based on available capacity) or targeted sale size (or, in some sales cases, the aggregate positions), taking into account available cash and relative capital of the respective client. In addition, the Registrant must comply with allocation procedures specified in any of the fund or organizational documents of its Clients. No Client will be allocated assets if such allocation does not meet the investment objective or current risk profile of such Client.

No client will be favored over any other client; each client that participates in the allocation of an aggregated order will participate at the average price for all of the participating transactions in that security on a given business day, with aggregated transaction costs shared *pro rata* based on each client's participation in the transaction.

Notwithstanding the foregoing, an aggregated order may be allocated on a basis different from that specified in the Registrant's allocation and aggregation procedures described herein if all Clients receive fair and equitable treatment. Reasons for allocating on a different basis include: a Client's investment guidelines and restrictions, available cash,

liquidity requirements, industry or issuer concentrations, tax or legal reasons, and to avoid odd-lots or in cases when a *pro rata* allocation would result in a *de minimis* allocation to one or more client.

### **Trade Errors**

Trade errors are evaluated on a case-by-case basis. If the Registrant determines that its gross negligence, willful misconduct or fraud was the direct cause of a trade error, the Registrant generally will compensate a Client for any losses resulting from such trade error. If a third-party's negligence or other wrongdoing causes a trading error that is material to a Client, the Registrant will attempt to recover the amount of loss from the third party for the Client. The Registrant does not assume responsibility for compensating the Client, or making the third party compensate the Client, in such cases.

## **Item 13 – Review of Accounts**

### **Ongoing Review of Accounts**

The Registrant's investment professionals review the relevant investment advisory accounts on an ongoing basis. This analysis includes, but is not limited to, a review of:

- Compliance with the investment strategy and restrictions provided in the specific offering documents of such Client
- Potential Conflicts
- Market Conditions
- Style Drift
- Performance Attribution
- Performance Deviation.

These reviews take place at Investment Committee meetings where investment ideas and strategies are discussed. A variety of internal and external resources may be reviewed during the course of such meetings. In addition to these formal meetings, which take place weekly or as needed, the Registrant's investment professionals may meet and discuss the review of investment advisory accounts on a more frequent, informal basis. The Investment Committee also conducts quarterly credit reviews based on monitoring and analysis performed by traders and investment analysts. The Registrant also has a Risk and Valuation Committee, which meets monthly and is headed by the Chief Operating Officer. The Chief Risk Officer also meets weekly with the head trader and other senior investment professionals. In addition, the legal and compliance department conducts a review of significant price movements of all positions on a monthly basis to address any "window dressing" or "portfolio pumping" issues.

### **Reports**

The Registrant provides unaudited performance reports on a monthly or quarterly basis to certain Clients, as specified in the organizational and offering documents of such Clients, and audited financial statements to Clients annually. The Registrant may elect to provide different levels of reports to investors.

Certain investors in the Clients may request information relating to a Client and, to the extent such information is readily available or may be obtained without unreasonable effort or expense, the Registrant will provide such investors with the information requested. Investors that request and receive such information will consequently possess information regarding the business and affairs of the Client that may not be known to other



investors. As a result, certain investors may be able to take actions on the basis of such information which, in the absence of such information, other investors do not take.

## **Item 14 – Client Referrals and Other Compensation**

The Registrant may make cash payments to third parties for solicitation activities in accordance with Rule 206(4)-3 of the Advisers Act, to the extent applicable.

In a typical distribution/placement arrangement, the Registrant may agree to pay a third-party solicitor for referring investors in certain Clients. Typically, the third-party solicitors will receive a portion of the management fee and/or performance fee paid to the Registrant (although other payment arrangements could exist). A prospective investor solicited by a third party will be informed of (and may be asked to acknowledge in writing its understanding of) any such arrangement. All fees for such solicitation services will be paid by the Registrant and investors in such Client will not be subject to any increased or additional fees or charges. The dollar amount of any placement agent fees is paid out of the applicable Clients, but credited as an offset to the management fees paid by the Clients.

Third-party solicitors in the U.S. will be registered as broker-dealers with the SEC. Third-party solicitors outside the U.S. may be registered with a non-U.S. regulatory body to the extent such registration is required

Park Hill Group LLC (an affiliate of the Registrant) may receive cash payments from the Registrant in connection with such activities. Please refer to Item 10 (Other Financial Industry Activities and Affiliations) for a more detailed discussion on any conflicts of interest that may arise in connection with the Registrant's engagement of Park Hill Group LLC. The Registrant also has distribution/placement arrangements with a number of other unaffiliated third parties.

## Item 15 – Custody

In connection with the management of investments for certain Clients, the Registrant may have, or may be deemed to have, custody of certain funds or securities of its Clients. Rule 206(4)-2 (the “**Custody Rule**”) of the Advisers Act defines custody as holding client securities or assets or having any authority to obtain possession of them, including the authority to withdraw funds or securities from a client’s accounts or ownership of or access to client funds or securities (such as through fee deductions).

The Registrant maintains Client assets with qualified custodians, such as U.S. banks, U.S. registered broker-dealers, U.S. futures commission merchants (limited to holding client funds and security futures and any other securities incidental to client futures transactions), and certain foreign financial institutions that customarily hold customer assets and that segregate customer assets from its own assets.

In accordance with the Custody Rule, for any Clients for which the Registrant has custody of such assets, such Clients are subject to an annual audit and the audited financial statements are distributed to each investor in such Clients. The audited financial statements are prepared in accordance with generally accepted accounting principles, issued with an unqualified opinion and distributed within 120 days of the Clients’ respective fiscal year ends.

To the extent that the Registrant does not have custody of a Client’s assets, the applicable custodian will prepare and distribute to such Client quarterly, or more frequent, account statements, which should be reviewed carefully by the Client. A copy of Client account statements is available upon request.

Information on a Client’s qualified custodian, if any, including such qualified custodian’s name, address and the manner in which the Client’s assets are maintained, may be provided in the relevant organizational and/or offering documents of such Client. The Registrant will promptly notify investors of any changes to the qualified custodian.

## **Item 16 – Investment Discretion**

The Registrant generally acts as an investment advisor in discretionary accounts and may exercise sole authority to determine the securities bought and sold for each account, as well as the amounts thereof, without obtaining specific client consent and without limitation on such authority. The specific investment guidelines and restrictions are provided in the applicable organizational and offering documents of each Client.

Please refer to Item 12 for a discussion on the Registrant's Allocation and Aggregation Procedures.

## Item 17 – Voting *Client* Securities (Proxy Voting)

As a fiduciary, an investment adviser with proxy voting authority has a duty to monitor corporate events and to vote proxies, as well as a duty to cast votes in the best interest of clients and not subrogate client interests to its own interests. Rule 206(4)-6 under the Advisers Act (the “**Proxy Voting Rule**”) places specific requirements on registered investment advisers with proxy voting authority. Due to the nature of the Registrant’s investment strategy, equity securities will generally not be a large portion of the investments of any Client. Nevertheless, because the Registrant has discretionary authority over the securities held by the Clients, the Registrant is viewed as having proxy voting authority over such securities. Accordingly, the Registrant is subject to the Proxy Voting Rule. To meet its obligations under this rule, the Registrant has adopted written Proxy Voting Policies and Procedures, which are available upon request. These policies and procedures are reasonably designed to ensure that the Registrant votes proxies in the best interest of the Clients and addresses how it will resolve any conflict of interest that may arise when voting proxies.

## **Item 18 – Financial Information**

The Registrant is not aware of any financial condition reasonably likely to impair its ability to meet contractual commitments to its Clients.