Highly Confidential &Trade Secret

MEMORANDUM

TO: **The Limited Partners of Blackstone Capital Partners III Merchant Banking Fund L.P. and its parallel funds (“BCP III”), Blackstone Capital Partners IV L.P. and its parallel funds (“BCP IV”) and Blackstone Capital Partners V L.P. and its parallel funds (“BCP V”)**

FROM: [redacted]

CC: [redacted]

RE: **Recent SEC Settlement**

DATE: **October 7, 2015**

As we have previously disclosed, the SEC has been reviewing Blackstone’s historical monitoring fee acceleration practices and the application of discounts from a law firm to Blackstone and its funds. On October 7, 2015, the SEC announced that Blackstone agreed, without admitting or denying any wrongdoing, to settle these matters in connection with funds formed many years ago. We wanted to provide you with additional information related to the settlement.

According to the SEC order, in certain legacy private equity funds, Blackstone did not provide sufficient pre-commitment disclosure regarding the possibility, common in the industry, of accelerating otherwise authorized fees upon termination of monitoring fee agreements with its portfolio companies. In addition, the SEC order provides that Blackstone did not adequately disclose that certain legal fee discounts it received, prior to 2011, were greater than discounts received by its funds (although the mix of work between Blackstone and the funds was different). Blackstone has agreed as part of the settlement to pay disgorgement of $26,225,203 (plus prejudgment interest of $2,686,553) to its Limited Partners, and a civil monetary penalty of $10,000,000 to the SEC.

The SEC order acknowledged that Blackstone had voluntarily implemented various changes to policies related to each of the practices described above prior to the initiation of this SEC inquiry. It further acknowledged Blackstone’s significant cooperation with the SEC’s review. The order neither suggests any bad faith associated with the charged conduct nor imposes a “censure” or a compliance monitor (as has been the case in some other financial services settlements).

With respect to accelerated monitoring fees, Blackstone explicitly disclosed such acceleration in pre-commitment marketing materials for all funds formed after 2012 (which includes BEP II and BCP VII). In older funds, even if not disclosed in pre-commitment marketing materials, such fees were disclosed in distribution notices, quarterly reports, and, in the case of IPOs, S-1 filings. Further, the SEC acknowledges that each accelerated monitoring fee was subject to an explicit LPAC objection right which was never exercised. Furthermore, in June 2014, as part of Blackstone’s voluntarily changes to its monitoring fee practices prior to this SEC inquiry, Blackstone began foregoing accelerated monitoring fee payments in connection with strategic sales and not accelerating more than three years of monitoring fees (reflecting the typical post-IPO hold period) in connection with IPOs. In BCP VII, Blackstone has provided that it does not intend to take any such fees (as well as other types of deal fees) in the future, and that any such fees that it does take will be subject to a 100% offset against limited partners’ management fees.

Separately, with respect to the vendor discount, as Blackstone has previously disclosed publicly

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and to its limited partners, Blackstone believes that the discount differential was generally reflective of differences in the nature of the legal services performed for Blackstone and the funds. The work for Blackstone tended to be more commoditized than the fund formation and transactional M&A work provided to the funds. In early 2011, however, Blackstone voluntarily changed this policy, and in 2012, Blackstone disclosed to all limited partners that historical discounts offered to Blackstone had exceeded discounts provided to the funds.

Please note that Blackstone, and not any fund or limited partner, will be solely responsible for all amounts associated with this settlement. [redacted]

[redacted]

[redacted]

Please contact your Blackstone Investor Relations contact or [redacted] with any questions that you may have.

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