



**Responses to Illinois State Investment Board Questions Dated June 10, 2014**

**July 11, 2014**

**Note:** Unless otherwise indicated, all answers are with respect to Blackstone Management Partners L.L.C. (“Blackstone”) and the Blackstone Private Equity business only. References to “BCP” or “BCP funds” mean Blackstone Capital Partners V-AC L.P. and Blackstone Capital Partners VI L.P., the private equity funds in which Illinois State Board of Investment has made an investment.

1. Is your firm a Registered Investment Advisor with the SEC? If so, when did you register?

**BX Response:** Blackstone Management Partners L.L.C. (“BMP”), the investment advisor to Blackstone Capital Partners V L.P. and Blackstone Capital Partners VI L.P. is registered with the SEC. BMP has been registered with the SEC since September, 2005.

2. Has the SEC conducted an examination of your firm? If so, when?

**BX Response:** An SEC audit team conducted a routine on-site exam of Blackstone’s fund activities in 2012, including with respect to our private equity funds. The exam included a review of our practices with respect to fees and expenses.

3. Were there any findings, deficiencies or violations identified by the SEC in the examination? If so, describe.

**BX Response:** The SEC exam did not reveal any material deficiencies or violations of law, including with regards to the allocation of fees and expenses. We shared with our limited partners a summary of the SEC’s findings in the BCP / BEP / BCOM Second Quarter 2012 Update (sent to the limited partners on August 1, 2012).

4. Have you had to reimburse LPs or a fund for any fees or expenses charged to a fund, which was uncovered during the SEC examination? If so, describe.

**BX Response:** No, we did not have to reimburse the LPs or any of our funds for any fees or expenses as a result of the SEC examination.

5. Have you charged “transaction fees”, such as broken deal fees, director’s fees, advisory fees, structuring & origination fees, monitoring fees and exit fees, to portfolio companies? If so, describe.

**BX Response:** All fees that we charge to BCP portfolio companies are as expressly provided in, or contemplated by, the respective BCP partnership agreements and in accordance with our internal written policies.

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*Fees Charged by the BCP Advisor.* Fees charged to portfolio companies by the BCP Advisor consist of transaction fees, monitoring fees and directors' fees (directors' fee received by Blackstone employees serving as directors are remitted to the BCP Advisor). As provided under the BCP partnership agreements, these fees received by the BCP Advisor offset the management fee paid by our limited partners. The offset percentages applicable to management fees paid by Illinois State Board of Investment are as follows:

- Blackstone Capital Partners V – 50%
- Blackstone Capital Partners VI – 80%

*Fees Charged by Affiliates/Related Parties of the BCP Advisor.* Affiliates of the BCP Advisor may also charge fees to portfolio companies for services they provide. These fees generally consist of financial advisory fees (e.g., M&A advisory work) and capital markets fees (e.g., underwriting, placement work, lending arrangement/syndication) which are charged at market rates and are not subject to management fee offset.

Blackstone may also cause portfolio companies to enter into agreements regarding group procurement (such as the group purchasing organization), benefits management, purchase of insurance policies (which may be pooled across portfolio companies and discounted due to scale) and other operational, administrative or management related matters from a third party or a Blackstone affiliate. Such operational initiatives may result in commissions or similar payments, including related to a portion of the savings achieved by the portfolio company and fees for services related to group purchasing and healthcare consulting/brokerage. These payments, which largely offset Blackstone's administrative costs for providing these services, are not subject to management fee offset.

6. Does all transaction fee income flow through the "management fee / transaction fee offset" to the benefit of LPs? If not, please explain.

**BX Response:** Please see the response to Question 5 above.

7. To the extent that there continues to be any transaction fee income even after an investment is exited or partially exited, will that income continue to flow through the management fee / transaction fee offset to the benefit of LPs? If not, please explain.

**BX Response:** With respect to partial exits, any fee we receive from the respective portfolio company following such partial exit would be as described in the answer to Question 5 above.

Historically, we have very rarely received any fees from portfolio companies following a full exit and we do not expect this practice to change in the future.

8. To the extent that transaction fee income is accelerated upon exit (i.e., termination payment), will that income flow through the management fee / transaction fee offset to the benefit of LPs? If not, please explain.

**BX Response:** Yes, any monitoring fee termination payments we receive are subject to the offset percentages included in the "*Fees Charged by the BCP Advisor*" section of our response to Question 5 above. Note that going forward for new monitoring fee agreements and with respect to

existing monitoring fee agreements, in the event of a privately negotiated sale transaction pursuant to which the entire company is sold, there will be no accelerated lump sum payment for future fees beyond the year in which the company is sold or, if such fees were paid, 100% of that payment would be distributed to our Limited Partners or shared via a management fee offset. In connection with any IPO, our average hold is roughly three years after the IPO and we would not expect future fees to extend beyond that period, provided that, to the extent we continue to provide services, any monitoring agreement can be extended with the company's agreement and such monitoring fees would be subject to offset as detailed in our responses to Question 5 and Question 7.

9. Does your firm use any related party service providers such as operating partners, consultants or advisors? If so, describe.

**BX Response:**

*Portfolio Operations Group.* As a general matter, any persons disclosed as partners or employees on our website (whether operational professionals or otherwise) have their compensation fully absorbed by Blackstone, subject to limited exceptions. With respect to BCP VI only, under the terms of its partnership agreement, members of Blackstone's Portfolio Operations group, who are Blackstone employees, are able provide services to BCP VI's portfolio companies, and any payments made by such portfolio companies to Blackstone for reimbursement of the internal compensation costs for time spent on such portfolio companies will not result in an offset to the BCP VI management fees. To the extent such costs are not reimbursed, they would reduce the amount of fees otherwise subject to offset (as discussed in Question 5 above) subject to maximum amount of \$5 million in the aggregate in any fiscal year.

*Senior Advisors and Operating Partners.* Blackstone also engages and retains strategic advisors, consultants, and other similar professionals who are not employees or affiliates of Blackstone and who may, from time to time, receive payments from BCP portfolio companies (as well as from Blackstone or the BCP funds). In such circumstances, such payments from portfolio companies and/or the BCP funds will not be deemed paid to or received by Blackstone and such amounts will not be subject to the management fee offset provisions. These senior advisors, consultants and/or other professionals may co-invest alongside the BCP funds, particularly in those investments in which they are involved, or otherwise participate in equity plans for management of any such portfolio company. The nature of the relationship with each of the senior advisors, consultants and/or other professionals and the amount of time devoted or required to be devoted by them varies considerably. In certain cases, they provide Blackstone with industry-specific insights and feedback on investment themes, assist in transaction due diligence, make introductions to and provide reference checks on management teams. In other cases, they may serve as executives or directors on the boards of portfolio companies or contribute to the origination of new investment opportunities. In certain instances Blackstone may have formal arrangements with these senior advisors, consultants and/or other professionals (which may or may not be terminable upon notice by any party), and in other cases the relationships may be more informal.

10. Does the income earned by these related parties from portfolio companies flow through the management fee / transaction fee offset to the benefit of LPs? If not, please explain.

**BX Response:** Please see the response to Question 9 above.

11. Are the transaction fees and management fees / transaction fee offsets reported to the LPs in the capital call / distribution notices and financial statements? Provide examples.

**BX Response:** The quarterly capital account statements and management fee drawdown notices, each disclose all fees described in the “*Fees Charged by the BCP Advisor*” section of our response to Question 5 above and this disclosure is itemized on an individual portfolio company basis. Please see p. 19 of the attached latest quarterly capital account statements of Illinois State Board of Investment.

All fees described in the “*Fees Charged by Affiliates/Related Parties of the BCP Advisor*” section of our response to Question 5 above are disclosed within 30 days of receipt of such fees by Blackstone. They are customarily disclosed in the capital calls / drawdown notices though they may be included in other LP correspondence as well (e.g., quarterly fund updates).