
Final Transcript

THE BLACKSTONE GROUP: Blackstone 2014 First Quarter Investor Call

April 17, 2014/11:00 a.m. EDT

SPEAKERS

Joan Solotar, Senior Managing Director, Head of External Relations and Strategy

Steve Schwarzman, Chairman and CEO

Laurence Tosi, CFO and Sr. Managing Director

Tony James, President & COO

Weston Tucker, Head of IR

PRESENTATION

Coordinator Good day, ladies
 and gentlemen,
 and welcome to
 the Blackstone
 First Quarter 2014
 Investor call. Now
 I'd like to turn the



call over to your host for today, Joan Solotar, Senior Managing Director, Head of External Relations and Strategy. Please proceed, Ms. Solotar.

J. Solotar Terrific. Thank you, Glen. Good morning, everyone. Welcome to Blackstone's First Quarter 2014 Conference call. I'm joined today by Steve Schwarzman, Chairman and CEO; Tony James, President and Chief Operating Officer; Laurence Tosi, CFO; and Weston Tucker, Head of IR. Earlier this morning we issued our press release and the slide presentation illustrating our results. Those are available on the website, and we'll be filing our 10-Q in a couple of weeks.

So, I'd like to remind you that today's call may include forward-looking statements which are uncertain and outside the firms control and actual results may differ materially. After discussion of some of the risks, please see the Risk Factor section in our 10-K. We don't undertake any duty to update forward-looking statements. We will refer to non-GAAP measures, and you can find those reconciliations in the press release. I'd also like to remind you that nothing on the call

constitutes an offer to sell, or solicitation of an offer to purchase any interest in any Blackstone fund. The audio cast is copyrighted, can't be duplicated, reproduced, or rebroadcast without consent.

So, a quick recap. We reported economic net income or ENI for the first quarter of \$0.70. That's a record first quarter, it's up 27% from \$0.55 last year's first quarter. This was driven by higher performance fees. We had greater appreciation in the underlying portfolio assets, as well as higher management fees. Distributable earnings were \$485 million in the quarter, that's \$0.41 per common unit, up 21% from last year's first quarter, and we'll be paying a distribution of \$0.35 per unit to shareholders of record as of April 28th.

So, one more note from me. We're going to be hosting our fourth annual Blackstone Investor Day on June 12th in New York. We've just sent out the save the date e-mails. If you haven't received one, but you'd like to, please let us know. Also, please mark it on your calendar. Please feel free to follow

up with me or Weston after the call with any questions, and with that I'm going to turn it over to Steve Schwarzman.

S. Schwarzman Thanks, Joan. Good morning and thank you for joining our call. It's been a terrific start to the year, as Joan told you, and Tony earlier, with a record first quarter for both ENI and cash earnings, and an all-time record AUM of \$272 billion, which is up 25% year-over-year.

Each of our investment platforms posted great returns and double-digit AUM growth, and we generated total realizations in the quarter of over \$9 billion. Though equity markets have experienced a recent downdraft, though they are rebounding a bit, we're at a favorable point in this cycle, as our asset values of our underlying assets continue to rise, and we're finding interesting investment opportunities around the world.

Our limited partner investors are looking to put capital to work in areas of asset management that have shown the greatest returns over time, with less correlation to market indices.

Blackstone is perfectly positioned to take share of this growing pie. We pioneered several businesses over an extended period of time to become a best in class brand, and the only manager with scale global platforms across the major asset classes.

One of the challenges many money managers will face with greater capital flows, more competition, and higher asset prices, is how to generate good returns. Blackstone's singular focus on achieving top-tier investment performance is a key differentiator in this environment. Our returns were quite good across the board in the first quarter, as Tony mentioned. Our private equity portfolio rose 27% in the past year, including 7% in the first quarter. These returns are being driven by strong portfolio company operating performance, with some of the best revenue and EBITDA trends we've seen in some time, and significantly better than trends in the broader market.

This is really important for you to understand that our underlying assets are, in our view, significantly outperforming what's happening in the liquid securities markets.

In real estate, our opportunistic investments were up 28% over the past year, including 4% in the first quarter. Our credit funds had gross returns between 19% and 31% over the past year, and 4% to 5% in the first quarter, which is pretty terrific for any asset class, but particularly outstanding for credit investing, as you've seen from results from other firms, as reported in the last few days. Our hedge fund solution business, or BAAM, produced a 10% composite gross return over the past year, and 1.8% over the first quarter.

In order to generate sustained performance like this across our business and across cycles you need to invest well, and you need global diversified investment capabilities. We've invested over many years to develop this. For example, our real estate business started with a central global fund, and then we raised a European fund, then a debt strategies business, now Asia, and most recently, Core Plus.

In private equity, we've added a dedicated energy fund to invest alongside our global fund, created our innovative tactical opportunities business, and then added a secondary business, and so on. Our business is the business of innovation with adjacent products. Because of this approach, the backdrop for making new investments remains favorable for us today.

In the first quarter, we invested or committed \$7.4 billion across the firm, which reflects a very active pace. Over the past year we've invested \$22 billion, so you can see our pace has increased from that annualized pace, with an increased mix of deals outside the United States. Within the U.S., we're staying away from crowded trades and expensive sectors, and in all cases we're keeping the emphasis on generating our own deals.

In private equity our investment pace has picked up sharply to \$3.1 billion in the first quarter. New commitments include Kronos, a workforce management software provider that's really got a really terrific market position, and Versace, one of the best known fashion brands. We also continue to see

significant deal flow in the energy sector. Post the quarter our pace remains strong, with several new commitments including Gates Global, a leading manufacturer of automotive and industrial components, and significantly, that's a big after-market type of business, which is protected from some of the vicissitudes that you'd assume with auto.

In real estate, we expanded our logistics platform in Europe, added to our industrial and multi-family footprint in the U.S., and invested further in select service hotels. The outlook for new investments remains compelling, particularly in Europe, where significant distress exists in the system, and Asia, where we see strong growth, less supply, and limited competition, as well as a shortage of credit, which means good opportunities for us there.

In our credit business, our mezzanine and rescue lending funds were quite active, deploying or committing nearly \$900 million in the quarter, with a continued focus on energy as well as European-direct financing. To support our investment pace, we have significant dry powder of \$48 billion, which is up from \$36

billion a year ago. That's a really nice increase, as our investors entrust us with more of their money to manage.

Importantly, despite our ability to raise substantially more for all of our recent funds, we've capped them to match the investment opportunities. In fact, we've never seen flows in the firm's history of this scale, and we have the discipline to not take every dollar that we've been offered, which is important to preserve our performance record for our limited partners. Our outstanding track record which spans nearly three decades is built on this discipline, and our ability to manage capital across cycles.

In the first quarter we raised over \$10 billion in capital, bringing us to \$52 billion for the past year, excluding acquisitions. No one—no one, in history, in our asset classes, has even vaguely approached this kind of number. In real estate we had a final close for our fourth European fund, which hit its cap of nearly \$7 billion, making it the largest of its type ever raised. We could have raised very significantly more than this \$7 billion.

While it is an accomplishment in its own right, the fact that the team achieved this fund raise, the biggest in history, in only six months from first to final close, is a true testament to the power of our real estate franchise, and the excellent work we do for our limited partners in that area, and it's the strongest possible endorsement by the investors in the real estate opportunity class.

We had an additional close for our dedicated Asia fund, which is now \$3.5 billion. This is still in real estate, and we expect to hit our cap of \$5 billion. And we've had two over-subscribed common equity raises already this year for BXMT, our commercial mortgage REIT, which has reached \$1.4 billion in market cap in less than a year, and this is a company that we bought for \$30 million and that had other assets in it, so this is a pretty remarkable increase in value.

Lastly in real estate, we're advancing with our Core Plus strategy, which I mentioned, which now includes four separate

account investments, the most recent of which was in Europe. While it's too early to detail our approach to this market, it's a very large asset class, and we're extremely well positioned to address it.

Strategic Partners, our new secondaries business is making great progress on their new fund, reaching \$1.5 billion at the end of the quarter, on their way to a targeted \$3-plus billion size, and this is one of the reasons why we occasionally purchase a business. This is a group where it was started by Tony at DLJ, and the scale of the increase and the size of the business will be quite substantial, utilizing the Blackstone name with the same excellent investment skills that the group had.

Tactical opportunities closed on a few more large commitments, which were pending at year end, bringing the business to \$5.6 billion, one of our most successful first-time fundraises to date, and a great testament to the team there, led by David Blitzer.

Investor demand for our credit products remains strong, with good inflows into our hedge fund vehicles and several separate account mandates from large investors, with very substantial returns for those investors. And BAAM further advanced its leadership position in the first quarter, with a very strong \$1.6 billion of fee earning net inflows, and an additional \$800 million of subscription on April 1.

As I mentioned before, we're at a very favorable point in this cycle, where capital markets have been conducive for us to exit our mature investments. Our realizations in the first quarter of over \$9 billion equated to one of our best quarters ever for realizations, and if you remember from what I said earlier, that's about what we raised in the quarter.

We were particularly active in private equity, mostly from BCP 5, that's Blackstone Capital Partners Five, including three public market dispositions and three strategic sales.

In real estate, we had significant partial realizations in our U.S. and European office portfolios, including our sale of Broadgate in London, which occurred at a multiple of over four times our original invested capital, and a net IRR of over 40%. This is not what happens typically in real estate with mature properties in the center of London. If you recall, we made this investment in December of 2009, when the owner needed to de-lever its position, like many people in real estate at that time, after we patiently refrained from investing for two years when markets were in freefall.

I want to just say that again, because part of being a really excellent investment firm is knowing when to go, and when not to, and we stopped investing for two years while the markets were really just melting away, and that was before the financial crash. This is another great illustration of how having locked up capital in an investment period of several years enables us to choose our moments, with great outcomes for our investors.

Since we made that investment, our real estate platform has invested a truly remarkable \$34 billion of equity, and no one, no

one in the world has done anything of that type. Our full sales in the quarter for private equity and real estate generated a combined multiple of 3.4 times our original invested capital. The reason people give us money isn't because we have good analyst calls. They give us money so that they can make money, and an example of 3.4 times across two of our biggest asset classes for investments sold in this period gives you a sense of why the alternative investing area is a great one, and it's going to continue to grow.

In credit we saw further realizations out of our first mezzanine and rescue lending funds, in many cases as our borrowers called us out at a premium in favor of lower-cost financing.

Looking forward, our realization momentum is continuing to ramp up, and I believe our shareholders can expect much more to come. We have a large portfolio of seasoned assets, and \$36 billion in publicly traded AUM, which we'll look to exit over time as market permit.

People ask questions on occasion about having these large public investments which we have now, and what tends to happen over time is as we sell, stocks go up, because overhang is reduced. So, rather than be concerned about us having this scale of investment, we're prudent sellers, and it typically works best for the people who own these other stocks, and they figured that out, which is overall a good thing.

Blackstone remains the best-positioned company in the fastest-growing part of the asset management business. I believe we have the strongest platform, the best brand, and the most experienced and talented team in the industry. As we continue to grow assets at substantial rates, invest wisely, and achieve great returns, our earnings and cash distribution should continue to grow as well, which will benefit our public shareholders.

So, our shares have sold off a little bit in recent high, although they're climbing back with our results and Tony's explanation of them, and we're above our initial IPO price which is sort of a good thing, still down from 35 to around 32 now, but not so bad.

I'm confident that, ultimately, our shares are going to rise to reflect the real value of the company.

One or two quick things, I was on my treadmill this morning watching this endless array of earnings results, which I'm sure you've seen. And somewhere around, I think it was 7 o'clock, BlackRock came out with its results, and they're really good, and their revenues were up 9%, their earnings were up 20% to \$762 million. That was a really, really good quarter, and they're paying a dividend yield of 2.5%.

I just bring to your attention that we announced a little bit later, and our revenue was up 20%, and our earnings were up 30%, as opposed to their 20%, and actually our earnings in this quarter were larger, \$814 to their \$762. The only difference is, our market cap was only \$35 billion, and there's was \$53 billion, which is like 32% less, and we're trading at a multiple of 10.2, and they're trading at 17, and our dividend's only double, at 5.6 according to analyst estimates.

So, this is all public information. It all was like coming over, and I was sort of watching it. So, I think BlackRock is a great company. We were involved when they started, they've had terrific growth, and they're a gold standard in the businesses that they're in, and I just wanted to point out that perhaps we're not so bad either.

Finally, Blackstone has been the pioneer in the multi-asset class business and alternative assets, and we're the acknowledged leader in this approach. One thing I think it's important for you to be thinking about, that there are other people who want to sort of take the approach that we've had, and from reading some of the analyst's reports, evidently there's a real focus on white space, where there's a sense that people can just sort of do this stuff.

Having been involved for almost 30 years now of doing it, this is difficult to do. Just because you say you want to do something, it doesn't mean that you can do it, and the reason for that is multi-faceted. First, institutions don't like trying new firms with any scale, in industries that they've never been in. It's just not

something they like to do. Retail investors don't like it much either. Secondly, the issue of how you would assemble a team who's had success, and whether people have worked together is an issue, as well.

And so, I mention this because—just to give you a sense of how this works, I was reading a chart that PERA gave out on money raising over the last year in real estate, and that chart, for example, Blackstone was somewhere around \$30.5 billion, and the next biggest was another group that's been in the business for 20 years, and they were at \$7 billion. So, we're 4.5 times, and people who haven't been in real estate had virtually no position on that business.

So, this is something that takes a very, very long time to do well. We've been doing it on that basis, and people here are dedicated to producing great returns and growing rapidly but consistent, not taking more money than we want, since we've turned away money in virtually every fundraising that we've done in the few years.

So, with that as sort of a little background, I'll turn it over to Laurence Tosi, and then we'll be glad to take questions afterwards.

L. Tosi Okay. Thank you, Steve, and thank you everyone for joining our call. This quarter was a record first quarter by all major financial measures and asset measures, with ENI, the measure of total value created, reaching \$814 million, up 30% year-over-year. Distributable earnings, the measure of value realized as cash, is up 24% to \$485 million, which translates to \$0.41 per unit, or 5.6% yield over the last twelve months.

Those levels of growth easily outpaced traditional asset managers, as Steve just pointed out, financial services firms, and the S&P at large, by an increasingly wide margin. All of Blackstone's investing businesses contributed double-digit growth to the firm's overall 18% increase in fee revenues, a steady earnings driver, which is 70% tied to a growing base of long-term commitments to our funds.

Net performance fees and investment income rose 28%, to \$325 million on a 50% increase in realization activity, with 50 different deals driving \$9.3 billion of realizations in the first quarter, and 174 different deals generating \$33 billion over the last year. We now have \$3.5 billion of net accrued performance fees, equal to \$3.11 per unit. That would be realized at exit based on first quarter values, and which indicates considerable forward earnings momentum.

Blackstone has experienced consistent and balanced growth, and I will focus today on how that growth has a uniquely stabilizing and enduring effect on the firm's earnings, including across market disruptions. Blackstone's balanced growth reflects the fact that we are in a long-term value creating business, where risk management, allocation flexibility, product diversity, and operational expertise are the drivers of fund and firm value, quite separate from short-term public market movements.

The first quarter was no exception, although the depth and consistency of the drivers behind Blackstone's performance are perhaps not entirely appreciated. The value creation across our business is driven by fundamental growth. For example, in the first quarter we saw 14% EBITDA growth in our private equity portfolio companies on 7% revenue growth, compared to 4% earnings growth for the S&P. More than 80% of our portfolio companies reported healthy revenue and EBITDA growth, the most on record, and 96% of our CEOs surveyed after the first quarter said their calendar-year 2014 EBITDA would be higher than 2013.

Similarly, real estate fundamentals are strong across all sub-sectors, largely due to limited supply coupled with moderate improving economic growth. We are seeing pre-crisis levels of occupancy in hospitality, which are driving up rates and showing high single-digit revenue across those portfolios. Equally, logistics assets and retail shopping centers are showing occupancy and rate-driven valuation increases in the high single digits. Finally, we are continuing to see strong

trends in U.S. housing, with double-digit annualized home price appreciation in our markets.

This isn't just the case with our private holdings. Our public holdings, representing \$36 billion of equity value, were positioned at IPO to achieve long-term growth, and exceed the hurdle in the funds in which they are held. Blackstone's public holdings were up more than the S&P in the first quarter, 4%. We price, bill, and exit assets based on the long-term value created, whether by private sale or IPO, and for that reason we think our forward earnings momentum is less susceptible to market swings than public assets in general, or traditional managers, which revenues are based on public AUM.

Our credit business is largely based on private investments in floating-rate debt, where the biggest risk to valuation is default. While there are certainly risks of a rate rise, which creates value for our funds, the current economic conditions do not indicate an up-tick in defaults, and all of our credit vehicles are performing exceptionally well. Even in a downturn, Blackstone's ability to structure and manage its credit exposure

led to realized losses of less than 1% in our customized credit solutions, while our mezzanine business has never had a negative quarter.

Our hedge fund business, invested across 21 strategies, has long and short elements to it, and is largely based on our ability to find good managers, structure our investments, and optimize our allocations, all activities designed to outperform the market. The hedge fund business' delivery of 11% returns at 37% of the volatilities S&P over the last 20 years proved that to be true. In fact, that business outperforms greatest in the periods when the S&P is volatile, and since inception, BAAM or Hedge Fund Solutions has outperformed the broader market in 92 of the 98 months in which the S&P index declined.

Here is perhaps another way to look at it. If you take the four quarters the S&P has declined since 2010, and compare that to Blackstone's performance, what you will see is that ENI can experience temporary impacts that recover in the subsequent quarter, but the pace of cash realization continues on its trend

without impact. Why? Because realizations are more tied to fundamental operating growth in short-term markets.

The last 12 months experienced a 95% increase in realization activity, and 75% increase in realization revenues and earnings. In fact, over the last four years, despite two full market corrections and a strong increase in our realizations, our net accrued performance fees have grown 13 out of 14 quarters to the current record of \$3.5 billion. That is five times what it was four years ago, reflecting the compounding effect inherent in performance fees, where Blackstone typically gets 20% of the value created, regardless of the invested or committed capital.

We now have \$116 billion of performance fee earning assets, up 31% year-over-year. Or maybe think about it this way. Of the \$3.5 billion in net accrued performance fees, \$1.8 billion or \$1.59 per unit relates to companies that are actually publicly traded today. The compounding growth of net accrued performance fees, combined with our strong earnings mix and ENI driven by value creation, are both the best indicators of our forward earnings. So, to bundle Blackstone in a higher beta

version of public markets simply belies the fact that our entire business model is built on creating value away from those public markets, on a consistent and long-term basis.

A few comments on our balance sheet and value per unit. The firm now has \$7.20 per unit in cash and investments on the balance sheet, up 21% over the last 12 months. In the second quarter, we executed a very successful \$500 million 30-year debt offering at a 5% coupon. The offering reflects our commitment to be a consistent participant in the bond markets, and to support our current offerings by issuing different tenors. The offering was three times over-subscribed, and led by some of the world's largest bond buyers. Both S&P and Fitch reaffirmed their A+ ratings, making Blackstone one of the highest rated and in-demand credit issuers, not just in asset management, but in all of financial services.

In closing, global markets may see some volatility, as they often do, but the ultimate driver of value is performance of the assets, and we have very good performing assets in fund

structures, to give us significant long-term value creation advantages. Thank you.

J. Solotar Great. So, if you have questions, please feel free to go into queue. We have quite a few analysts and investors on the call, so if you can limit your first round to just one question, please. And operator, we're ready for the first question.

Coordinator And your first question comes from the line of Dan Fannon with Jefferies. Please proceed.

D. Fannon Good morning. Just looking at BCP 5, outside of the public holdings, which are now obviously a big component, can you talk about some of the biggest movers in that for the quarter and also potentially going forward in terms of some of the holdings?

T. James L.T., do you want to give the numbers of that and then I'll talk about the portfolio a little bit.

L. Tosi Sure. So, Dan, BCP 5 had a very good quarter in the first quarter and it was really driven by the fundamental growth in the portfolio. Its public assets performed well, and that's been pretty consistent. A lot of the data I just gave you about the forward outlook does reflect assets that are in there. We pull, obviously we have all the realtime financials through the end of the first quarter, we pull the CEO's in there, and the feeling is that the EBITDA growth is steady and on pace.

You can see that just by watching the deficit, if you will call it that, to earning full carry going down from a \$1.4 billion to \$916 million just in the last few months, and I think that reflects the operating performance.

T. James So Dan, the EBITDA is actually accelerating, EBITDA growth in BCP 5 is accelerating each quarter and for a while it tracked the S&P pretty closely. Actually, there's one quarter it fell a little bit behind, for whatever reason, which was the third quarter last year, but lately it's been not only ahead of the S&P, but it's accelerating while the S&P earnings growth is flattening.

We have some companies that really have a lot of momentum. Hilton, for example, which is the biggest investment, is doing extremely well. And we'll get into compounding, of course, of earnings growth with leverage, which magnifies it, and then the de-levering effect of the cash flow. So we feel good about the portfolio.

Basically, whenever we analyze a sales process, we look to see what's the return to keep holding, even if the market backs off a little, and if we can get something in the teens by continuing to hold even though the company's public, we continue to hold because we're earning well above, the return is well above what the investors could otherwise earn by redeploying the capital to either in debt or general equities.

So, so far it looks good; the portfolio looks good. We're 3% away from where we are fully in carry on the enterprise value of the overall portfolio. We're already in carry on part of BCP 5 and made some carry distributions this quarter. So I think we

feel good that it will get there. How far into the carry it gets will be the issue.

D. Fannon Thank you.

Coordinator Your next question comes from the line of Bill Katz with Citigroup. Please proceed.

B. Katz Thanks so much. Can you tell us where you think we are in terms of the opportunities set to pick up either distressed or other type of assets that were formerly being managed by banks, if you will, in terms of maybe the de-leveraging around the world and where you stand in terms of the opportunity set?

S. Schwarzman I think it depends where in the world you're talking about and what asset class. Right now in Europe, really for the first time over the last six months, the European banks are in good enough shape that they're able to liquidate assets and still maintain a decent capital ratio in the bank. So that's got a lot of stuff going on. You're also seeing some type of distress in Asia

in real estate as a number of the banks retreat in terms of credit extension, which is putting a lot of pressure on people who develop and hold real estate. Not so much here in the U.S. A lot of that's been increasingly cleared out, although there still is some real estate in the commercial area of that type and residential, different markets are healing in different ways, but have a way to go from the artificial depression from the withdraw of credit in the housing sector.

Corporate-wise, in the U.S. there's obviously not a lot of distress left. There's a little bit in Europe and in Asia really some of that's going to be coming in the future if the emerging markets develop problems. So I don't know, Tony, whether you see things differently.

T. James No, I see the same. I mean, but just to put a little meat on the bones in Europe there's very little distressed in any asset class and what is out there, the prices have really moved up. So we started buying non-performing residential loans at \$0.40 on the dollar. They've more than doubled, for example, lately and at some point that's not that interesting. So the U.S., there's not

much distressed and I would say it's just declining further and prices are high.

In Europe, we've been very active lately, but there's starting to be much more capital flowing into Europe for distressed, so I'm not sure necessarily how long there will be interesting opportunities, but they're interesting today. And interestingly, Asia, particularly with the pull back of credit in China, is really starting to pick up a lot of momentum. So it's flowed from the U.S. into Europe and it looks like it's flowing over to Asia, just regionally.

I would say the two businesses that benefit the most from the bank sales are real estate and tactical opportunities, and to a lesser degree our Strategic Partners business. So those have been the prime beneficiaries, but we'll have to see. It's a very pricey world and it's a healing world. In Europe, I think the economy has bottomed out, so I don't think we're going to be creating a lot more distress. U.S., of course, the economy is picking up momentum. It's really emerging markets where you could get something going off the rails, but there some of those

assets are, if they're credit assets the creditor writes issues and some other things that make it harder.

S. Schwarzman One final thing, because we give answers that are much too long, but it sort of tells you how we think, that there is dislocation coming out of all the financial regulation that's continuing, whether it's U.S., whether it's Europe, much less in Asia at this point, though that will change. And the tightening of regulation, the prohibition to be in certain things, the mandatory requirements for equity make it very difficult for the banking system to continue extending credit in areas that they're used to.

As a result of that, that creates opportunity, which can be done through a completely different funding mechanism, which is very important to understand, that when we go into businesses, we typically raise long-term capital without any demands for repayment on liability side. And so we're finding a steady stream of those types of opportunities, which is what you would expect with a dramatic rejiggering of the financial system globally.

T. James One last piece of comment on that, the U.S. banking system is pretty well capitalized, actually, so there's less four selling coming out of them. It's Europe where you've got relatively more of the four sellers, which is where it's less well capitalized. And in Asia, it's not so much coming out of the banks as it's companies that can't get access to capital.

Coordinator Your next question comes from the line of Robert Lee with KBW. Please proceed.

R. Lee Thanks. Good morning. Just curious, the Financial Stability Board came out with their –

S. Schwarzman Could you speak up a little? For some reason you're a little—

R. Lee Is that better?

J. Solotar Yes.

R. Lee Okay, the FSB, they had their white paper I guess several months or quarters ago that included looking at a, taking a look at the asset managers more from a product perspective as opposed to a manager's perspective, but some of your peers out there have written their comment letters about how they think they should approach that and with a particular focus on leveraging products, for example. I'm just curious on what your take is on that process and what you think of what the FSB has said and where you think things may be headed.

T. James So, Robert, are you referring to the whole shadow banking debate?

R. Lee Well, I guess the Financial Stability Board said that when looking at prospective, non-bank, non-insurance SIFI's that they would focus not on the manager level but on the product level potentially, whether looking at leveraging products, size of products. So I'm just kind of curious where—

T. James Okay. So, our view is there's no conceivable way that if the people were rational and not worried about systemic risk that Blackstone would be a SIFI. Our assets are not interconnected. Our funds are not levered. Our capital is tied up. One asset can go down and because they're not cross-collateralized, it doesn't destabilize any vehicle. It's no different, really, than a mutual fund owning a bunch of equities. There's no more systemic risk to what we do than that.

And whereas the mutual fund could have a lot of redemptions and be a forced seller, we really can't be. So I don't really see how, now that doesn't mean that the political process might not come to a bad result, so we just look at it and think that at the end of the day rationality will prevail.

L. Tosi If I could add one thing. Also, the other measure that they're looking at is \$50 billion of assets in total for some of these institutions. We're at \$16 billion, so we're a long way from being even close to that. And obviously, even from the \$16 billion, all those assets, a lot of that applies to what Tony just

said, which is highly diversified in a bunch of different private funds.

R. Lee Great. That was it. Thanks for taking my question.

Coordinator And your next question comes from the line of Glenn Schorr with ISI. Please proceed.

G. Schorr Thank you. Curious to get a little update on what's working in the retail channel, obviously a lot, but curious to get a perspective of the overall company. And then the part B of that is whether or not the increased penetration in retail and credit lending focus overall brings any more regulatory scrutiny than you already have.

T. James Well, first of all, everything's working retail right now. And just to put numbers on that, I think we talked about five years ago we raised about a half a billion dollars a year in retail product. In the first quarter, we raised \$2.5 billion this year, just to show you how it's ramping. A part of that is the market that's come

back, but a lot of that is the retail system that we've built and have been building for four or five years. We try to keep that low visibility for competitive reasons, but it's out there now and it's really humming.

So, originally retail investors wanted yield product and anything with a yield. Now, they've shifted and the risk appetite has gone up a lot and they're much more focused on total return, and there's really an appetite for a high return, non-yield products, private equity real estate, distressed rescue financing and so on.

The way we approach it is in a lot of forms, targeted towards different audiences. So we have the mortgage REIT where a little old lady can buy 100 shares safely for a few thousand dollars, and then we have direct participation into private equity real estate tactical opportunity, some of those more esoteric products where it takes ultra-high net worth investors. Then we have products in the middle targeted for the mass affluent, BDC's and things like that.

And as you know, we've created a daily liquidity hedge fund product in conjunction with Fidelity, which we're now going to be expanding some of that distribution. So, it's all of our products and it's all segments of retail, and it's getting after those retail investors through a lot of different distribution mechanisms.

L. Tosi The one thing I might add to that, Glenn, because in that you asked us about regulatory oversight and impact, just to be clear, when Tony used the word "direct," meaning they're going into our main funds but they're going through a vehicle that's set up and managed by the actual brokers network as it may be, so we're one step removed from actually taking. So they're qualifying the clients and dealing with the clients directly; not us. I think that's an important distinction from a regulatory and risk perspective.

G. Schorr Understood. I guess the only follow-up I'd ask is in conjunction or related to the same product that you have out with Fidelity, I

think you're seeing a bunch of the traditional asset managers put out some liquid alternatives and I'm curious to see how you think that interplays with all your efforts in the retail channel, and is that just speaking towards a certain sub segment and your brand will do well in that channel anyway.

T. James Well, I think our brand will do very well in that channel anyway, but those liquid alternative products that are being put out there are not really alternative products. So despite the label, they are getting huge amounts of money; more power to them, and they've been out there for a while. Notwithstanding that, we're still ramping significantly.

But none of them offer the kind of returns, the lack of correlation and so on that we do. As I said, they're not truly alternative products the way we define it, which is focused on private markets.

G. Schorr Excellent. Appreciate it. Thank you.

Coordinator Your next question comes from the line of Luke Montgomery with Sanford Bernstein. Please proceed.

L. Montgomery Thanks. On the Gates transaction, I know that Joe has said that buying something that someone else has already optimized is not a recipe for success and Onyx doubled their money on that holding. So I'm curious what precisely you see that you can do with that business that Onyx couldn't.

And then just more generally, what is your response to the idea that a 15% IRR is the new 20%? I imagine you'll appeal to the operational improvements you can make, but how do you methodically address the lower term critics?

S. Schwarzman This is Steve, just on Gates and buying things from other people, we get this question from time to time. It is interesting that when people buy stocks, they don't ask the question of who owned it the last time and the fact that a stock was always out there and the company's always being improved and people buy them. And sometimes if they're smart, they go up a

lot; and if they're not so smart, they go down. And for some reason we get asked different types of questions types of questions, even though we're buying used companies that were out there.

Now, we've done this a bunch and it's really a function of what you're buying and what your analysis is. For example, we bought a company called Gerresheimer from another firm years ago and we made 6.5 times profit on it, and you could have asked the same question. With Gates, the analysis is – and it's not a zero sum game; somebody could make money and someone else could make money, too – that this is a very interesting company. It's a terrific company, actually, and it's global. It could do more expansion in certain parts of the world, but basically Gates was part of a deal, which was a combination with a company called Tomkins in the U.K. The direction, when that company was bought, was to basically liquidate the Tomkins business.

Tomkins was comprised of a lot of smaller companies within Tomkins. So the management's primary focus, in terms of

what it's doing, that liquidation rather than spending an equivalent amount of time on the Gates portion of the business.

Like many private equity deals there comes a time when you sell it when you've accomplished a bunch of what you've tried to do. I think the sellers in this case did, they had a successful deal. We looked at Gates from an operating perspective and in this regard we kind of, a very good thing happened here at the firm with a fellow named Dave Calhoun joining us who, for I guess it was like seven years, ran Nielsen very, very successfully, and previously was vice chairman of General Electric. Dave is part of our due diligence team on this along with our team of really terrific private equity professionals and other outsiders that we use. And the view of Dave, as well as the other people, is that there were significant improvements that could be made to Gates in terms of best practices and other approaches with applications of capital, with high returns.

And so as a result of really just sort of blocking and tackling case with a company with very low downsides in terms of its basic business because it's primarily aftermarket rather than

with the volatility and an OEM, that we took a positive approach on the deal. One of the wonderful things about our business is you find out in three to five years if we were right or not, and we think the analysis here is correct or we wouldn't have gone ahead.

But one of the things you'll also find is that when you buy really good companies, like a Gates, good things tend to happen. A little bit of attention goes a long way. So that may be more than you wanted to know about Gates.

T. James

On the second part of your question, Luke, is 15 the new 20, it's not quite the way we think about it. We promise, we expect to deliver to our investors 500 to 700 basis points return above what they could earn in the public markets. That may be somewhat lower today than it's been, but when I look at the deals, deal by deal, they're all being priced to what we think is the same 20% hurdle.

Final Transcript

THE BLACKSTONE GROUP: Blackstone 2014 First Quarter Investor Call

April 17, 2014/11:00 a.m. EDT

Now, we correct for the fact that the market is pricier and more difficult by reducing, as Steve mentioned with real estate, reducing the rate of investment to try to keep that bar high. But I think that the funds that we're investing now will be right up in there with any fund we've ever invested in terms of total return.

S. Schwarzman What we've also learned is when you stray from that discipline, which other people in our business, not all, but other people from time to time do, they say, well, all the market's giving me is 15, is that's usually a sign of some kind of a bubble. If you just follow the crowds, good things don't happen to you, because that 15 ends up not being 15 either. So it's important to keep disciplined and it's part of the lessons you learn doing this kind of investing over decades.

L. Montgomery Helpful. Thank you very much.

Coordinator And your next question comes from the line of Michael Kim with Sandler O'Neil. Please proceed.

M. Kim Yes, good morning. Just to follow-up on the outlook for realizations, I understand kind of the sizeable embedded gains that you've built up across your funds and sort of the more liquid profile of the underlying investments, but just to play devil's advocate, just curious as to the potential extent maybe the choppy market backdrop more recently could possibly impact the timeline for IPO's, secondary offerings and just realization activity more broadly.

T. James Look, if the market goes down a lot, it will push out the timeline, for sure. On the other hand, these assets are not of static value. If we sell a company two years from now, it's going to be a heck of a lot more valuable. So it doesn't, so what happens then? Investors have to wait a little longer for the distributions, but the distributions are bigger.

What we eat when we get carry and what investors benefit from is not IRR's, it's the multiple of invested capital. So the IRR could be flat or it could even degrade a little as the holding period stretches out, but the multiple of money really goes up.

So the carry goes up and faster than the overall value, obviously, because it's a derivative of the gain.

So, it's not such a bad thing, and that's why we can be patient, and we are patient. We're always looking at what can I get to hold it and, frankly, even at these equity prices, it's not such an easy decision to sell many of these companies. They're doing great and they have a lot of appreciation ahead of them. That's one of the reasons why our IPO's almost universally perform extremely well and well outperform the market, because investors know, a) we don't sell much when we IPO it; and b) there's a lot of appreciation potential ahead with these companies. So waiting is not a bad thing.

S. Schwarzman You know, one of the things that L.T. said in his remarks, I think, was that our companies are growing, was it closer to 100% more than the S&P in terms of EBITDA? So make pretend you construct a portfolio that's growing at 100% of the S&P and that you have some stock market choppiness for two to three weeks, and sort of markets go down. As Tony indicated, if we can keep compounding the earnings of these

Final Transcript

THE BLACKSTONE GROUP: Blackstone 2014 First Quarter Investor Call

April 17, 2014/11:00 a.m. EDT

companies at double that rate, there is no bad that happens to you as an investor. If you could put together a portfolio of companies growing at double the S&P and do it at our ridiculously low multiple, you'd be a happy person, I would think. I mean, we're happy.

So we look at the realization question slightly differently than some other people might look at it because we're trying to create a lot of value and the market gives it to us, we'll take it. But as long as we can do a terrific job growing these assets, well in excess of what other people might be buying at what is in effect for you a very low buy-in price, then that's a good model, I think.

M. Kim Okay, makes sense. Thanks for taking my question.

Coordinator And your next question is coming from the line of Mike Carrier with Bank of America. Please proceed.

Final Transcript

THE BLACKSTONE GROUP: Blackstone 2014 First Quarter Investor Call

April 17, 2014/11:00 a.m. EDT

M. Carrier Thanks, guys. Hey, L.T., two things on the numbers. First on the fee earnings, I think the seasonality in terms of 1Q versus 4Q on advisory, I kind of get that. It seems like on the expense side, both on comp and non-comp, maybe it was a little bit higher. So any seasonality there that will normalize? And I know you guys gave some color on that one page in terms of unusual items.

Then just on the performance, so I think you guys have stated the growth in the portfolio companies, whether it's on the revenue and EBITDA side, so I get that. I guess I'm just trying to figure out, because in general we typically see like the private portfolio or the performance be relatively subdued over time. So I'm just curious, like in this quarter was there like an inflection point in some of these sectors and some of these companies? Or was there something else in like the comps that did well in the quarter, even though the broader market wasn't as strong?

L. Tosi Okay, the first part of your thing about advisory piece, the way the gap works you try to accrue from what you think the

compensation amount will be for the entire year, even though in that business we tend to be cyclically concentrated in the fourth quarter, Mike. So the fact actually that the compensation accrual in the first quarter looks high relative to the revenues is actually a reflection of the fact that our outlook for the year is that we will have more than four times the first quarter's revenue over the course of the year, if you follow me.

So typically, we have about 30% of the revenues in the fourth quarter, but I'm required to account for 25% of the full year compensation expense in the first quarter, so actually it's more of a bullish sign of where they are. And I think if you look at revenues up year-over-year about 7% and then economic net income about 3%, that's in that range is what we're forecasting for the year.

Now, as far as the private performance over time, actually what did not drive the valuations in the first quarter was market comparables or changes to exit multiples. It was purely driven by EBITDA growth. So we very rarely do we make changes in exit multiples. Obviously the multiples will change when you

take a company public because the market will give its own multiple to a business, and typically those multiples will be higher than our carrying value because we point towards a conservative long-term multiple value. But the driver that you saw in the private portfolio and the public portfolio reflects where they are in a growth basis, not a change in multiples.

J. Solotar And it really was across the board. It wasn't sector by sector.

M. Carrier Thanks a lot.

Coordinator And your next question comes from the line of Matthew Kelley with Morgan Stanley. Please proceed.

M. Kelley Thanks for taking my question. I wanted to ask about the real estate platform. With BREP 7, the majority of that being invested, I know you have an Asia Fund out there now, just curious what your thoughts are when you could be out there with Fund 8 and how big do you think you can get or what are the opportunities outside of what you're doing now, how big that

can be, etc.? So what are the opportunities for growth, in other words?

S. Schwarzman I think Fund 8 is a ways away. We sold a whole bunch of stuff already out of 7 and we have recyclable capital, so I can't give you a date on that, but that's not imminent in terms of happening, although the fund is sort of like gangbusters. Are we allowed to say what the returns are?

L. Tosi Yes, we actually have them in there.

S. Schwarzman Okay, so the returns on that fund, even though it's got a pretty short life, they're somewhere in the upper 20s.

L. Tosi It's 28% net IRR.

S. Schwarzman Right, from memory, which is pretty amazing, actually. So we're a ways away from doing that. Even our people might need a breather every once in a while.

You were saying where is there opportunity with that part of the question?

M. Kelley Yes. So debt was part of the question and anything else you want to mention, too.

S. Schwarzman Yes, I think we did mention the Core Plus area, which is a potentially large market opportunity for us. I think you'll be hearing more from that in the future as we develop our plans in that sector.

M. Kelley Great. Thanks, guys.

Coordinator Your next question comes from the line of Marc Irizarry with Goldman Sachs. Please proceed.

M. Irizarry Great, just a quick couple questions on private equity. First, just in terms of the uptick in investment activity, the \$3.1 billion

that you invested or committed, how much of that was the U.S. versus the rest of the world? Then I have a quick follow-up.

L. Tosi It's about 60/40, 60 U.S., 40 outside.

M. Irizarry Okay, great. Then just in terms of fundraising, it looks like Tac Opps and Strategic Partners in private equity have some activity going on there and I guess you're in the main strategic partner's fund, you're 70% drawn. Could you give us a sense of how we should think about fundraising over the next maybe 12-18 months for private equity? Do you foresee also maybe a big, another BCP fund coming into the market as well?

S. Schwarzman Well, we're coming to market with our energy fund, which will, in all probability, end up being tapped. There should be a lot of demand for that with returns the previous fund in the 50s. You don't find many funds in history that do things like that. And then we'll be, again, these are sort of probability type things coming to market with our next significant BCP basic fund, BCP 7, would be probably in the next year.

T. James That's when we commence the fundraising for these funds. So, you know, it goes on for a while after that while we finish the old funds. I should note that Strategic Partners also, their fund hit its hard cap. It's up from \$2.5 billion to \$4 billion or something like that. So it's a 50% increase. And we also have a very exciting business in Tactical Opportunities; this is all in the private equity segment, which is getting pretty fully invested, so I wouldn't be surprised to see them back in the next year or so as well.

S. Schwarzman Yes, and on the SP thing, one of the things that's a sign of health, if you will, is they, in effect, will hit their cap probably in, you know, I'm sitting with a group of people so they can correct me on this, but it's basically in around six months from going into the market. Usually these funds, for most firms, take a year and a half to raise and it's a sign of how well regarded the SP people are. We've been experiencing this in other parts of the firm as well, whether it's the market, whether it's us, that the marketing periods of these funds are getting shorter and shorter, and demand is significantly higher. For example, if you

were to measure this two to three years ago, it would have been appreciatively different.

M. Irizarry Okay, thanks.

Coordinator Your next question comes from the line of Patrick Davitt with Autonomous. Please proceed.

P. Davitt I want to expand a bit on Steve's comments around the dominant position you have in real estate and how much further behind a lot of your competitors are. It does look like a lot of players that probably would have historically been considered core real estate have been ramping up pretty significantly, and I saw the same list you've seen and you see guys moving from 23rd place to the top 10 in one year. I'm curious, as these larger pools of money get raised, how does that discussion work with your LP's? Do you feel like they want to diversify away from Blackstone to some of these guys that do have a history in real estate making that incremental dollar that much harder to get?

And secondarily, are you seeing more competition on some of the larger deals that maybe two or three years ago you would have been the only bidder?

S. Schwarzman That's a very good question. I think we're still dealing with the overhang of basically miserable performance by most of the managers in real estate, whether they were core managers or opportunity managers. So, there's a real desire for safety. Real estate is an illiquid asset class. Typically it's got leverage. Typically there are always some groups of people hitting the wall in any economic downturn. And the fact that we've had virtually no losses in opportunity real estate, which tends to have the highest leverage. And that's virtually no losses; I think it's less than one percent of capital over 22 years. I mean, it's sort of an astonishing record for capital preservation, let alone performance that's the highest in its sector with no one close puts us in a very unusual position, which should last for some period of time, because if you've been burned, you've given people money, you tend not to forget that very quickly.

And so one of the reasons we keep creating more and more gap between ourselves and the rest of the people in that asset class, and it's actually pretty unique thing in my experience, because it shouldn't be happening. But the distress was so severe with these other managers and our performance was so differentiated, including the safety component of it, which is very important for large institutions, that it's allowing us to expand in different parts of the real estate complex. And so we'll be continuing to innovate in that area. I think that this is a trend that's going to exist for some time.

It is different buying a piece of Core real estate; sort of a nice, more or less go where office building and generating a 7% return than it is doing a lot of operational changes with a piece of real estate or going through major restructurings or building additions, improvements to real estate. Or, basically modernizing or upgrading or improving software systems and a variety of other things that are really operational. And so I'm not trying to take the downside of your question. There are always people marketing to every large pool of capital. And just because you're out there wanting to do something doesn't

mean people will necessarily assume you can go from something you were doing to something that they view as much different. You may tell them in effect it's the same, but if they understand the differences, they may challenge you on that.

So, I think this is much more kludgy than you might suspect. It's not, this stuff doesn't happen as fast as it would with liquid managers where you hire somebody who was at a new place and they bring their record and it just sort of happens and the money flows to them. It's different and the approval processes are different and the biases that get built up, not just by the people in the institutions who are green lighting, but also their board of trustees, which are very cautious, generally, about the real estate asset class. So that may have been more of a wandering answer than you were looking for, but it reflects my perception of what's going on.

T. James So Patrick, let me add a couple of things. As Steve mentioned, there's just no one close in terms of the investment track record. So what that means is we go out, we're not only not, not only are investors not coming to our fund in preference to

others, our fund, our real estate funds are all hitting their cap. We're turning away investors. So I think that's to the benefit of other funds because we can't take all the capital, but we're certainly not finding any, if anything, it's insufficient supply, not insufficient demand, number one.

Number two, in terms of putting money out, real estate is huge. The value of the buildings in the world dwarfs that of all stocks and bonds combined. And so there's an awful lot to do by comparison to sort of corporate investing. And ironically, the accumulative amount of real estate opportunity funds raised is way smaller than the cumulative amount raised for private equity. So again, in terms of supply and demand of opportunities, it's extremely favorable.

So it has been, as you can see from the rate of investment and the lifecycle of these funds, which are shorter than private equity, it's not at all hard to put this money out. The investment pace is extremely high.

Number three, there's a lot of scale of managers in real estate. I mean, there are certain deals where we're the only ones big enough to do it alone; consortiums do form, but they're cumbersome and you tend to get a lowest common denominator kind of attitude and you tend to not execute very crisply. So that's one kind of scale.

Then there's another one that Stephen's getting into, it's very operational. We have dedicated teams in Scandinavia that do only suburban office and we have dedicated teams in Germany that do only hotels, and we have dedicated teams that do only warehouses in Continental Europe or in England or the United States or in Japan or in China; dedicated teams each play. You have to have a lot of skill to have that and if you don't have it, you become practically a less good and less effective investor.

So I think our LP's understand that this is kind of a unique kind of business; it's very hard to replicate.

Final Transcript

THE BLACKSTONE GROUP: Blackstone 2014 First Quarter Investor Call

April 17, 2014/11:00 a.m. EDT

S. Schwarzman You could call them and ask them. You don't have to believe us, actually. Just call a bunch of them and you can call us back and tell them what we said. We think we're in touch with what they believe, but you shouldn't hesitate to call.

Coordinator And your next question comes from the line of Brian Bedell with Deutsche Bank. Please process.

B. Bedell Hi, good morning, folks. Or good afternoon, I guess. Just a little clarification on the pace of capital deployment, it looks like you're running now at a pace of around \$20 billion this year versus \$15 billion in each of the last couple of years. And it looks like the pipeline into the second quarter is good. I just want to see if that seems about right given what you're seeing in opportunities and to what degree Core real estate is a part of that deployment picture, that sort of \$20 billion annual pace is aside from Core real estate and there's potential to put more to work over and above that?

Then then just if you could talk a little bit more about the BAAM permanent capital vehicle. That looks like it's getting off to a very good start. Your outlook for that market, that type of market going forward.

L. Tosi I'll take the first part and maybe Tony or Steve will take the BAAM part, since finance is more interesting. But with respect, I would be careful to look at the first quarter of this year and normalize it towards some level, in part because the first quarter of last year was actually a relatively slow period with respect to deploying capital. Last year all in we did just over \$15 billion. It feels like the pace of capital would be more than that, but nowhere near the \$21-22 that the pace would indicate at the moment. That's my view.

T. James Let me just comment on a couple of things. First of all, when you say the pace is \$15 billion the last couple of years and now it's \$20, recognize that the last couple of years we didn't have as many products and funds. So we have Strategic Partners now, we didn't have them before; we have Core real estate now and we didn't have before; we have Blackstone Mortgage Trust,

we didn't have before. So the pace has gone up not because necessarily a given business, like say private equity is getting more active, although in that case it is, slightly, but not back to the glory days, but really because there are more businesses and they're all active putting money out.

So let me put a little qualitative. I would say real estate, opportunity real estate away from the new products is, was at some kind of peak and is probably, if anything, going to be a little bit slower to deploy, although it's still running at a pretty good level. Private equity, which has been putting money out slowly, is picking up. Credit, which has had some very big years of capital fundings will be notably slower. So those are kind of the trends within the sub segments.

What was the second part of the question?

B. Bedell The BAAM permanent capital vehicle.

Final Transcript
THE BLACKSTONE GROUP: Blackstone 2014 First Quarter Investor Call
April 17, 2014/11:00 a.m. EDT

T. James Okay, so I think the vehicle has got off to a great start, it's performed very well and we think it can grow a lot and we're now moving to other distribution partners beyond Fidelity.

B. Bedell And the market for that, essentially, I guess. I just mean like longer-term, it seems like an interesting structure, so do you think that market's just essentially very early in and there's a lot of opportunity over the longer term to really clear that vehicle?

T. James Extremely early innings. I mean, one product in the first order is what you've got and it could be very substantially larger.

B. Bedell Great. Thanks very much.

Coordinator And our last question comes from the line of Devin Ryan with JMP Securities. Please proceed.

D. Ryan Thank you and good afternoon. I just wanted to get an update on thoughts around M&A. We've been hearing some positive

Final Transcript

THE BLACKSTONE GROUP: Blackstone 2014 First Quarter Investor Call

April 17, 2014/11:00 a.m. EDT

commentary around the outlook from a number of the big investment banks who have been reporting. Clearly, volumes have been pretty depressed and range bound for the past five years. North America is starting to show some pretty healthy levels, Europe is starting to stabilize. So an updated view around the M&A market today from your seat would be great. And maybe how that market has developed relative to last year and then the competing dynamics between the opportunities for better asset monetization versus maybe more strategic participation and how that might be impacting target valuations that are crowding out the number of bidders, bidding for a particular asset.

T. James

Okay, well the M&A market feels better. I say it that way because if you look at all the backlogs, they're definitely up. What you'll hear a lot about is M&A practitioners talking about how buyers have been rewarded. So, in other words, unusually the stocks of buyers and the deals announced have been going up, and that's encouraging boards to be more venturesome and put money out.

Also, some other factors are, I think economies, Europe seems to have bottomed out, the U.S. economy is healing, so companies are more comfortable, they're more venturesome. They're sitting on a lot of cash and very strong balance sheets, so they have that in terms of ammo. And their stocks are up, so they've got that in the way of currency as well.

And then finally, their organic growth, as you can see from what's happening at the S&P, is weak. In fact, I think last year, if you took out stock buybacks, the S&P earnings wouldn't have even been up. So, companies are eager for growth.

So the combination of desire for growth, lots of fire power, lots of currency, more comfortable with the world and the stock market rewarding managements in companies for deals has created, I think, an upswing in the M&A, which should continue for a while, I don't see that any of those things reverse. And we're seeing that in our pipeline.

Now, what could change that would be some kind of geopolitical thing, I think, so, I mean, God only knows what happens if there's a problem between say Japan and China or something like that. That, of course, could change that perception in a hurry. But I will say the M&A business is a psychological business and if markets plummet a lot, you'll have sellers wanting to back off and you might even have buyers wanting to sort of wait to see what's happening.

In the last year or two there have been an awful lot of transactions in M&A that were worked on, got to sort of the ten yard line and didn't get done. That's what really happened last year is it looked pretty good at the beginning of the year and then it sort of petered out, and just a lot of things that buyers and sellers and agents spent a lot of time that just didn't happen.

In terms of the impact on, I guess what you're asking, again, is our private equity business, I think the stock market now is offering values consistent with what a lot of times strategic would pay historically. So we don't actually, we're not looking

to the strategic sale market for most of our exits at this point; most of its equity. And if it comes back it will be good for our existing portfolio because inevitably there will be some more activity, and we've certainly had some very interesting approaches lately with several of our companies. So to be clear, that's only a good thing with existing portfolio, but our exits are not dependent on that.

Now, on the bidding side, a lot of times we're buying assets which are kind of impaired and take a lot of work and under managed; we don't see a lot of strategics often for those assets. Although, of course, if there's a lot more strategic activity, we'll see more competition, inevitably. But, you know, our cost of capital today, with interest rates where they are and the amount of leverage we can get, I think may be below that of most strategics.

J. Solotar

Great. Well thanks, everyone, for joining us. If you have follow-up questions, please feel free to call us directly. Thank you.