Christine Anderson: Good morning and welcome to our 2016 third quarter earnings call for the media. I’m Christine Anderson, as you just heard, and with me today is Tony James, Blackstone’s president and chief operating officer; Michael Chae, our chief financial officer; and Joan Solotar, senior managing director and head of multi-asset investing and external relations. As we do every quarter, Tony will summarize the highlights of the quarter and then we’ll be happy to take your questions.

Before I hand it over to Tony, I want to remind you that we will refer to non-GAAP measures on this call. For reconciliations, you should refer to the press release which is available in the shareholders’ section of our website. There’s also an analyst call later today at 11:00 AM. Dial in details are in the press release and on our website. I encourage you to listen to that call, and if you do have any questions later today please don’t hesitate to give me a ring. Thanks. Tony?

Tony James: Thanks, Christine… and thank you all for tuning in this morning. Overall we had a good third quarter with excellent balance across all our businesses. Revenues were $1.4 billion, an increase of 20 percent from last quarter and a huge leap from a year ago when market declines caused performance fees to be temporarily marked down. Similarly, fee related earnings grew 21 percent year-to-date over last year after adjusting for the spin-off of our advisory businesses, which happened just a year ago. ENI was $0.57 a share and distributed earnings were $0.48 per share. On an annualized basis, this means our stock is trading at a PE of only 11 times and offers a dividend yield of 8 percent, one of the highest of any company in the S&P 500. We think this is pretty amazing value for a dominant industry leader with long-term AUM growth of 20 percent and an impregnable balance sheet.

We had good momentum in each of our business lines with every one of them reporting revenue growth and economic income growth over both last quarter and last year. Every one of them also had good investment performance and inflows of new capital. Total AUM rose 8 percent over the last year to a record $361 billion, despite realizations of $38 Billion, distributed to our limited partners. Driving this was great fundraising success with $14.7 billion of new capital inflows during the quarter and $53 billion raised year to date.

Virtually all of our drawdown funds continue to be oversubscribed, putting daylight between us and the rest of our competitors in market share. Dry powder at the end of the quarter broke the $100 billion mark. We continue to invest well and earn solid returns for our limited partners. Private equity, real estate and BAAM investments were all up about 3 to 4 percent for the quarter, while our credit funds rode strong high yield markets up an average of about 6 percent for the quarter. Overall we see a stable, if slow growing, economic picture. Our portfolio companies in private equity generally showed growth in the low single digit range for both revenues and EBITA. This compares favorably to the
S&P 500 where EBITA is flat to down.

Despite the modest growth rates, debt reduction from free cash flow continues to drive healthy value accretion in our private equity portfolio. Energy prices are also rallying, benefiting our large energy exposure across the firm in private equity, Tac Opps, and credit. In real estate, rents and occupancies continue to rise, driving excellent growth in operating cash flow. We expect interest rates to begin rising somewhere in here and think the economy can handle that.

We believe we're well positioned for such a scenario and that our private equity companies will continue to grow, our real estate will continue to appreciate, and our credit portfolios are well structured for this kind of environment. It continues to be a good environment also to harvest gains for our mature investments. During the quarter we had realizations of $13.6 billion at an average multiple of money for LPs of 1.6 times. In a zero interest rate environment, where any kind of gain is difficult, this type of appreciation is welcome indeed for our LPs. Total realizations year-to-date has been $29 billion which puts us on track for another strong year of distributions to both limited partners and ultimately our unit holders.

New investment activity also remains solid. During the quarter we put to work about $4.3 billion from our drawdown funds, and our capital deployment year-to-date has grown to $15 billion. Despite low returns prevailing in other asset classes, we are making these investments with return expectations at least equal to what we have delivered to LPs in the past. The return premium that can be earned by buying illiquid assets instead of liquid assets has never been higher; and in real estate, despite increased value, we are still able to find quality assets below physical replacement costs and don’t see any evidence that a real estate bubble is forming. Nor do we see the new level of building in most areas that would presage a general downturn. This bodes well for future gains and future distributions to our unit holders.

I’m going to finish by noting that I always love sitting down with our biggest LPs, the most strategic LPs, that have invested billions of dollars with us over many years across our business groups and showing them their Blackstone report card. The picture is amazing. Whatever selection of Blackstone products they have made, they will have earned an annual return in the teens, net of all fees and carry since the inception of the relationship. This blows away what they have earned in the public markets every time, exceeding it by an average of 8 to 10 percent return per year. We are usually their number one manager by a significant margin.

I pulled together a schedule the other day of our 10 largest LPs. They had $70 billion in aggregate commitments to us, an average of $7 billion per LP dating as far back 1993. On average the net returns on the money that these 10 investors have given us has been 13 percent per year since inception of the relationship. None of them have lost money. In fact, we have never had even a single significant drawdown fund that has lost money.

Couple compelling returns with consistent capital preservation, and do this on huge
amounts of capital commitments, and you will appreciate why we continue to be able to
grow AUM. I hope you also will appreciate though the role we play for pension funds,
endowments, insurance companies, and government funds that must grow their assets in
order to live up to the future promises people are counting on. We are honored to be able
to help these LPs fulfill their mission. With that, I’ll open it up to questions.

Operator: Ladies and gentlemen, again, if you’d like to ask a question that is star and
then one. Then our first question will come from Devin Banerjee with Bloomberg. Please
go ahead.

Devin Banerjee: Thanks. Hey, Tony, good morning. Two questions. The first, if I may,
it looks like the real estate group was able to recycle something like $2 billion across
BREP VIII and BREP Asia. I was wondering if you could just remind us what the
recycling provision agreements are with LPs on the flagship vehicles like BREP and
BCP? Are you able to recycle at any time during the investment period and up to how
much are you able to recycle? Thanks.

Tony James: Well, there’s some variation fund by fund and across the different
businesses. Private equity has been recycling for a couple of years to the extent those
investments have made money. Real estate’s recycling is the length of the investment
period. And again, though, my recollection is you can only recycle successful
investments – the capital from successful investments.

Devin Banerjee: Right, right. The second question, if I may, could you give us some
insight into how the Hilton deal with HNA came together? Who approached whom? And
when? And also, I guess, how did they agree to purchase price slightly above market
value? Thanks.

Tony James: Well, I don’t think there’s a lot of magic here. Hilton’s an investment that’s
been in our portfolio nine years. We think it’s a great company. We actually think it’s
great value; but at some point, we’re not in the business of owning publicly traded stocks.
So it wasn’t a secret to the world that this was an asset we are on a general disposition
glide plane, and they approached us with some interest. It’s a natural asset for them.
They’re the biggest travel company in China, and China is a big growth area for Hilton.
So I think it’s a very natural fit, and it was just a negotiated deal. Frankly, I hate to part
with it even at that price; but we also do need to, as I say, eventually liquidate public
investments, give money back to our LPs. So it’s with some reluctance that we parted
with the block at that price, but it was simply a negotiation.

Devin Banerjee: Okay, great. Thanks.

Operator: And one moment for our next question. And our next question comes from
Melissa Mittelman from Bloomberg.

Melissa Mittelman: Hi, good morning. This is Melissa Mittelman. We saw that the BCP
V fund held its 8 percent IRR but the net accrued performance fees fell a bit. Was that
mainly driven by taking carry or movements in the holdings? And just as a follow-on to that, what is your outlook for further exits and perhaps performance fees in that fund?

Tony James: Well, okay, on your first question, I’m going to let Michael Chae answer and also I’m going to tackle the second one. I think what we’ve done is we’ve worked through some of the investments that we’ve been carrying a long time, most particularly of Freescale last year. So as you work through those investments that haven’t earned the pref, you expand the hole a little bit. But with Hilton and some other things, we think we’re going to be well in with the carry next year. And so we think that will be a very good picture for ‘17. But Michael, do you want to give the specific answer?

Michael Chae: The short answer is that it declined largely through some of the publics in the portfolio declining in value on an unrealized mark-to-market basis. And overall though, it’s important to look at our total performance fee receivable… how it’s rolled over time and for example, on a total Blackstone basis where you see the total performance fee receivables – $3.3 billion… that was through both distributing just about $400 million of the prior balance and then also overall appreciation of about $400 million more than offsetting that. So overall, you have that dynamic working in the last quarter, over the last 12 months, year-to-date; and that’s basically how kind of the machine works.

Operator: Our next question comes from G.Q. at Reuters.

G.Q.: Hi. Oh, sorry. Good morning. So I just have one question. I see the energy investments boosted your credit performance. Can you talk a bit more about how you’re stepping up your energy investments and what you see in the next year also?

Tony James: Sure. Well, as you know, we are a big player in energy across three of our different business lines; and I think we fundamentally feel that where energy prices are now is below where they’re going to be at some point… and below their long-term sort of equilibrium level. So when we look around for things that we can buy in this sort of fairly pricy world, energy looks like it’s frankly undervalued today versus where it’s going to be in the future. So that thesis, that fundamental belief is the foundation on which we’re building, number one.

Number two, as energy prices have come up a little from the bottom, all of a sudden there’s a lot of projects that are economic that didn’t used to be economic. Many of those companies that own those projects, whether that be building a pipeline, oil service companies, oil and gas fields that need drilling, whatever, many of those companies need capital. They need capital because they’ve got over-levered and when the prices collapsed, obviously there was a lot of damage done.

So we have what we think is kind of an interesting juncture of companies needing capital and a good time to invest. And companies needing capital can mean we lend them money as you mentioned, G.Q., the credit or it could mean that we give them equity or it could mean that we buy assets from them. A lot of bigger companies in particular are selling off
smaller projects to concentrate their resources on the bigger projects, and they’re selling off those smaller projects sometimes for what we consider to be bargain prices.

So there’s a lot going on and I think it’s been a very good time to put money out. We’ve put a bunch of money out in both credit and private equity in the last 12 months, and we’ve ridden the prices up. We still think they’ve got further to go, but we think we did a very good job picking a good time to jump in the market. We didn’t have to guess where the bottom was. We could wait for the bottom to be found, having it stabilize a little, and then put a bunch of money in before it ran up too much. So that’s where we are and it’s been very good to us.

Operator: And the next question comes from Matt Jarzemsky from the Wall Street Journal.

Matt Jarzemsky: Hey, Tony, thanks for the time. When you guys think about… Blackstone has a lot of fast growing… its asset base over the years and the industry more broadly is also tracking a lot of capital these days. Is there sort of a total addressable market that you have in mind in terms of assets going into buyouts and sort of alternatives more broadly? Or big picture, how do you guys think about sort of capacity for the asset class, so to speak?

Tony James: Well, you know, I think that’s a good question, Matt. I think we’ve got a long way to go. So let me just start with that. But I think the mix changes. I don’t think we have a long way to go to take the same old large cap buyout fund we have and take that from say $25 billion to $75 billion. But we have a long way to go to create new products in the industry and new areas Blackstone is not in. We have some – and I think it’s very – and part of what we’ve been doing is thinking about this to longer duration products that might not have the same compounding rates but where both we and our limited partners and our public shareholders all get richer because the money works more efficiently over longer periods of time.

For example, core-plus real estate in real estate is an example where we have permanent capital and it just keeps on compounding. Core private equity is another example which is buying more quality companies and holding them longer holding periods and really letting those compound gains keep building up, and in Tac Ops, they’ve also got a long duration product. So those businesses are all great because you don’t – and they’ll scale AUM in a surprising way that people don’t appreciate.

One of the problems with drawdown funds of course is you raise the fund – let’s say you raise a $5 billion fund. It takes you a bunch of years to get it invested. By the time you get the last dollar invested, you’ve already harvested the first few dollars. So you probably never have more than 75 percent of it in the ground at any one point in time. And then you run it down, and then you got to go raise another one. So it’s got that sort of saw tooth effect.

With something like BPP, which is permanent capital, you raise money, you put it in the
ground, and then you raise more money and add to it and add to it and add to it. You just keep layering on. So that AUM keeps growing because you’re not giving the money back. That money is sitting in there compounding. And then too, that money because those kinds of vehicles, you get paid on net asset value, not just the value of the commitment. As that net asset value grows over time, you get AUM growth in the appreciation of the underlying assets, much like in a mutual fund or something.

So those kinds of products can scale very, very large. So we have long duration products. We have some new niches we’re not in or new areas we’re not in. Infrastructure, for example, we’re not in. We’re not in commodities. We’re not in any kinds of growth equity or venture capital. We’ve got a bunch of things like that and then there’s a whole lot of technology driven solutions that we are very excited about which we think could be tens of billions of dollars. So as far as we’re concerned, we’ve got a lot of growth ahead of us.

**Operator:** And as a reminder, if you’d like to ask a question, please press star and then one. And the next question comes from Chris Witkowsky from PE Hub. Please go ahead.

**Chris Witkowsky:** Yeah, Tony, good morning. I just wanted to ask about this sort of trend that we’re seeing of bigger private equity firms taking minority stakes in smaller firms. There was an article in the journal that came out earlier this month. It said that Blackstone was going to explore this opportunity through its permanent capital vehicle. I just wanted to see if you could comment on this opportunity and what you see out of this opportunity, whether at this point the space is getting a bit crowded?

**Tony James:** Okay, so we raised a fund to do this, which the whole investment focus of which, is to take minority stakes in good managers. It was primarily focused around hedge fund managers, but it’s got the mandate to do any kind of alternative manager. We raised that several years ago. And I would say that since we raised that fund, it’s a sector that’s become more crowded for sure. And I think a couple of the firms are actually doing some of that on their own balance sheet. The effect of that has been that prices have gone up, but there are still an awful lot of managers out there.

And so for us, it’s one more kind of product and we think we’ll earn a very good return for our investors. It’s a drawdown fund. We have five years to invest the money; and then as you say, we can actually keep that money working sort of indefinitely. It doesn’t have a life to it, and so that has some of the benefits of the permanent capital kind of vehicles I was talking to Matt about. So anyway, yes, it’s an interesting asset class. It’s growing in competitiveness, but we still feel it will be very good for our investors.

**Operator:** And now we’ll turn the call back over to Christine Anderson for final remarks.

**Christine Anderson:** Thank you all for joining. I think we answered every question that came. So if you have anything else that comes up later today, please feel free to give me a call. Thanks for joining us.