Christine Anderson: Good morning and welcome to our 2016 Fourth Quarter Earnings Call for the media. With me 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’ll 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’d encourage you to listen to that and if you do have other questions after the call feel free to give us a call. Tony?

Tony James: Thanks, Christine. Good morning everyone and thank you for joining us for our 2016 earnings call. And boy was 2016 an interesting year. We started the year with the stock market in the dumps, high yield markets in full retreat, and oil at $30.00 a barrel. We went through Brexit, a coup in Turkey, terrorism in Europe, impeachments in Brazil and South Korea, and culminating in the surprise election of Donald Trump and the prospect of one of the most abrupt and radical changes in our political, regulatory, and tax systems in the last 100 years.

And what happened in the face of all this uncertainty and change? The markets rallied across the board. Notwithstanding the volatility, each of our businesses had strong momentum with every one of them showing excellent growth in revenues, in ENI and in AUM for the quarter. Revenues rose 80 percent over last year’s fourth quarter. And ENI jumped 86 percent. For the year as a whole revenues and ENI both grew 11 percent over 2015. During this quarter distributable earnings came in at $0.55 a unit, above last quarter, but behind last year’s big fourth quarter.

The lumpiness of specific realization events means DE moves around some from quarter to quarter. For the year distributable earnings were $1.78 per unit or $2.2 billion in total. We entered 2017 with a strong backlog of realizations in process or signed. And as a result we expect 2017 to be another good year for DE. It’s interesting to note that over the last three years we have had $9 billion in distributable earnings exceeding the entire market cap of all of our competitors but one.

At today’s stock price 2016’s DE represented a dividend yield of almost 6 percent. And our trailing PE ratio is at a 25 percent discount to the S&P 500 – quite a bargain for an industry leader with double digit growth as compared to the S&P which is barely growing at all.
On the fundraising front we had another successful year. Even though our major flagship funds were out of the market we still brought in $70 billion during the year. A growing part of this is coming through our multi-asset retail investment platform incorporating both new distribution channels and new products. 15 to 20 percent of our fundraising now comes through this channel. Total AUM at year end rose 9 percent to $367 billion after distributing almost $40 billion in distribution to our LPs. In fact 3 of our 4 segments individually now have AUM of about $100 billion. We have a good mix of products entering the market in 2017 which should mean another solid year for fundraising, although it might not quite get up to 2016’s level.

One the other hand we have over $100 billion of dry powder most of which is in funds less than 2 years old. We are always mindful of not taking in more capital than we can invest successfully without lowering our risk or return standards. Even though we are already the industry leader by a substantial margin we continue to pick up market share which is not an easy thing to do in any business.

Investment results also remain strongly positive which of course is why LPs continue to entrust us with their capital. Private equity, real estate, and private credit each appreciated between 4.5 and 6 percent during the fourth quarter. And all of them posted double digit returns for the year despite the currency headwinds from the stronger dollar. The overall economic backdrop also remains good. Growth rates: our portfolio companies generally moved up from the low-single digit ranges to the mid-single digit ranges.

Energy prices strengthened driving up values of our large energy and debt holdings. With new building around the world remaining restrained occupancies and rents continue to show improvement though rates of growth are moderating slightly as the global economic recovery matures. Our investment portfolios have been positioned for rising interest rates for some time. A higher yield curve should generally raise returns for all asset classes. However, the changes to the tax code being discussed, including border adjustability, lower corporate tax rates, non-deductibility of interest, and expensing of capital expenditures would have far ranging and complex effects.

There will be big winners and big losers and plenty of turmoil. On balance we think these changes and the accelerating economic growth that we anticipate will be beneficial to our existing portfolio and in the short to medium term create a lot of newly attractive investment opportunities. For investors that have locked up capital, greater access to information, and best in class talent, upheavals such as this usually represents a golden opportunity.

With the stock market up and the animal spirits of corporate acquirers released it is also a good time to harvest gains from mature investments. Total realizations for the year were almost $40 billion. For this quarter we stayed on pace with realizations of $10 billion delivering an average multiple of money to our LPs of 1.7 times. This is very strong in a zero rate environment when most other asset classes are eking out only low single digit returns. And our signed backlog will get realizations off to a good start in 2017.
The fourth quarter was also a terrific quarter for new investment activity with capital deployed coming at $8 billion for the quarter and $23 billion for the year. We were particularly active in the energy sector. Given the rising prices and a new more energy friendly administration it looks like our timing here was extremely good. In addition we have a strong pipeline of agreed upon deals going into 2017.

Despite the low yield environment, we are making new investments with return expectations consistent with what we have delivered to LPs in the past. The return premium that can be earned on illiquid assets has never been more favorable in comparison to liquid asset classes. Furthermore, I believe the true volatility of liquid assets has been significantly understated in recent years, having been suppressed by an extended period of near zero interest rates. This means the risk/reward balance of alternatives is fantastic in relation to any other type of investment. And more and more investors are coming to appreciate that. Put another way, our market positioning is ideal.

I want to close as I started by looking back and highlighting our returns dating back to inception 30 years ago. For private equity, we have earned a compounded net annual IRR since inception of 15 percent. This is 7 percent higher return per year than the S&P 500. In opportunistic real estate we have earned a new IRR of 16 percent since inception. This exceeds the return of the real estate index by 9 percent per year. For mezzanine debt we have also earned a net return of 16 percent, exceeding the annual return of the high yield index by another 9 percent per year. And finally our BAAM composite has earned 6 percent per year exceeding the S&P by 2 percent and doing so with only one-third of the volatility.

These are remarkable long term return premiums through all kinds of markets, economic cycles, financial crises, and political upheaval. Investing in alternatives is not something one can market time. It is something you commit to for a period of years. But for investors who are disciplined enough to make that commitment through the cycle the returns over time can be extraordinary. With that I’ll close and open it up for questions.

Operator: Thank you very much. And ladies and gentlemen if you do wish to queue up for questions you may press star followed by 1 at this time. Once again for questions you may place yourselves in queue by pressing star followed by 1. And please allow just a few moments as questions are queuing up. Okay once again for your questions you may press star followed by 1 at this time. We’ll take our first question from Melissa Mittelman with Bloomberg. Please go ahead.

Melissa Mittelman (Bloomberg): Hi, good morning, and thanks for doing the call. I had a quick question on capital deployment. It looks like it was down slightly last year compared to 2015, a pattern I think that many are expecting to see from your peers as well. But I’m curious and just hoping you can tell us a little bit more about your outlook for putting money to work in 2017. Thanks.

Tony James: Okay it’s Tony. I think our outlook is very positive. As I say we enter the year with a much bigger backlog than when we entered 2016. The activity in places like
energy are very high right now, and energy cuts across both private equity and GSO. We’re seeing a lot more activity in private equity. We’ve got a new fund that we’re just starting up, our Core private equity, where we’ve already signed up our first deal. The one area that’s a little softer I would say would be real estate in the US where the market is maturing and prices are higher. We’re being more selective but even there we have some very attractive targets that are in process. So I think you should expect a good deployment year.

Melissa Mittelman: Thanks.

Operator: Thank you. Our next question will come from GQ with Reuters. Please go ahead.

GQ (Reuters): Hi Tony. So with regard to Blackstone wanting to perhaps venture to construct an infrastructure business and set up a unit can you talk a bit about that? About how far along are your plans and you know how soon we can expect that? Also, what kinds of opportunities do you see? Thank you.

Tony James: Sure. Well, as you step back and look at the mix of businesses in Blackstone the big area that we’re not in is infrastructure. So it’s obviously a target of opportunity for us. And it’s something we spend a lot of time thinking about. We’re getting a lot of interest from LPs, a lot of encouragement from LPs to get into the business. And so it’s something we’re focused on. We’ve got both a lot of internal talent that’s got the ability to move into that area, and of course we’re talking to some external people as well.

I would say we have not at all a small track record in infrastructure. We’ve done 25 or 30 infrastructure deals here. We’ve put to work something like $6 billion of equity. And I would say the returns are nothing short of spectacular into the 40 percent IRR range. So we’re really excited about both our capabilities and the opportunities to add at AUM.

Operator: Thank you very much. Our next question in the queue will come from Meghan Morris with PERE Magazine. Please go ahead.

Megan Morris (PERE): Hi, thanks all for your questions. Quick bit of color on BREP Asia II: what should we expect for fundraising and what opportunities do you see in Asian real estate going forward.

Tony James: Well Asia – We’re still seeing a lot of good opportunities in Asian real estate. In fact the hottest market in the world for us is right now India office. And so we’re very optimistic about that. And of course you know I don’t know what the target size will be but we expect it to be at least what we have in BREP Asia I.

Megan Morris (PERE): Thanks and quick follow on question. What opportunities are you seeing on the non-trade REIT side? Should we expect more hotel purchases or are there any other major opportunities that you can talk about?
**Tony James:** You know we’re in the market with that so we really can’t talk a lot about that.

**Megan Morris:** Got it, thanks.

**Operator:** Thank you. Our next question will come from Devin Banerjee with Bloomberg. Please go ahead.

**Devin Banerjee (Bloomberg):** Thanks. Tony, good morning. You didn’t really hold back on the magnitude of I guess the potential policy effects under the new administration and a Republican controlled Congress. But can you talk a little bit about – just to your current knowledge – what the state of play of some you know pretty important issues for the industry are in Washington and what the discussion is like between the private equity industry and Washington? I’m thinking about obviously as you mentioned interest deductibility and maybe the tax treatment of Carry. What’s sort of the state of play in your mind? And is it fair and maybe obvious to say that Blackstone and the house view is that the current policies are the best policies?

**Tony James:** Well, Devin I don’t know how this is going to play out. And there isn’t even proposed legislation yet. So I’d be – There’s an awful lot out there that people are talking about. And the way we’re looking at it is trying to be prepared for anything and opportunistic enough to take advantage of anything. And to protect ourselves from the downsides that might come out of it. If taken as a package from what we’ve heard so far we think it’ll be as I said net positive to our portfolio companies. And that package of things will play through different industries differently.

From what you read, obviously companies that are heavily dependent on imports will be more threatened and companies that are heavily dependent on exports will benefit. So there will be winners and losers in this. And I think our job is to be nimble enough and clever enough and have the foresight to figure out where the winners are and go there and to mitigate our risk on the losing sectors.

**Devin Banerjee (Bloomberg):** Would you say there’s a healthy dialogue between the private equity industry and the new administration about all types of regulatory and tax policy?

**Tony James:** I think it’s too early to say that. The new administration isn’t even seated yet. So it’s just too early for me to confirm that.

**Devin Banerjee (Bloomberg):** Okay, fair. Thanks a lot.

**Operator:** Thank you very much. If there are questions you may queue up by pressing star followed by 1. Again for your questions you may queue up by pressing star followed by 1. And please allow just a few moments here. Okay once again for your questions you
may press star and then 1. Okay next in queue is Dan Primack with Axios. Please go ahead.

**Dan Primack (Axios):** Hey Tony I just wanted to follow up on what you just said to Devin. You talked about protecting the downside particularly when it comes to – And I understand that with existing portfolio companies. But when it comes to something like the deductibility of interest how do you protect the downside in terms of your overall moving forward private equity investments and private equity strategy? Can you just give me a sense on how you’re thinking about that and how if at all you guys are preparing to possibly rework your private equity investment strategy?

**Tony James:** Well Dan I don’t – I think it’s a mistake to pick one item that’s being discussed and think you’re going to have to deal with that as an individual item. This is a package of things which all connect. I don’t think it’s – I don’t know what will be enacted but it’s certainly enactable to pull these things apart one at a tie and think that they’ll be enacted that way. So just take deductibility of interest. If we lose the deductibility of interest, but we get the expensing of capital expenditures we get grandfathering of existing debt and we get a lower corporate tax rate of 20 percent most of our companies will benefit.

So you know it’s not – I don’t think it’s productive to start singling things out one at a time and talking about what if on that basis.

**Dan Primack (Axios):** No, no, no that I appreciate. But you can talk to us there about grandfathering debt. I understand that for existing portfolio companies and existing investments. I think of it more as going forward. If all of those things you just said are true and if all of those things came do you feel or not feel that you guys though would have to change the way you structure transactions going forward – new transactions?

**Tony James:** Not necessarily. Debt, even if it’s not deductible is still cheaper than equity. And remember we’ll have a lot of tax shelter from the capital expensing. So you know I think it’s – as I say not necessarily.

**Dan Primack (Axios):** Thanks Tony, appreciate it.

**Operator:** Thank you. Next in queue is Conrad Postier with *The Real Deal Magazine*. Please go ahead.

**Conrad Postier (The Real Deal):** Good morning. Can you talk a bit more about where you see opportunities and risks in the US real estate market and what the impacts of rising interest rates could be?

**Tony James:** Well sure. I think the opportunities today are scattered. They tend to be around some larger multi-property assets. And you know there are some sectors in some regions that we’re starting to see some building but then others where we’re not. In general as interest rates – So I don’t think there’s a big theme I can tell you is really
cheap in the United States. It’s finding mispriced assets or undermanaged assets, fixing them, and then selling them, which is what we do. On the interest rate question higher interest rates obviously can raise cap rates. But the spreads of cap rates over base rates are near all-time highs.

So we’ve got a lot of cushion and I would expect those spreads to come in and absorb most of the impact of higher interest rates. But what goes with higher interest rates is typically more economic activity and sometimes higher inflation, both of which are – Obviously more economic activity is good for occupancies. And higher inflation is good for rents, which both of which play through in positives in operating income. And so we’re not particularly worried about higher rates as long as it’s against a backdrop of economic strength.

Conrad Postier (The Real Deal): Thanks.


Matt Jarzemsky (WSJ): Hey, good morning Tony. So when you say the tax proposals out there – You know you expect they’ll be a net benefit to your existing private equity portfolio. Do you think that’ll be the experience of much of the broader kind of PE industry? And how do you guys see yourselves relative peers in this regard?

Tony James: So Matt I just want to say I don’t know what will be enacted. So I’m not – This is not in any way projecting the stuff in Washington will be good. I’m only saying based on what’s currently being discussed that package of things if it sales through un-impacted – which is almost inconceivable to me by the way – will probably be net beneficial to our portfolio companies. There are puts and takes. So it’s not like some big victory either. It’s net beneficial but not hugely so.

So I just want to be clear about that and I’m not projecting that this will happen. I’m just trying to give you guys a sense for this is not like an earthquake that rolls through the portfolio. And I would expect that would be similar to other private equity firms.

Matt Jarzemsky (WSJ): Okay, so what are the attributes of your portfolio and how your guys PE book is kind of positioned, you know regarding industry groups or whatever, that might condition it to benefit were things to kind of go the way they seem to be going now?

Tony James: Boy that’s a tough question. We have well over 100 companies. So I think – And I’m not going to go through all of them obviously – I think that the bottom line is we’ve got a microcosm that represents a lot of the economy and it’s pretty diverse. And while we have some winners and some losers on balance you know the benefits of expensing capital expenditures and lower tax rates offset the loss of deductability interest. And then as regards to border adjustability it depends on what you believe about currencies and which companies import and which companies export.
But as you play that through on a dynamic basis, again we think we’ll be fine.

Matt Jarzemsky (WSJ): All right, thanks a lot.

Operator: Thank you. And we are now turning the call over to Christine Anderson for her closing remarks.

Christine Anderson: Thanks everyone for joining and give me a ring if you have any questions after the call. Thanks for joining.