Christine Anderson: Good morning, everyone. Thanks for calling in. Today we have 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 for the quarter and then we will be happy to take your questions.

Before I had 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 at the shareholder section of our website. Today’s call may also include forward-looking statements which are uncertain and outside of the firm’s control and may differ from actual results materially. We do not undertake any duty to update these statements. Please see the risk factors section of our 10-K for discussion of risk that may affect our results.

There is also an analyst call later today at 11:00a.m. You’re welcome to join into that, and I’d encourage you to give us a call afterwards with any questions you may have that we don’t address on the call. Thanks so much, Tony.

Tony James: Thanks, Christine, and thank all of you for tuning in this morning. As you could see from our press release, we had an outstanding first quarter. Revenues doubled, while economic net income was up more than two and a half times and distributable earnings tripled to $1.02. This brings our distributable earnings for the last 12 months up to $2.42 per unit, representing a yield on our current stock price of about 8 percent.

This is a stunning yield premium over prevailing interest rates and this comes from a firm that is a global leader with strong secular growth, a fortress business and a rock solid balance sheet. Even with the current depressed stock price, if you had bought Blackstone stock in the IPO and reinvested your dividends into the stock, you’d be up 74 percent since 2007. This shows the power of Blackstone as an investment vehicle.

Our positive results derive from posting great returns for our LPs across all our asset classes and through market cycles. More specifically, over the last 12 months we have delivered 15 percent gains in both our opportunistic real estate funds and our flagship PE funds. We have delivered over 25 percent in our GSO strategies and 10 percent in our BAAM funds, which have only one-third of the stock market volatility.

I’d love to single out one or two businesses that gave standout performances but I really can’t do it, all were outstanding. Furthermore, the returns we have sustained since inception in these businesses are also all great and all are well above the relevant benchmarks. As I mentioned last time, it is always so impressive to review the overall investment performance of our large LPs that have had billions of dollars with us for many years across multiple product areas and see the 15, 16, 17 percent net returns they have earned since inception.
In addition to delivering strong earnings, such good investment returns come – continue to ensure strong fundraising and drive AUM growth. For the quarter, we raised about $14 billion of gross new inflows and that’s without our largest funds being in fundraising mode. This propelled AUM up 7 percent to a record 368 billion despite returning very, very large sums to our LPs during the quarter.

In fact, with almost $17 billion in realizations, this quarter was our largest realizations quarter ever. Our average multiple of money on private equity and real estate realizations was absolutely terrific at 2.6 times. Again, it’s all about returns. Fee-paying AUM at the end of the quarter was up 15 percent from last year. Even BAAM, despite the well-publicized headwinds prevailing in the overall hedge fund industry, grew fee-paying AUM 6 percent.

We have found the current environment favorable not only for harvesting gains but also for making new investments. During the quarter, we invested nearly $12 billion in new deals; the second highest quarter ever. The private equity businesses led the way with almost $7 billion put to work. Opportunities continue to cluster around themes that we have identified as attractive, most particularly, energy, healthcare and industry consolidations in private equity.

In GSO, the focus has been on energy again, opportunities in Europe due to the still weak banking system and public market dislocations. And in real estate, productive themes have included ecommerce-driven logistics and urbanization. And almost always, the return we earn comes from our ability to intervene materially in the operations and create our own value; value that cannot be priced away by the market.

On the ground, the major economies of US, Europe and Asia all feel healthy. In the US, our companies felt a modest post-election bump but have returned to the more moderate expansion that had prevailed in the last few years of something in the area of 2 percent GDP growth. Europe is definitely on the upswing, despite worries about Brexit and populism in looming elections. And Asia continues in the positive mode it has been in over the last year with China and India both feeling stronger, actually.

Our portfolio companies, on average, are experiencing high single digit EBITDA growth, well above the growth rate they were seeing in last year’s first quarter. In real estate, rents and occupancies both continue to improve with the growing economies, while new supply remains restrained.

We have the strongest and broadest platform, by far, in our industry, with every single business a topnotch performer. While other firms may have one or sometimes two strong businesses, we have nine. This is a unique position. It gives us an unmatched ability to provide strategic investment solutions on a massive scale to the largest capital pools in the world. This is driving increasingly large cross-platform strategic commitments from major LPs. It also gives us a product pallet and brand strength that has incredible power in retail channels.
In addition, we continue to innovate and build new businesses, with several under development that we are excited about. We remain disciplined on costs and our focused on finding savings by consolidating functional areas. And our businesses are also pushing new technology to drive operating efficiencies.

Overall, we are very optimistic about the future for Blackstone. We have a favorable economic environment and strong momentum in all our groups across the board. We have 3.3 billion of accrued performance fees on the balance sheet available for harvesting in subsequent periods. We have put $87 billion of new capital in the ground in just the last three years, and these, of course, are the seeds for our future gains. And we have $94 billion of dry powder still available to capitalize on new opportunities.

Finally, in a talent-driven business, we were again selected as the number one employer in our industry in the E-Financial Careers Ideal Employer Survey. With that, I’d be happy to take your questions.

Operator: Our first question is going to come from the line of Matt Jarzemsky from the Wall Street Journal. Please go ahead.

Matt Jarzemsky (Wall Street Journal): Hey, Tony, are you there?

Tony James: Yeah, hi, Matt.

Matt Jarzemsky (Wall Street Journal): Hi, morning guys. Can you talk a little bit more about some of the new business initiatives you’re looking at, and particularly, kind of where you guys are with infrastructure?

Tony James: Well, infrastructure is certainly one of them and it’s gotten some play in the past. We think that’s – as I mentioned, I think last time, we have an unbelievable record in infrastructure, where we’ve put out several billion dollars and earned a return of something in the net 40 percent range. So spectacular results. We’ve got a lot of internal expertise, and I think we have an awful lot of interest from our LPs. In fact, we’re getting a lot of reverse inquiries from LPs, urging us to get into the business.

So I don’t have any announcements to make in terms of deals, because we’re not sort of in investment mode yet but we’re laying the groundwork. And one of the things about our business is that’s both good and I suppose bad is they’re businesses that are slow to develop but once you develop them, it’s very hard to break in and you’ve got a highly defensive position. So you know, these aren’t businesses you rush into and are in tomorrow. We’re working on it and I’m optimistic that this will play out over the balance of the year and we’ll have a very good business by the end of the year.

Matt Jarzemsky (Wall Street Journal): Thanks a lot.

Operator: Thank you. The next question will come from the line of Devin Banerjee from Bloomberg. Please go ahead.
Devin Banerjee (Bloomberg): Thanks. Hey, Tony, good morning. Thanks for your time. Some of your peers, or I guess one in particular has developed quite a robust sort of third-party capital markets business, doing a lot of service outside of its portfolio with other sponsors, what do you think of that generally as an opportunity for Blackstone?

Tony James: Well, Devin, as you know, we had a reasonably substantial investment — I’ll call it an investment banking business — internally and we spun that off, and it’s now PJT Partners and it’s doing very well. I couldn’t be happier for them. But we’ve decided that we want to focus on asset management and serving our limited partners and not have conflicting client obligations in another direction.

Devin Banerjee (Bloomberg): One more if I can. From the outside recently, it seems like there’s been some turnover at GSO, a few partners, a few MDs, is that sort of a normal level of turnover and we’re just hearing about it more or has it been above average a bit and for what reason?

Tony James: Well, in general, Blackstone has incredibly low turnover across all of our businesses, but I think — what we try to manage our firm to is not having zero turnover, ironically, even though we’re low, it’s making sure that we have the kind of talented people that can go on and do other things, can create great firms. You look at the Blackstone alumni and what they’ve gone on to do, it’s spectacular. But that when we lose someone, we have an equally good or maybe better, more hungry person who can step up and take the business to a whole other level. That, to me, is the long-term success of a business, not hanging onto the same old tired horses.

Having said that, we’ve been making some changes to the business model in GSO, and in particular, we’ve shifted a capital pool that was more short-term trading oriented in our hedge fund into a long-term drawdown fund because it serves our LPs so much better. For investing the same asset class with essentially the same strategy they earn 2-300 basis points more return in a drawdown format. So that’s eliminated the need for some trading desk and other kinds of expertise like that.

Devin Banerjee (Bloomberg): Gotcha. And that shift in the asset, it’s just easier to manage to a higher return because you’re not dealing with the more frequent liquidity and redemption cycles?

Tony James: Well, that’s part of it, and in a very low yield world, the real distortion, in my view, the real overvaluation comes on the liquid instruments. In fact, the more liquid an instrument, the more the overvaluation in my view. So this allows us to focus more on the relatively illiquid things and earn that return premium without taking more risk.

Devin Banerjee (Bloomberg): Gotcha, all right, thanks.

Operator: Thank you. Our next question is coming from the line of Greg Roumeliotis from Reuters. Please go ahead.
**Greg Roumeliotis (Reuters):** Hi, good morning, Tony. Could you provide a very brief overview or your assessment of the impact of the new Trump Administration’s policy mix on Blackstone’s businesses? Obviously, the impact of the rally in the markets or Blackstone’s ENI and distributable earnings is not easy to assess but as you know, there’s a lot of uncertainty still around tax reform, infrastructure spending, regulations, the ability of Chinese companies to invest in the US. And I know, you know, there has been a big opportunity as far as Blackstone portfolio companies are concerned, can you offer your first briefing on that?

**Tony James:** Sure. Let me be the first to say that I don’t know either what the Trump Administration policies really are or what will happen in Washington, and I don’t think the outcome is terribly predictable anyway. But having said that, as I said last quarter, the slate of policies that Trump has articulated and that Paul Ryan has articulated, if they came to pass in that form, would be beneficial for our portfolio companies.

We’re already seeing some benefits, frankly. We’re seeing some benefits just from the greater confidence that I think the business community has. There is a sense of relieving some of the regulations that many – that were choking many businesses. I think that’s got people feeling better. So as I mentioned, we saw a little post-election bump and, in general, in activity.

I think some of the things he’s talking about, the investment in infrastructure would be very good for us. I think bringing some of the earnings and profits accumulated abroad back to the United States would be very good for us and for markets. We have continued to sell assets to Chinese buyers. Remember, we’re a global company, it’s not just that all of our assets are in China, we just last week sold some real estate in Japan to a Chinese buyer. So we continue to, I think, generally benefit from the momentum that has come out of the election.

**Greg Roumeliotis (Reuters):** Thank you. And just a second brief question. This level of capital deployment at the time of frothy valuations is very impressive. So can you provide a little bit more of granular color? I know you mentioned sectors like energy and healthcare and I saw reference in the earnings release about quite a bit of investment overseas as well, but can you provide a little bit more color as to exactly where, you know, value-oriented opportunities are in these frothy markets?

**Tony James:** Well, you know, that’s why I tried to give those themes in the comments, but I think it’s important to remember that we’re not buying markets, we’re not buying indices, we’re not buying portfolios with stocks, we’re selecting one or two companies in an entire economy in a year. And so if we do six big deals, two in the US, two in Europe and two in Asia, you know, in a private equity fund, well, that’s pretty good.

So we can ignore a lot of the world that’s frothy and overvalued. We’re looking for companies or opportunities, it could be in real estate, it could be in credit, it could be in tactical opportunities away from trade and markets, that other people have either
overlooked or where there is an opportunity for us to intervene and create our own value. And the nice thing about being able to create your own value, which is something like 80 percent of all the returns we earn, is that’s not priced in the market because that’s proprietary to us. So an awful lot of what we do is that, and where we can do that, we can offset market overvaluation, if you will, and so that’s a lot of our theme, number one.

Number two, there are always sectors. We’ve been spectacularly successful in energy in both our equity and our credit businesses, and the nice thing about energy is, you know, it’s a capital consuming industry, it went through some ups and downs, prices are higher now, there’s a lot of opportunities out there, and access to capital for many of those companies is constrained. So we think that’s an area where things are not necessarily overvalued, particularly if you get away from public markets. And a lot of what we’re doing in energy are buying private assets, properties, wells, things like that.

And then we really like industry consolidations where you can get a world-class management team and create an industry leader by putting things together and getting the synergies and bringing in better systems and better procurement and all that there. So all of those things have been great opportunities for us.

**Greg Roumeliotis (Reuters):** I understand but there is something to be said about reaching – I think you called it either the strongest quarterly level of capital deployment or one of the strongest. Is there something to be said about such strong capital deployment happening in this environment of historically very high valuations?

**Tony James:** Well, remember, we’ve got a growing business and growing AUM, so over time you know, hopefully, we’ll be putting more money out. I don’t know that we have had – you know, we’ve got 100 billion of dry powder, thereabouts, 94 now but it was 100, so you should expect a fair amount of deployments, number one.

Number two, you know, one of the ironies of our business is we’d love to be able to put tons of money out in the 2008’s of the world, the problem is that, you know, we have to buy what people are selling and there are – a lot of people don’t want to sell assets in that environment. So we need a more transactional environment to have a lot of activity.

**Christine Anderson:** Just, we’ve got a bit of a queue so we’ll try to limit everyone to one question. You can always queue up again if you want to come back with a follow-up. Onto the next.

**Operator:** Thank you. Our next question, it will come from the line of Meghan Morris from PERE. Please go ahead.

**Meghan Morris (PERE):** Hi, good morning all. I was looking for two quick updates on some platforms. The first is an update on the sale of Logicor and the second is, what’s the timeline looking like for setting up an Indian office REIT. Tony, I know you spoke about that Indian office market in general last quarter on the call very enthusiastically, so I just curious what you’re thinking about right now in terms of strategies for a REIT put up.
**Tony James:** Well, as you know, we’re in the midst of assessing Logicor and what the best way to realize the value there is, and we’re looking at both IPOs and sales, and so that process is ongoing. We got a great asset that’s continuing to accrue value and I think it will be a highly, highly successful transaction. And similarly, the India office markets continues to be very strong and we’re certainly taking a hard look at the REIT market there. It’s fairly new, as you know, so there are some structural issues that we’re working on.

**Meghan Morris (PERE):** Thanks.

**Operator:** Thank you. Our next question will come from the line of Melissa Mittelman from the Bloomberg News. Please go ahead.

**Melissa Mittelman (Bloomberg):** Hi Tony, good morning and thanks to all for doing the call. I had a quick question on valuations. Tony, you’ve talked in the past about what could trigger the end of this high valuation cycle and it seems like we’re still seeing rise in deal multiples out there. So I was just wondering if you could give the current view on what might trigger the end of this cycle and when. Thanks.

**Tony James:** Well, a lot of things could trigger the end of the cycle and I’m not saying that necessarily we’re calling a peak here, don’t, like, misconstrue this, but there is a lot of geopolitical risk out there. If the situation in North Korea gets out of hand, I think the risk premia go up a lot and the market will react. I think you know, right now, people are markets are pretty complacent, I guess, about the elections in Europe, but if you have a couple of odd European results there that could spook people. You could have things flare up even worse in the Middle East. Any to those kinds of things are – there’s a whole set of things there.

Another set of things I think relate to rising interest rates. People assume that rates will rise gradually in the face of economic strength, but if you find either rising rates with the economy tailing off a little bit or rates spiking faster than people think, either of those things, I think, could be worrisome to the market. So those are the things that I see out there as potential risks.

**Melissa Mittelman (Bloomberg):** Thanks.

**Operator:** Our next question comes from the line of Sam Sutton from Buyouts Magazine. Please go ahead.

**Sam Sutton (Buyouts Magazine):** Hi Tony. Thank you for taking questions. You mentioned industry consolidations as an area of interest within private equity. Just curious what industries specifically, and how those investment theses are playing out.

**Tony James:** Well, Sam, I mean you’d be amazed the number of industries that we look at in this area, and so it wouldn’t help you to start listing a long list of things, but let me
give an example. Body shops don’t jump to mind, car body shops, but lo and behold, we have an industry consolidation where we’re rolling up repair shops across the country and it’s going really, really well.

So the opportunities are pretty endless if you get the right team and it’s not just consolidating for size, our standards mean that you have to actually create better companies that give the customer much higher value – a better value proposition and you have to have significant synergies by rolling them together. You’re not just gluing together a lot of little things and getting a bigger thing.

Sam Sutton (Buyouts Magazine): Thank you.

Operator: Thank you. The next question will come from the line of Jeff Goldfarb from Breakingviews. Please go ahead.

Jeff Goldfarb (Breakingviews): Hello, Tony. Amid the sort of the deregulatory climate there is – it seems to be a fresh push on the six times leverage rule coming from Pat Toomey, and I just wonder, from your perspective, a couple questions around that. Basically, sort of what has that rule or guideline, whatever you want to call it from the Fed, how has it impacted Blackstone in particular, and if it were to be relaxed, what do you think it would – do you think it would have a big impact on valuations and what other firms are willing to pay? How would it affect the entire market from your vantage point?

Tony James: Well, Jeff, I don’t know. I would say – let me start with the beginning of that question. I don’t think the rules had a material effect on our business. Some of our businesses have benefited from it, GSO most particularly, has obviously been able to step in with some of the credit wherever the banks move back a little bit. In private equity, we’re getting kinda the right amount of leverage that we’re comfortable with. Sometimes there’s – you know, banks are offering us, even today, more leverage than we’re comfortable with.

And there are always non-bank providers of credit, if you really want to go over the six times. So we haven’t found that a particularly limiting factor, honestly. And, you know, I think it’s high enough that whatever they do with it doesn’t make a big difference to us. As far as how it affects the market, there’s always people out there that, in my view, make the mistake of just looking at their returns on a post-leverage basis, and we, you know, in private equity I guess is what I’m talking about, we try to look hard at unlevered returns, ‘cause that’s really the return you’re earning, the rest is just financial engineering.

And, you know, leverage will amplify your results, good or bad, but it’s very much of a two-edged sword if you’re wrong. And when people look at their models and they see a higher return, what they don’t see on that page is the higher risk that comes with it. So I think a lot of people overuse leverage, and so if it’s available I suppose people will do it, but to me, this is not a big issue.
Jeff Goldfarb (Breakingviews): Okay, thank you.

Operator: Thank you. Our next questioner will come from the line of Annabelle Ju from PEI. Please go ahead.

Annabelle Ju (PEI): Hi, good morning, Tony. Thanks for taking our questions today. In the last earnings call you guys had mentioned briefly about possibly launching a product pertaining to the family offices and high-net worth individuals. So I was just wondering if there is any update to that, and also any change in terms of the portion of that type of investors in terms of the total block of AUM.

Tony James: Well, yes. So we continue to be very excited about our initiatives there and we have now a dedicated family office team that both creates products for that market and also acts as the relationship – the gateway between family offices and Blackstone across the platform. We’ve also building out our sales force to go to the independent broker-dealer world.

And by family office, by the way. I should say we also lump in with that large-scale RIAs and endowments and foundations. So it’s a much – it’s a broader market than just family offices because they all have certain structural similarities in terms of how they make investment decisions. But as I say, secondly, we’re building out our independent broker-dealer network. We’re already in the market with several products on that, it’s going very well. That build out will continue through the year.

And then we have, as you know, the private wealth management business, the PWM business, which we sell, where we work with wire houses and the big trust companies to offer our products to their customers. So we have the three legs to the stool in that area. We are selling about $9 billion a year of our products through there. I think the big growth area from Blackstone is going to be right there. I think it could be substantially higher than 9 billion right today because since all of our drawdown products are reaching their hard caps, we’re keeping the demand under control so to speak, artificially.

We also have created some multi-asset products that – for which there’s much more demand than there is supply. So that’s going to be a big growth area, I expect. As I mentioned in my comments, the brand and the kind of products we have, particularly in a world with low interest rates and high stock prices, really, really sells. And for us, the beauty of it is, it’s often permanent capital and with attractive fee structures. So all in all, couldn’t be happier with the way that’s going and I’m sure you can get more on that from Joan or Christine.

Annabelle Ju (PEI): Thank you.

Operator: Thank you. Our next questioner is the line of Gillian Tan from Bloomberg. Please go ahead.
**Gillian Tan (Bloomberg):** Hi Tony, thanks for the time. You haven’t been asked about the buy backs for a couple of quarters and I was just wondering how you were thinking about the valuations. I think in July you said it was a bug and the stock has run a little bit since then but probably not where you want it to be.

**Tony James:** I guess the reason people stop asking is because we never give a very satisfactory answer, at least, don’t tell ’em what they want to hear. You know, we think our stock is significantly undervalued but I would say we earn such high returns on the capital we retain in the business by sponsoring new businesses because of the – it’s 2 to 3 percent of a new fund and then we get the management fees and the carry and all that, that, as cheap as our stock is, the returns on retaining some of that capital and using it in the business are extremely high.

So it’s a bit of, I guess we’re lucky to have that problem, but I don’t see either reducing the dividend a lot or leveraging up to the point where we jeopardize the strength of our balance sheet to buy in stock at this point.

**Gillian Tan (Bloomberg):** Thanks.

**Operator:** Thank you. And our final question comes from the line of Jeff Goldfarb from Breakingviews. Please go ahead.

**Jeff Goldfarb (Breakingviews):** Hey, Tony, thanks for taking another one. You addressed a couple of sectors of energy. Could you talk a little bit about tech? There seems to be a lot of money being raised dedicated to tech, a lot more than we’ve seen from some similar players, but given your dry powder and given the attention seems to be put on that market, is that anything that you guys are looking at or will you steer away from it because of given how much is earmarked for that particular industry?

**Tony James:** No, I mean we like tech a lot and we’ve done – you know, a bunch of the investments we’ve done lately are in the tech sector. It is a little worrisome the amount of money that is being raised and the scale of some of these capital pools for firms that are fairly small in their footprint and so we’ll have to watch that. It’s certainly become a lot more competitive area. But, you know, the reason that there is the opportunities in tech is when these tech companies are growth companies the market loves them, but when they go ex-growth, they’re kinda orphans in the public markets. And so there’s some opportunities there for sure, and there’s some consolidation opportunities there. A lot of these companies have overlapping sales forces and things like that. So we still like the sector, we’re still doing things in the sector, but we’re watching the amount of capital with a weary eye.

**Jeff Goldfarb:** Okay, thank you.

**Christine Anderson:** I think that’s our last question. Thank you all and feel free to ring the office if you have questions later today.

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