Weston Tucker: Great. Thanks, Derek, and good morning, and welcome to Blackstone’s second quarter conference call. Joining today’s call are Steve Schwarzman, chairman and CEO, Tony James, president and chief operating officer, Michael Chae, our chief financial officer, and Joan Solotar, head of private wealth solutions and external relations.

Earlier this morning, we issued a press release and slide presentation, which are available on our website. We expect to file our 10Q in a few weeks. I’d like to remind you that today’s call may 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. For a discussion of some of the risks that could affect results, please see the risk factor section of our 10K. We will also refer to certain non-GAAP measures on this call, and you’ll find reconciliations in the press release and the shareholders page of our website. Also note that nothing on this call constitutes an offer to sell or a solicitation of an offer to purchase an interest in any Blackstone fund.

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So a quick recap of our results. We reported GAAP net income of $745 million for the quarter, up sharply from the prior year comparable period. Economic net income, or ENI, per share, was $0.59, up 34 percent from the prior year, due to greater appreciation across the funds, as well as strong growth in fee related earnings.

Distributable earnings per common share were $0.63 for the quarter, up 54 percent from the prior year. We declared a distribution of $0.54 per common share to be paid to holders of record as of July 31st. And with that, I’ll now turn the call over to Steve.

Steve Schwarzman: Thanks a lot, Weston, and good morning, and thank you for joining our call. Blackstone posted a strong set of results for the second quarter, as Weston indicated, with revenue, ENI, and distributable earnings all up sharply from the prior year. This follows a first quarter that you may recall was one of the best ever. Taken together, for the first six months of the year, ENI nearly doubled to $1.7 billion, while distributable earnings more than doubled to $2.0 billion.

Our base of realizations remains strong, with nearly $28 billion sold in the first half, our most active six month period on record. We’re continuing to see the benefits of our sustained large scale capital deployment around the world, a patient focus on value creation in those investments, and then being able to choose the right moment to exit. We expect this momentum to continue. With pending realizations, including the historic sale of our European logistics portfolio, which Michael will discuss, we’re on track for one of the best years for cash distributions to shareholders in our history.

As I’ve said before, our distributions should not be viewed as one-off special dividends.
We’ve demonstrated an ability to deliver consistently high payouts over time. Over the past three years, for example, as Tony mentioned earlier, we’ve distributed an average of nearly $2.50 per year of value, driven by over $130 billion of realizations, and yet despite this high level of sales, assets under management continues to increase, up 33 percent over the past three years, to a record $371 billion.

Our LPs keep entrusting us with their money, because we’re able to deliver differentiated investment solutions and long term outperformance versus what they can achieve in the traditional areas of money management. We’ve been doing this for over 30 years, and today, offer a broader scope of solutions to different types of LPs than ever before in our history – from state pensions to sovereign wealth funds to individual investors looking at alternatives for the first time.

Last month, as Tony also mentioned, marked the tenth anniversary of Blackstone’s initial public offering, and we’ve come a long way in the past decade against a backdrop of dramatic change in the broader money management industry. Capital flows have increasingly migrated towards two distinct ends of a barbell. First, the low fee index and other passively managed long only funds, and second, the highly customized, differentiated alternative funds. Each of these opposite ends of the spectrum is taking significant share from traditional active management, which is in the middle. Close to $2 trillion, for example, has flowed into passive managers in the past ten years. Similarly, the alternatives industry has doubled in size in the past decade, as these funds have become more and more critical for limited partners to be able to meet their actuarial targets. Allocations continue to increase as a result, and we expect that trend to continue.

Blackstone is leading this transformation with a brand that investors trust, built by a culture of innovation and a long track record of protecting and growing their capital. We used the proceeds from our IPO to fund our expansion into new business areas, some of which today are larger than the entire firm was in 2007. By inventing new fund categories or redefining existing ones, we’ve created an ever-widening product set to help our LPs solve their issues. The result is a more than fourfold increase in AUM since the IPO, which is close to unprecedented in finance, which has overall been a shrinking category.

We’ve also shown that we can grow AUM without sacrificing returns. We’re carefully sizing new funds, so we don’t dilute performance. That discipline is illustrated in both our recent and historical returns. For example, the corporate private equity and real estate opportunity funds appreciated 15 to 17 percent in the past year, and have beaten the other relevant indices by 7 to 9 percentage points per year since inception, net of all fees. In other words, if you’ve invested with Blackstone in our high return products, you’ve made 700 to 900 basis points over what you may have returned in the stock market.

Our GSO credit strategy has also delivered gross returns of 15 to 17 percent over the past year, and our liquid funds as measured by BAAM’s composite achieved a gross return of nearly 10 percent, with only 1/3 the volatility of the broader market.

In our newer products areas, we’re delivering compelling performance as well, consistent
with enhancing our Blackstone brand. Our tactical opportunities platform, for example, appreciated 15 percent in the last 12 months, while our longer dated core plus real estate strategy was up 10 percent, consistent with its mandate. These returns are the reason that when we go to market to sell a fund, usually somebody wants to buy it.

We’ve sold out all our major flagship funds over the past several years, and are enthusiastic about the opportunities we see ahead. In fact, when I look at the new products we’re developing today, alongside the recently launched ones that are reaching real scale, to me, this is one of the most exciting times in the firm’s history.

Our new infrastructure business, which got a lot of public visibility, is one of several reasons for this excitement. We had carefully considered this business for a number of years. It started as an idea, like many at Blackstone, where we attempt to identify the next paradigm shift in the market, or a discontinuity, where we can leverage the firm’s unique capabilities to generate outsized returns. We discuss whether an idea can become an enduring business, and whether we have the right people to staff it.

We’ve been making infrastructure investments quite successfully for over a decade in our private equity funds, and now when we see a historic investment opportunity emerging in America, we believe the time is right to launch a dedicated business.

We started a dialogue over a year ago with a long term oriented sovereign fund to become a lead investor. They ultimately chose us because they’re highly supportive of the way we do business, our process for sourcing and analyzing investments, and our value add approach. We’re staffing this business as we typically do, by moving talented professionals with relevant experience into leadership roles, and filling in around them with key hires. It’s a time-tested strategy that works because of our deep bench of talent. And while this business will take several years to fully build out, we’ve received a commitment of $20 billion from our lead investor, which will flow into AUM over time, as other capital is raised to match it.

In addition to infrastructure, we have several new other initiatives that are progressing well. Our longer-dated core plus real estate business is now up to $17 billion in AUM after only 3 years, achieving inception to date net returns of 12 percent a year, which is pretty terrific for core plus real estate.

Our $5 billion core private equity business closed its second investment last week, and we have several other interesting deals in the pipeline. We’re excited about the universe of opportunities this new mandate opens up for us.

In our private wealth area, we’re defining and redefining the channel, bringing solutions to retail investors that have never been available to them before, and this is a huge asset class. We’ve invested heavily in distribution, technology, and product development, and we’ve become the clear global leader in retail alternatives. Approximately 15 percent of the firm’s total inflows now comes from retail, and we’ve barely begun to scratch the surface on the addressable market.
Our private REIT offering, which we only launched earlier this year, just broke the $1 billion mark. We’re bringing the quality and expertise of the Blackstone real estate platform to an asset class that has been largely mismanaged and underserved, and which is vast in size and potential. And there are other initiatives of equal or even greater potential that unfortunately for you we’re not ready to announce here today, because people tend to follow us.

At Blackstone, we’re an asset management firm, but we’re really in the innovation business, and our LPs understand the exceptionally high standard of care that guides the launch of any new Blackstone fund. They know they’re getting Blackstone quality anywhere in the world they invest with us. We’ve built a deep and long term trust with them. That is why our new ideas typically get funded and reach scale very quickly, becoming a lasting and additive part of the firm. Our new businesses make the rest of the firm stronger and better, and vice versa. It’s a virtuous circle.

Reflecting on the past ten years since becoming a public company, I take particular and great pride in what the firm has accomplished on behalf of our investors, but I’m most excited about what’s in store for the next ten years and beyond. I look forward to sharing with our shareholders in the future our many hopeful successes. Thank you for joining our call today. Now I’ll turn things over to our chief financial officer, Michael Chae.

**Michael Chae:** Thanks, Steve, and good morning, everyone. Our results in the second quarter and first half highlight the firm’s continuing momentum, with robust growth in all of our key revenue and earnings metrics. Total revenue for the quarter rose 30 percent year over year to $1.5 billion, while economic net income increased 36 percent to $705 million, driven by strong growth in both management and performance fees. Performance fees and investment income together increased 62 percent over the prior year. Management fees rose 14 percent year over year, as fee earning AUM reached a record $282 billion, and also reflected the benefit of the onset of full fees in certain of our recently raised flagship funds.

Together with very modest fee expense growth, including year over year reductions in non-comp fee expense, this growth helped drive fee-related earnings up 33 percent in the quarter, to $311 million. Distributable earnings rose 58 percent in the quarter to $781 million, or $0.63 per unit. Today’s results come on the heels of a first quarter that set firm records or near records for most metrics. For the combined six month period, total revenue was up 61 percent to $3.4 billion, ENI up 90 percent to $1.7 billion, and distributable earnings up 126 percent to $2 billion, nearly at the same level of DE as for all of 2016.

Fee related earnings for the first half rose 25 percent year over year, to $602 million. On prior calls, we outlined a baseline path of low double digit organic growth in FRE in 2017. Given the strong trajectory achieved to date, we now expect that growth to be in the mid-teens or better. The bottom line is that we’re on pace to deliver one of our every best years for DE in 2017, with robust realization supported by a strong and growing
The breadth and strength of the firm’s business lines was reflected in our key capital and operating metrics for the period – in realizations, deployments, investment performance, and fundraising. I’ll now briefly recap those areas of activity for the quarter.

First, with respect to realizations, following a record first quarter, the pace of realizations remains strong. We generated $11 billion of realizations in the second quarter, with significant sales of both public and private holdings in the BREP and BCP funds, including 17 different secondary public sales. The average multiple of original investment capital for BREP and BCP sales was a healthy 2.4 times.

Total realizations for the past 12 months rose to $51 billion, our highest for any 12 month period. The biggest news in the quarter with respect to realizations was the announcement in early June of the agreement to sell our European logistics business, Logicor, to a sovereign wealth fund for 12.25 billion euros. This transaction is an excellent illustration of our model working at its best. Our team identified a theme, a big idea, to play the secular explosion in ecommerce in the real estate context. Leveraging the largest capital base in the industry, which is our competitive advantage, we built a scale platform of high quality assets by methodically executing over 50 acquisitions across 17 countries over a period of 5 years.

The sale represents not only the largest private exit in BREP’s history, but also the largest private real estate transaction in Europe. We expect a contribution to DE of $0.35 to $0.40 per share when it closes later this year.

Second, investment activity. Alongside our aggressive pace of sales, we’ve been actively reloading with new investments, deploying $8.4 billion in the quarter, and $33 billion over the past 12 months, not including $4.6 billion committed to pending deals not yet closed as of quarter end. We deployed $20 billion in the first half of the year, our highest first half of deployments to date. While the environment for opportunistic investing, especially in the US, has remained challenging, we’re finding pockets of value around the world, emphasizing the themes in which we have high conviction. Having a far-reaching global platform in each business has allowed us to go where the value is. Indeed, about half of our capital deployed or committed in the second quarter across the firm was outside of the US, with Europe notably being our busiest region of activity for real estate and credit, in particular.

The diversity of investment mandates provided by our newer business lines has also supported a positive trajectory for deployment, despite the environment. For example, taken together, our core plus real estate, core private equity, tac opps, and strategic partner strategies comprised 27 percent of the firm’s capital deployed so far this year, and about a third over the past 3 years. In the last week in our core PE strategy, we closed a $2 billion acquisition of Ascend Learning, and in our tactical opportunities area, we are seeing arguably the deepest pipeline of interesting opportunities within the firm, as reflected in some of the recent transactions announced by tac opps. Clearly, the
Blackstone innovation machine is creating a level of activity and store of value for our shareholders that would otherwise be unavailable in the current environment.

With the industry’s largest dry powder capital pool of $90 billion, and with over 70 percent of our asset base locked up for over 9 years on average, we enjoy the distinctive position of having enormous firepower across a diverse array of strategies around the world that we can deploy patiently against selected areas of opportunity.

Third, investment performance. Starting with real estate, the opportunity funds appreciated 5.4 percent in the quarter, and 17.1 percent over the last 12 months, while core plus was up 3 percent and 10.2 percent, respectively. This appreciation reflects both broad-based strength in our portfolio, as well as sales activity. Within the portfolio, we are seeing strong performance in some of the largest investments made in the last several years, which bodes well for future value creation. And in terms of operating trends, we continue to see solid to strong fundamentals in most sectors and geographies to which we are exposed.

The corporate private equity funds appreciated 2.8 percent in the quarter, and 14.6 percent for the prior 12 months. Underlying fundamentals in our portfolio remain solid across most sectors, with healthy growth in revenue and EBITDA, although commodity price volatility in the energy markets did impact appreciation and the carrying value of certain private energy investments in the quarter.

In credit, our distressed funds were also impacted by unrealized marks in certain energy investments, resulting in the modestly negative return of negative 1.2 percent in the quarter, although these funds were still up 15.3 percent gross for the prior 12 months. Our performing credit funds were up 1.5 percent in the quarter and 16.6 percent for the prior 12 months.

In hedge fund solutions, the BAAM composite generated a gross return of 1.3 percent in the quarter and nearly 10 percent for the prior 12 months, outperforming the hedge fund index. With 84 percent of BAAM’s eligible AUM above the high water mark, the segment contributed $30 million of performance fees in the quarter, and $88 million year to date, driving a 44 percent increase in first half revenues for the BAAM segment.

Finally, on fundraising, gross inflows were $12.1 billion in the quarter, and $57 billion over the last 12 months, with strong consistency across businesses. In the quarter we saw, among other closes, a final close in the quarter on our fifth European real estate fund, which reached a record 7.8 billion euros, a first closing on our third GSO distressed drawdown fund, and an additional closing on core private equity. The overall pace of fundraising in the first half of the year was somewhat slower than 2015 and 2016, as expected, given the timing of the raising of several of our largest flagship drawdown funds in those prior years.

That said, we expect that the second half of the year will produce meaningfully higher inflows. We expect the balance of the year to include significant closes on – the third
GSO distressed fund, the second dedicated Asian real estate fund, the third commingled tac opp funds, and the first close on a new Asian corporate private equity vehicle, which we’ll invest as a sleeve for BCP in a similar fashion as our energy fund sleeve.

Steve spoke about our new infrastructure fund, for which we expect a first close by early 2018, followed by subsequent closes thereafter. These closes will consist of third party capital matched by our anchor investor, and will flow into both total and fee earning AUM as they occur. One of the most compelling trends in our fundraising is that more and more of our new strategies utilize quasi-permanent or long duration fund structures with fees often based on NAV versus original cost, such as with our real estate core plus platform, which will start generating cash incentive fees in the third quarter.

Infrastructure is the latest and a quite significant example of a new strategy utilizing that structure, and we look forward to building out this platform over time. So overall, another strong quarter, a great first half, and a lot to look forward to. Like Steve, I’m excited to see what the next ten years have in store for the firm and our shareholders. With that, we thank you for joining the call, and we’d like to open it up now for questions.

Operator: And at this time, ladies and gentlemen, if you would like to a question, you may do so by pressing star one on your telephone keypad. Again, that’s star one on your telephone keypad. If you feel your question has been answered or you’d like to withdraw, please press star two. And it looks like our first question will come from the line of Craig Siegenthaler, Credit Suisse.

Craig Siegenthaler: Thanks. Good morning, everyone.

Steve Schwarzman: Good morning, Craig.

Craig Siegenthaler: So maybe just starting where you left off, with that new Asia private equity vehicle, this is really a new concept at Blackstone, as you’ve stayed away from the geographic segmented model. What are your thoughts on raising a European-constrained fund, especially given the comments that I heard earlier, that there's a lot of better investment opportunities there than versus the US?

Tony James: Okay, Craig, it’s Tony. We don't have any plans for a European PE fund right now, and I’m not sure Michael was saying there’s better opportunities in Europe PE now. I think he was referring more towards real estate –

Michael Chae: And credit.

Tony James: – and credit than – than PE.

Craig Siegenthaler: Got it. Thanks for taking my question.

Weston Tucker: Thanks, Craig.
Operator: Your next question will be from the line of Patrick Davitt, Autonomous.

Patrick Davitt: Hey, good morning, guys. Thanks. On the infrastructure opportunity, do you think you need movement on the legislative front in DC to make the opportunity work at the size you're planning on raising? And within that vein, how are you equipping and/or are equipped to deal with the local red tape and bureaucratic issues of building highways, airports, bridges, etcetera?

Steve Schwarzman: Yeah, that’s a – this is Steve. That’s a really good question. What I’d say is that we think we’re going to be able to invest the fund without major new – sorry, I’m fighting a cold, if you can believe it, in the summer. Tony, why don't you answer that?

Tony James: Sure. So Patrick, we don’t need any changes in Washington to invest this fund, simply put. We think there's some things that the administration could do and would like to do that would really help America address its sorely underinvested infrastructure, and I think that’s in everyone’s interest.

As you know, the American infrastructure costs the average family – I think we said something like $360.00 a year in income, just from lost productivity. So it’s good for all of America. We’re hopeful they can do something.

But our investment is not premised on any changes in Washington, and that’s not necessary. And you should also know that yes, new build infrastructure will be a part of the fund, but it’ll be a minority of the fund. Most of the fund will be more in core plus than in greenfield stuff. We’ll also do some core. The beauty of this fund is that it can do the full spectrum of things. It can hold assets a long time and let them appreciate a long time, so you get high multiples of money. And it can do things at a scale that others can’t. But it’s not just a new build fund.

Patrick Davitt: Thank you.

Operator: Your next question will be from the line of Bill Katz, Citigroup.

Bill Katz: Okay. Thanks, and good morning. Appreciate you taking the question. Just sticking with the infrastructure fund for a moment, you identified that the one anchor investment is about half of the $40 billion target, can you give us a sense of how you’re doing in terms of LP raise on the other $20 billion? And Mike I think you mentioned that this could start to feather into fee paying AUM in the first quarter of ’18, so wondering how you think about that pace throughout the year.

Tony James: Okay. Well, you know, we really aren’t officially launched yet in the third party fundraising. We expect that to start in the fall. And we expect a closing, as Michael said, by the first part of 2018. We’ll see how it goes, but since we’re not launched yet, I don't know.
But I don't think you’d think that our target is $20 billion out of the box. We’re going to start with a target that’s smaller than that, and then as we raise additional money, we’ll match the balance of the $20 billion over time.

**Bill Katz:** Okay. If I could ask a quick follow-up question, you had mentioned, Steve, in your opening remarks, that retail is now a focus. I think I heard about 15 percent of your sales are now coming from that channel. Could you expand a little bit on where you’re seeing the success, whether it be product or a particular distribution sub-segment?

**Tony James:** I think Joan wants to get that.

**Joan Solotar:** Yeah. I’ll take it. So it’s really I would say a three-pronged approach. One is building out within the channel we’re already in, in the wire house and private banks, so going deeper and broader. Adding new product would be the second prong. And then new distribution, independent broker-dealer, families, etcetera. So it’s really across the board. And I would say, although we’re seeing a nice piece of growth, it’s still very early stage. So an independent broker-dealer channel, for example, you know, we just started writing the sales agreements. We have a lot more to go. And the product is first hitting. And I think without disclosing specifics on new product, we’ll have new product that we’ll be introducing towards the end of this year, as well. So very excited about it.

**Bill Katz:** Great. I’ll follow up offline. Thanks so much.

**Tony James:** Thanks, Bill.

**Operator:** Your next question will be from the line of Devin Ryan, JMP Securities.

**Devin Ryan:** Hey, thanks. Good morning. A question here just on CF Corp’s acquisition of Fidelity & Guaranty Life in the quarter, and obviously Blackstone has an investment management agreement there. I’m just curious how big of an opportunity you see this for the firm over time. Obviously, one of your peers has been benefitting quite a bit from their management agreement as assets have expanded. And so it seems like there’s a strategy to grow. Just curious kind of how you're looking at the opportunity for the firm.

**Tony James:** Sure. Okay, Devin. Well, as you know, we already have a similar kind of arrangement with a company called Harrington, and so this is not, you know, a new thing for us. We think that in general, the insurance industry is underinvested in alternatives, and it’s a very big pool of assets, and that over time, we’ll be able to provide services to that industry. And, you know, I hope it’s one of the, sort of, frankly many growth avenues we have.

**Devin Ryan:** Got it, okay. Thanks. And a quick follow-up here, just on the CLO business. You know, there’s been ten CLOs you’ve launched over the last year, I think three this quarter, so clearly, you’ve been active there. I’m just curious what, you know, you’re seeing, making that backdrop, you know, as particularly favorable right now. Is it
just the spreads? And how risk retention rules change industry behavior at all, or maybe creating some advantages there for you?

**Tony James:** Well, yeah, I mean, obviously, there's a hunger for yield instruments, and so we can get liabilities at an attractive rate, and we can make the spread, and what squeezes down to the CLO equity is pretty attractive by comparison to investors’ alternatives in this world.

And so it’s good for the markets to provide the liquidity they provide. We put a long term home for these homes. And so – and we’re in the business, so we’re going to keep doing that as long as these conditions pertain.

In terms of risk retention, yeah, we’ve got risk retention now, but we’re very comfortable with the retention of these instruments that we have. We like the investment, frankly. It’s a good return on investment. So it hasn’t slowed us down at all. And I think the industry is working around that.

**Devin Ryan:** Yeah. Okay. Thanks very much.

**Operator:** Your next question will be from the line of Michael Cyprys, Morgan Stanley.

**Michael Cyprys:** Hi. Good morning. Thanks for taking the question. I just wanted to ask about the net accrued performance fee balance that seems to have been stable here at about $3.3 billion or so, despite some of the strong monetizations that you had over the past 12 months. So as you look forward from here, how are you thinking about the potential for the net accrued performance fee balance to grow? It appears to be supportive backdrop for monetization. So does this balance remain stable from here, and what sort of environment do we need to see for this to grow even if monetizations are similar to current quarter levels?

**Michael Chae:** Hey, Michael. It’s Michael Chae. I guess just to put a frame around that, beneath the surface of – over the last couple of years, a stable performance fee receivable balance, obviously, there have been a couple of really good things happening, appreciation and sales. And so for example, you know, take the last six quarters. At the end of 2015, the balance was $3.25 billion. Today, it’s $3.29 billion, which is stable to slightly growing.

Well, how that happened was $2.4 billion of performance fee income, of growth, and $2.4 billion of distributions. So we’re happy about both those things. That’s our model. So our model is to produce stable to, you know, growing performance fee receivables – there’ll be ups and downs over time – through creating value and returning value. And so we expect to continue to execute against that model.

**Michael Cyprys:** Got it. Thanks for that. And then just a follow-up question on some of the broader investment themes and mega trends that you’ve been sort of spot on with over the past couple of years, about urbanization and ecommerce and last mile delivery. So I
guess if you look out over the next five to ten years, what sort of trends are you watching or thinking about that could emerge?

[Laughter]

Tony James: Well, I must say, that’s getting a lot of attention here. What we’re increasingly seeing is the ability of new technology to disrupt all kinds of traditional industries where you wouldn’t think it would happen. So I would say the change going forward is much more focused on our part on technology disruption as a generalization, and what are some of the implications of that, particularly for industries that people used to think of were safe from that. So as a generalization, I would say that’s getting the most attention right now.

Michael Cyprys: Great. Thank you very much.

Operator: Your next question will be from the line of Robert Lee, KBW.

Rob Lee: Great. Thanks. Good morning, everyone. You know, if I think of, you know, over the last several years, as you’ve highlighted repeatedly, you know, so many more products, so many more strategies across the franchise, can you talk a little bit about how some of the investments or changes you’ve made or you think you need to make in kind of your delivery pipes, your distribution to effectively – I mean, you’ve raised huge amounts of capital, but all the new products can often strain an organization’s ability to market them effectively over time. So if you could maybe talk a little bit about some of the changes you’ve made there, if any, or changes you think you need to make internally to handle all these new strategies?

Tony James: Sure. Happy to. So we have a fairly complex distribution system. It’s both decentralized and centralized. It’s both product-oriented and regionally oriented. So I’m just going to take you through that a little bit.

Generally speaking, when we set up a new product group, they tend to be discrete businesses, discrete teams, discrete management, discrete P&L and bonuses and discrete distribution around their product area. Now that would be true – more true in the big markets, like the United States and Europe, which are mature, and where the LPs are highly specialized. In less mature markets, Asia, the Middle East, for example, Latin America, where the LPs are less specialized, then we have more of a regional coverage model. And so as we grow products, we are of course bulking up our regional teams just to handle more. And our products teams naturally bulk up in the mature markets as we add products, because they each have some of their own marketing resources.

And then in Joan’s area, as she was talking about, that’s probably the fastest growth in our distribution. That’s why it’s growing as a percentage of our AUM. And she’s doing the biggest build-up of all, and of course that is a central group that on a global basis distributes all products for all the groups.
So in a nutshell, you know, we’ve built distribution not only along with the new products. We’ve built it ahead of the new products.

**Rob Lee:** Great. Thank you. And maybe just one follow-up also on kind of the new product front. I mean, if I look across, whether it’s core plus, core PE, infrastructure, the non-traded REIT, I mean, many of your new strategies are in either permanent capital vehicles or maybe some type of evergreen structure with, you know - so as an organization, is that something you’re specifically targeting, or do you think about it in terms of half your asset base being that?

**Tony James:** Well, so I think this is something, yes, we’re specifically targeting for a couple of reasons. First of all, for investors, the zero interest rates have pulled down the compounding rates that investors could get, and a way for them to compensate from the loss of compounding rates is to put money out at a little lower rates of return, but longer durations, and ultimately – and if they do that well, they actually get richer at the end of the day than these yo-yo kind of drawdown funds, where they get very high compounding rates for short holding periods.

So we think it’s in investors’ interests, first and foremost, which is why we’re doing it. Beyond that, from our firm, it’s powerful. It’s powerful because it gives a very stable asset base. It gives us an asset base which generally grows with net asset value, not just management fees on the commitment up front. Thirdly, we don’t have to – the irony of drawdown funds is you’re often obligated to sell your best assets earliest to harvest those gains. We love to hold our winners, so it allows us to do that, but then NAV grows, and we get growing management fees. And it allows us to take our incentive fees more gradually and more smoothly over time. So all of those things make it good for us. So I think it’s good for our LPs, first and foremost, but it’s also good for us.

So yes, generally speaking, we see moving the firm towards more and more permanent capital vehicles, and I think you’ll see them growing as a percentage of AUM, but we have a very large drawdown business, and it’s hard to see permanent capital ever being – which is robust and growing also, so it’s hard to see permanent capital ever being more than – you said half. I don’t see it ever quite getting there, but we’ll see how it plays out.

**Rob Lee:** Great. Thanks for taking my questions.

**Operator:** Your next question will be from the line of Alex Blostein, Goldman Sachs.

**Alex Blostein:** Hey. Good morning, everybody. Just a follow-up after the infrastructure business for a second. What kind of investments do you guys need to make in that business, both in terms of hiring new people, bringing in people internally, externally, anything on the – on the non-comp side of the equation? Just trying to get a sense of the incremental margins that we could expect from this new business segment from you guys, once it’s fully scaled. Thanks.
Tony James: Yeah. Well, we’ve moved a half a dozen key people, including the group head, from other parts of the firm. We’ve got a couple, three partners in there now that we’ve moved internally, as well as some support people. We’re going to be adding with outside hires some other partners with expertise in these particular silos, you know, a world class operating partner that I think will just knock people’s socks off, and some other things like that.

So we’re going to be in investment spending mode for a while, certainly for the balance of ’17, and for – in my opinion, for most of ’18, but we’ll have to see a little bit how the combination of the new hiring matched up against the pace of fundraising and the pace of deployment, all that goes into the mix. But I think you should assume that for ’17 and ’18, it’s not going to add to our earnings.

Alex Blostein: Okay. Thank you.

Operator: Your next question will be from the line of Mike Carrier, Bank of America-Merrill Lynch.

Michael Carrier: Thanks, guys. Just a question on hedge fund solutions. So I know, you know, seasonally in this second quarter, you always have a higher level of redemptions, but it seemed like it ticked up a little bit, yet performance, you know, has gotten a lot better, a lot of different trends in the industry. I just wanted to get your view on what you guys are working with with clients, you know, in that segment, and what’s the outlook when you look at the fundraising opportunity given the improving performance?

Michael Chae: Yeah, Mike it’s Michael, just to put the flows in some context – it’s a great question. First, as you noted, we typically do see seasonally higher redemptions in the second quarter. Second, I think fundamentally, it’s important to note that flows and redemptions, you know, lag performance, and what you’re seeing here is obviously that sort of perfect storm of challenges in the hedge fund industry overall playing out in the last two, three, four quarters in terms of flows, and that can reverse itself, and we expect it to, following periods of good performance, which we’ve seen over the last four quarters.

So more specifically, let’s break apart sort of our retail individual investor solutions area, and our traditional institutional area. On the IIS retail area, the lag is sort of naturally shorter, given the daily liquidity character of the products, and sure enough, in late 2016, first quarter of ’17, we did see elevated redemptions in that area. However, we’re also seeing – we saw in the second quarter, and we’re seeing it kind of in real time, that those flows have turned the corner. We’ve had great performance. That mutual fund was up – BXMIX was up around eight percent. Actually, Morningstar, if you look on their website, has just awarded us a five star rating. And that segment returned to healthy net inflows in the second quarter, and we continue to see strengthening of those flows for sort of the balance of the year.

Conversely, in the institutional area, the decision making/lag effect is a little slower. You
have a tough first half. The investment committees of institutions make decisions around year end. Then there’s a notice period. So I think what you saw in the second quarter was sort of actually that playing through in the institutional and our traditional fund to funds area.

But look, stepping back, I’d say the outlook is very positive for us in terms of momentum. We noted in the 8K we have July 1 inflows that aren’t in AUM of about half a billion. Retail I mentioned has turned the corner. And in that traditional area, we have very significant mandates that we’ve won that are being papered and are not yet reflected in the AUM in the order of kind of $2 billion plus.

And if you look overall at our business, our AUM is still up six percent year over year, with that – with very good performance that you noted. And in terms of industry position, it’s never been better. Of the top five hedge fund allocators, we were the only one with positive growth in 2016. We’re number one, and we’re more than two times our next competitor in size. So I’d sort of give you that overall picture.

Michael Carrier: That’s helpful. Thanks a lot.

Operator: Your next question will come from the line of Glenn Schorr, Evercore.

Glenn Schorr: Thank you. Just a follow up on energy. I wonder if you could either quantify or provide any color on its impact in both private equity and GSO. If I’m someone that doesn’t think that it’s going to repeat, I’m just kind of looking for how much of an impact it had in the quarter, and maybe included in that, you could just give a reminder on overall money in the segment, maybe break it down by bucket, and how much dry powder you have dedicated to the sector. Thank you.

Michael Chae: Sure, Glenn. You know, in terms of – let’s start with exposure, and I think either from you or someone else in the last quarter we got that question, and I answered it’s about 10 percent of the firm overall in terms of AUM, and it’s about 20 percent of the private equity and GSO segments in aggregate, and those percentages remain the case.

You know, within that, obviously, we’re very diversified by sector, upstream, midstream, power, renewables, and those have very different stories and reactions or non-reactions to commodity price movements. We also have private investments and public investments. So it’s not a monolith. Things within the portfolio behave differently.

In terms of what happened in the quarter, the punchline to your question is it was a relatively manageable impact on performance, even in those segments that were affected, and a quite modest impact on ENI. So in private equity, on balance, it was actually sort of slightly positive or neutral contributor to ENI in the second quarter, although relative to the degree of higher positive appreciation in our non-energy portfolio, it had – you know, it did have a slightly dilutive impact on the overall performance and returns.
In GSO, again, we were modestly more impacted on performance and ENI, but it was not material from an ENI standpoint to the overall scope of the firm. You know, it’s important to note that all of the impacts were unrealized, unrealized marks, not realized marks, in either business, and those marks were based not on company issues, but on commodity price fluctuation that we’ve – that we reflected, you know, appropriately. So we feel good about the portfolio. We feel in general, in terms of the cost basis, the break evens, the quality of the assets, private equity, and in terms of the investments being unlevered or relatively lowly levered, and so forth.

But look, that said, we’re going to watch this, and as commodity prices fluctuate or stay at depressed levels, we’ll watch that carefully.

**Weston Tucker:** And Glenn, we’ve got about $7 billion of dry powder in the energy funds, just to answer the last piece of your question.

**Michael Chae:** Across both private equity and GSO. But that’s really kind of energy dedicated dry powder. There’s other general pools of capital that are also available.

**Operator:** Your next question will from the line of Gerald O’Hara, Jefferies.

**Gerald O’Hara:** Hi. So maybe just one on dry powder. While down modestly quarter over quarter if you will, it’d be interesting to hear some thoughts on the sheer abundance of capital being raised across the industry, and how it might impact the opportunity set at current valuations, and perhaps impact on future IRRs. Thank you.

**Tony James:** Okay. Well, it’s Tony. It’s obviously been a good fundraising cycle, and particularly for private equity, there’s a lot of capital that’s being raised and has been raised. And in general, there’s just a whole lot of capital sloshing around the world looking for returns. And I think we’re more impacted frankly by the aggregate and the public markets than the amount of private equity capital.

Our business is to find needles in haystacks. That’s what we do. We’re not really chasing public market values, and we’re not really that impacted by them. And our business is, once we find the needle, it would have to be an asset into which we can intervene and change the course of EBITDA. So we create our own value, so to speak, as opposed to being slaves to the public market valuations.

If you look at a lot of our investments, particularly in say private equity, you’ll see a lot of stuff with both no leverage, but they’re not companies that trade. They’re new build stuff. So in those things, we’re getting in essentially at book value.

So our business is to find ways around the big trends and to buck those big trends, and to disconnect our investors’ returns from the vicissitudes of those mega trends that we can’t control. And we’re still able to do that. And the activity, the high level of activity that we’ve had across our businesses in the first six months, tells you that we’re happy with
what we’re finding, and I don't see any reduction in IRRs versus what you've seen in the past.

**Gerald O’Hara:** Fair enough. Thank you.

**Operator:** Your next question will come from the line of Brian Bedell, Deutsche Bank.

**Brian Bedell:** Great. Thanks. Good morning, guys. Just back on infrastructure, maybe either Tony or Steve, if you can talk about – or Michael – talk about the dynamic of fundraising and deployment, I guess, when you go into the market to close, are you doing that with the intent of immediately deploying those assets, into investments, or is there more of a lag? And I guess maybe just thinking about, you said over a multi-year period, are you viewing the deployment pace over a multi-year period, or do you see some opportunities where you can deploy that faster? And maybe in the context of that, how we can think about the gross fee outlook in 2018, given the infrastructure.

**Tony James:** Yeah. Well, we’re going to be in the deployment business right away. In fact, we’re already having incoming opportunities. And we’ll find – if there's an interesting deal on a risk-reward basis, we’ll find a way to do it. We have invested investors, frankly, we’ve had a lot of conversations – short of a fund close, where you’ve got to herd a lot of cats, we’ve got people that are ready to go now.

So we’ll be able to do deals as they come. We’ll have probably, as I mentioned, either later this year or early next year, an official close with a bunch of investors. But we’ll be up and running, in business, ready to put money out this year.

I don't think it’s going to be the hugest impact of ’18 because of the investment spending. And we’re in one of those businesses where you build the infrastructure, you build the team, and that takes some investment, but once it’s there, this is very powerful.

**Brian Bedell:** Okay. Great. That’s good color. Thank you. And back on the retail question, you know mention – Joan, you went through three different distribution initiatives. Have you thought about partnering with traditional asset managers to the extent that they already have pretty vast distribution in a lot of these areas, and where you would bundle say sort of active product with some illiquid sort of juice to it, so to speak? Or is that an area that you don't really want to go into, and you’d rather just distribute on your own?

**Joan Solotar:** Well, I think it’s a good question. I would say to date we’ve been able to offer both liquid and illiquid, and actually, if we look at sales to date this year, it’s been heavily tilted towards liquid product in real estate and on the hedge fund side.

So I’ll give you some sense of various pools. So we can weave together products that we have to create multi-asset solutions, and we do that already, and we do it with drawdown products in the Harrington example. We do it with both liquid and illiquid. I would say we haven’t really heard of demand in the market for us to partner with someone else, and
in this realm, if you look at our performance across all over our buckets, all of our strategies, it’s quite strong in every asset category, and so I think we’re quite comfortable with the product set we have now.

And I don't think we are limited in our distribution, so I’ll just give you also a little color on what we have. So we’ve built out a wholesaling team. We’ve built out sales desk and full operations across processing, finance, etc. We’re building globally. And so I think we have a unique distribution system in retail versus any of our peers. That has quite a bit of reach. And then, of course, we leverage already the big institutions, the global investment banks, private banks overseas, independent broker dealers, you know, firms – larger firms like Schwabs, etc. So I think that's going to serve us very well.

**Tony James:** Brian, let me put some added color on that. Some of our distribution is constructed to actually harness existing distribution systems, as Joan mentioned, and butt up against them, and interface flawlessly with them in terms of systems, training, and everything else – where we train other people’s brokers, for example.

Other aspects of the distribution system that we have, and Joan is building, are direct distribution, where you go direct to the client. Those are more rifle shot. They're not the mass market, obviously. They tend to be bigger things. We would never really depend on other people’s distribution for our product in replacement for ours, because we feel we can do this really well, we want people really, really knowledgeable and well-trained about our product specialty. Our products are specialty products. That’s kind of the definition of alternatives. And so I think we’re going to depend on our own distribution.

However, I do think the big prize out there that we’ve talked about in past calls is marrying our high absolute return illiquid products with some sort of – could be active, but probably passive – and packaging those in target date funds or something to like the 401(k) market. And I think there are trillions of need for our product as part of an investment solution. And that I think is the big prize, and that is something that we’re doing a lot of thinking about. Let me just put it that way.

**Brian Bedell:** That’s actually an interesting topic. I mean, just cracking that 401(k) market, obviously, with the liquidity that’s demanded, is difficult. But I’ve often wondered to what extent you can actually get those types of products in that – and what you're saying essentially is through the target date vehicle, you may be able to actually wedge into that market. Is that – am I hearing that correctly? Is that something near term rather than longer term?

**Tony James:** When you say we may be able to wedge in the market, we’d be part of an investment solution in a target date fund. I’m not saying we’re going to manage the whole target date fund, right?

**Brian Bedell:** Absolutely. That’s a huge asset class, obviously.

**Tony James:** Yeah. Yes.
Brian Bedell: And it’s a near term effort rather than a longer term effort?

Tony James: Well, it’s a near term effort and a longer term payoff.


Operator: Your final question will come from the line of Chris Shutler, William Blair.

Chris Shutler: Hey, guys. Good morning. On core plus real estate and core private equity, I think you're up to AUM of $17 billion and $5 billion, respectively. Can you talk about how deployment opportunities are shaping up in each of those areas, and maybe give us a sense of how should we expect an average deployment year to look for both of those? Thanks.

Tony James: Well, okay. They’re different, so let me generalize across the two. We’re seeing an awful lot of interesting deployment opportunities in both. Now by definition, core private equity will be lumpier and more episodic, because you're buying fewer bigger assets in the fund. So it’s very hard to do an average. I don't think it would mean much. You maybe have to assume something for your model, but I’ll let you work with Weston on that.

In core plus real estate, there’s a lot of granular assets, and that’s steadier, I would say, that you’ve seen the deployment pace. And I don't see any reason that that changes radically. And by the way, the structure of those two funds is different, too. I think you know that, but if you want Weston to take you through how the two work in terms of money raised, money deployed – one’s a drawdown fund, if you will, and one’s an open-ended fund, where you get a queue of investors, and then take the money as you find the deal. So there’s some differences there. But I’ll leave you to Weston on that one.

Chris Shutler: That’s fair enough. And then just quickly on the Logicor sale, the $0.35 to $0.40 that Michael mentioned of DE, I just want to confirm that’s before the 15 percent holdback.

Michael Chae: That’s correct.

Chris Shutler: Okay. Thank you.

Operator: At this time I show no further questions in queue. I would like to turn the conference back over to Mr. Weston Tucker for any closing remarks.

Weston Tucker: Great. Thanks, everyone, for joining us today, and please follow up with me after the call if you have any questions.

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