Operator: Good day, ladies and gentlemen, and welcome to the Blackstone second quarter 2017 media call. My name is Janada, and I will be your operator for today. At this time, all participants are in listen only mode. Later, we will open it up to a question and answer session. However, you may queue up at any time by pressing star one on your telephone. If at any time you require operator assistance, please press star followed by zero, and we will be happy to assist you. As a reminder, this conference is being recorded for replay purposes. I would now like to turn the conference over to your how today, Christine Anderson, senior managing director. Please proceed.

Christine Anderson: Thanks, Janada. Good morning, everyone, and welcome to our 2017 second quarter earnings call for the media. With me today is Tony James, Blackstone’s president and chief operating officer, Michael Chae, our chief financial officer, and Joan Solotar, senior managing director and head of private wealth solutions and external relations. As we do every quarter, Tony, will summarize the highlights of the quarter, and then we will 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 on the shareholders’ 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 10K for discussion of risks that may affect our results. There’s also an analysts’ call today at 11:00 AM, and dial in details are in the press release and on our website. I’d encourage you to listen to both calls, if you have a chance, and please call us if you have any questions after. Tony?

Tony James: Thanks, Christine, and thanks, everyone, for dialing in. As you could see from our press release, our second quarter was another great quarter. Following our blowout first quarter, we are on track for an excellent year. Revenues surged 30 percent for the second quarter, and are up a whopping 61 percent year to date. Economic net income was up 36 percent this quarter to $700 million. Year to date, economic income is $1.7 billion, an increase of 90 percent, 90 percent over last year.

Importantly, these strong year to date numbers are not driven by just one or two standout performances. Instead, our business is firing on all cylinders. Every one of our segments had great six month results. For the overall firm, distributable earnings per unit jumped 54 percent for the quarter to $0.63. For the first six months, our DE, our distributable earnings, were $1.65 per unit, running ahead of the annual $2.50 of DE per unit we have averaged over the last several years. On today’s stock price, that $2.50 level would still represent a yield of over 7 percent, quite a yield in a zero interest rate environment.

AUM rose to a new record of $371 billion, with $12 billion of inflows during the quarter, and $57 billion of inflows over the last 12 months. The ability to continue to raise such
substantial capital is a function of delivering strong returns to our LPs, and this quarter was no exception. Private equity and tac opps were up about 3 to 5 percent for the quarter and 15 percent over the last 12 months. Real estate appreciated about 5 percent for the quarter, and 17 percent over the last year, while real estate debt was up 3 percent for the quarter, and 14 percent over the last 12 months.

Hedge fund solutions rose 1.3 percent gross in the second quarter, and 9.5 percent over the last year, while maintaining a volatility of only about 1/3rd of public equity markets. In fact, if you check Morningstar’s website, you will see that Morningstar just gave us, our retail hedge fund mutual fund, their coveted five star rating.

And in GSO, performing credit was up 1.5 percent gross, while distressed was down slightly due to the drop in energy prices. Over the last 12 months, however, both businesses have returned 15 to 17 percent to their investors – amazing for credit products in a zero interest rate global environment.

Overall, our portfolio companies are turning in solid performances. Revenues continue to grow steadily in the mid-single digits, on average, while EBITDA grew close to ten percent last quarter. Globally, we see a benign business environment, with steady if unspectacular growth in most major economies, and across industry sectors, other than in energy.

In real estate, strong economies and limited new building means our property assets are also performing well, with market rents and occupancies on the upswing in all sectors except certain retail properties. Fortunately, we have limited exposure to that sector. Regionally, Europe is our most active area, with a younger recovery, a belatedly healing banking system, and the political clouds clearing somewhat.

This Goldilocks global economy is giving us a balanced investment environment. It has been an excellent time for realizations, while at the same time we have been able to find plenty of interesting investments. For the quarter, we had realizations of about $11 billion at an average multiple of our investors’ money of 2.4 times from our opportunistic real estate and private equity funds. 2.4 – pretty good.

Since the beginning of 2015, we have returned an amazing $110 billion to our LPs through realizations, $110 billion, while still managing to grow AUM every year.

In terms of deployment, we put to work over $8 billion in the quarter, and $20 billion year to date. This is a record for any first six months.

Fear not, however, that we’re running out of ammo, because we still have over $90 billion of dry powder across the firm to do interesting things with. We have successfully whittled down uninvested capital from mid-last year, when it crested to just over $100 billion.

I know it is not lost on any of you that we are in a people business. Attracting and
retaining the best talent is a critical task, and something I believe that distinguishes Blackstone. As a result, I am particularly gratified that we continue to win awards for being a great place to work. This quarter, we were voted number one in private equity in eFinancialCareers’ Ideal Employer poll. We were selected as one of the 100 best places to work in the UK by the Sunday Times of London. And we were recognized this week as one of the 25 best places to work in New York by Fortune magazine.

Finally, I should note that this quarter marks our tenth anniversary as a public company. While we feel our stock remains undervalued, if you had bought in the IPO and reinvested your dividends, you would be up 106 percent since then – above the S&P 500 total return. But that seriously understates how far we have come as a firm. Since our IPO, our revenues have doubled. Our assets under management are up four times. We have built our team from 800 people to 2,300 today. We have distributed dividends to unit holders of $15 billion cumulatively. And over half our assets under management come from businesses we were not even in when we went public ten years ago, including tactical opportunities, distressed debt, strategic partners secondaries, direct lending, real estate debt, retail products, core and core plus real estate and private equity, and most recently, of course, infrastructure.

Most importantly, we’re just a better company today. We have more dominant leadership positions in our businesses, a broader, more diversified mix of products, a deeper bench of talent with great younger leaders, and better technology and systems. Yet we have still maintained the culture and the entrepreneurial spirit that has distinguished us for so long.

It has been a remarkable decade. Despite all the growth, however, I have to tell you that we see at least as much opportunity for growth ahead of us as we have had at any time in the last ten years. With that, I will take your questions.

Operator: Ladies and gentlemen, if you have a question, please press star followed by one on your phone. If your question has been answered, or you would like to withdraw your question, press star followed by two. Please press star one to begin, and standby for the first question. And your first question comes from the line of Devin Banerjee with Bloomberg. Please proceed.

Devin Banerjee: Hey, Tony. Good morning. Thanks for your time, as always. I’m just curious on the remaining $20 billion of equity for the infrastructure fund, do you expect that to come from, sort of, a traditional mix of LPs, as you might see in one of your other flagship products, or do you expect a few more, sort of, big ticket secondary anchors, you might call them, after the Saudis?

Tony James: Devin, I think it’ll be largely a reflection of our traditional mix, although I think there are – we’re hoping for some strategic investors also. So it’ll probably be a mix. But a lot of our funds are a mix, and a lot of them have big anchors.
Devin Banerjee: Uh-huh. Got you. And can you give us any sense of, sort of a rough timeline on when that fund might have some kind of interim close and can start investing?

Tony James: Yeah. We’re anticipating a first close early in 2018, and we’ll start investing then, and then it’ll be an open kind of thing. It’ll continue to have closings from then on.


Operator: Your next question comes from the line of Dan Primack with Axios. Please proceed.

Dan Primack: Hey, Tony. Good morning. Tony, I'm curious. You’ve obviously saw the news last week or early this week, the KKR succession news, and I’m curious if that makes you guys feel any pressure to kind of formally and publicly announce a plan. Obviously, we've all speculated and think we know what the plan is, but is Blackstone planning to publicly explain the succession plan at some point in the near future?

Tony James: No, you know, we have really well thought out, carefully planned succession plans in all of our businesses, from the very top of the firm right on down, for every critical seat, with first, second, and third, that goes out years. And, you know, we’re comfortable that we have the best succession planning in the industry, and the most experience in successfully having leadership succession.

In private equity, for example, which is a business of our which is about the same size as all of KKR, we’re on our fourth or fifth leader, and we have never missed a beat. So I think we’re in great shape with our succession, our deep bench, our planning. And pre-announcing things, I don't know what you gain by that. And frankly, I applaud KKR’s doing it, because I do believe that the Achilles’ heel of any asset management firm is succession, and in sort of the alternatives business, there have been a number of companies that have founndered over that, or a number of companies that have put it off indefinitely. So I think they’re doing the right thing. But with George and Henry still there as co-CEOs, it’ll be a while before I think you see much in the way of radical change.

Dan Primack: So there’s no plan to – I guess the argument being the reason you’d do it is to – is to satisfy long term Blackstone investors that – not only that there is a plan, but that they know what the plan is.

Tony James: I think our investors are very happy with our management and succession planning.

Dan Primack: Fair enough. Thank you.
Operator: Your next question comes from the line of Melissa Mittelman with Bloomberg News. Please proceed.

Melissa Mittelman: Hi, Tony. Good morning. I had a quick question on China. It seems like you guys over the years have found a number of willing Chinese buyers for some of your biggest holdings, and so I was curious, how are you guys looking at deal making with them now in light of the country’s capital restrictions? And how much do politics, like the more recent chilling of US and China relations, affect your outlook?

Tony James: Well, I don't think it really changes it that much. You know, we have a lot of assets in different categories, and it’s a very big world out there in terms of buyers. Almost every asset we’ve sold, when we have sold it to a Chinese buyer, there have been non-Chinese buyers in approximately the same price right behind them. There’s a very robust bid for any asset today. We’re not dependent on any one subset of buyers.


Sam Sutton: Hi, Tony. Thanks for taking a couple of minutes this morning. I had a quick question for you regarding tax reform. Now that it looks like health care is either on its last legs or dead, I’m just curious what you're hearing from either your contacts on the Hill or the White House.

Tony James: Sam, you probably know as much about this as I do, and that’s probably a better question directed at my partner Steve. From our standpoint, we’re all for tax reform. We think it would be good for business, good for the economy, good for jobs, and good for America. I think the path between here and there is murky, to say the best – at best, and will take some time. And the outcome is unpredictable. I suspect we’ll get some tax reform, because it’s in everyone’s interest. But I suspect it won’t be as sweeping as some of the people in the administration would like.

Sam Sutton: Got it. And are you hearing anything specifically relating to issues that would specifically affect Blackstone, be it pass-through or intersect deductibility or carried interest?

Tony James: Not particularly, no.

Sam Sutton: Thank you.

Operator: Once again, ladies and gentlemen, if you would like to ask a question, please press star one on your phone. Your next question comes from the line of Shasha Dai with Capital Structure. Please proceed.

Shasha Dai: Hi. Good morning, Tony, and everyone else. It’s great to be back on these calls, after being ten months on my new job. So at Capital Structure, we’re focused on special situations, distressed debt, and corporate restructuring, so naturally, my questions
will focus more on GSO, and maybe real estate. So first, on GSO, Tony, could you elaborate a little bit on the minus 1.2 percent distressed strategy return for the quarter? You had said that was due to lower energy price. Could you just tell us what exactly the kind of credit assets that were affected typically? Thanks.

**Tony James:** Well, obviously, what they’re buying is they’re buying debt, and they're buying debt of – in that business, they’re buying debt of companies that are in the shakier end of the spectrum, and are therefore more susceptible, if you will, to small moves in the underlying commodity price. And so it was – it was a minor adjustment. We don't think there’s a big problem there at all – we’re not looking at insolvencies or anything. Mark to market, and it’s like one percent.

As I say, that fund is up something like 15 percent in the last 12 months. It’s doing spectacularly well.

**Shasha Dai:** Excellent. And a related question, what’s your outlook for investing in distressed strategy? From a new investment standpoint, what specific areas or sub-sectors are you seeing more interest – seeing more opportunity?

**Tony James:** Well, I think energy is going to be – if prices stay down like this, energy will continue to be very interesting for us. And we’re getting – it’s not – if you look at the amount of leverage that’s being put on the companies, and what not, I think what you’re seeing there – because remember, these are drawdown funds that we can put to work over several years – I think you’re going to see the high amounts of leverage, if rates float up and other things, you're going to see a lot of companies sort of starting to struggle, and that’s when we can swoop in and help them. And remember, this is a rescue financing fund. We’re not a distressed trading fund. So we provide capital to companies that need the help, and they will need the help at some point, I think.

**Shasha Dai:** Excellent. If I may ask a second question about real estate, you know, the distress in the retail sector, in general, not talking about Blackstone’s exposure to that sector, to what extent do you think that the retail distress will affect the REIT market as well as the CMBS market? Thanks.

**Tony James:** I think some of the – I mean, look, there’s some secular headwinds, obviously, from retail, that’s coming from ecommerce. I think that’s overblow, however, frankly. As you may know, Shasha, I’m on the board of Costco. The company’s doing awesome. So people are overreacting, I think, to that whole sort of retail thing.

In general, we’ve looked at that as an opportunity, frankly, because obviously, ecommerce is taking a greater share of the retail pie, but that’s opened up the opportunity for us all over the world, every economy, to be building kind of in close warehouses to facilitate quick delivery of ecommerce to consumers, and it’s been a fantastic thing for us. So for us, this whole thing is an opportunity. We still believe there’s plenty of retail sectors where you’re talking about local services, normal needs like grocery and so on.
and so forth, where people are still going to go to their local stores and shop. So there’s definitely a future for retail.

**Shasha Dai:** Fairway I guess is a good point in case?

**Christine Anderson:** Shasha, can you repeat that?

**Tony James:** I missed that one. Sorry.

**Shasha Dai:** I was just making a comment. I was talking about Fairway, which GSO was involved in. I guess that’s a good case in point. That’s all the questions from me, Tony. Thank you so much for your time. I’ll hop off the line.

**Operator:** Your next question comes from the line of Alex Lynn with Private Equity International. Please proceed.

**Alex Lynn:** Yes. Hi, Tony. What can you tell us about your current private equity strategy in Asia?

**Tony James:** Well, we’ve been an investor in Asia for quite a while, and it’s been a successful area for us, and we feel there’s lots of opportunities there, and there’s some of our LPs that would like dedicated exposure to Asia. So we think it’s an opportunity to give them a sleeve that shares the deals with the main fund, where they can overweight to Asian growth. And so we’re in the market with a fund that would help them do that.

**Alex Lynn:** Brilliant. Thank you.

**Operator:** The last question comes from the line of Matt Jarzemsky with The Wall Street Journal. Please proceed.

**Matt Jarzemsky:** Hey, Tony. Thanks for the time. You guys saw particularly strong results in – on the real estate side, particularly the opportunistic funds. Can you talk about what’s driving that at this point in the cycle, and the outlook, looking ahead?

**Tony James:** Sure. It’s really a function of the overall economic growth. Business is leaning forward I would say, today. We’ve got pretty good expansions in every major economy in the world, with perhaps the exception of Brazil. And there’s a sense of optimism and there’s a sense of, as I say, leaning forward on the part of business. So they’re expanding. That means they’re taking space, and adding jobs, and so on.

And when that happens against a backdrop of relatively restrained new building, predictably enough, occupancies go up. And when occupancies go up, rents go up. And so that’s happening. So the operating cash flows of our business are doing very well across the board. And we’ve – the big themes that we’ve played, like urbanization, changing lifestyles where people want to live, work, and play in the same neighborhood, ecommerce and last mile delivery, those kinds of things have been mega-trends, winds at
our back, on top of the general good part of the cycle.

Absent a lot of new building, that continues. And in many markets, rents are still below the levels required to justify a wave of new building. And so until rents get to a level where a developer can build a new building and get a good return, you’re not going to see a lot of building. And even then, even when you get to those levels, in a lot of markets, the barriers to building are high – the social barriers, the regulatory barriers, the environmental barriers, the ability to get space and accumulate property – it’s all very high.

So there tends to be a lag there, even when cash flows get to the appropriate level, before the building starts. And, of course, that lag is kind of why you have cycles, because once it starts, it kind of continues until it overshoots. But we’re a long way from that.

And so the fundamental backdrop of properties, especially the themes around which we invest, have been very, very favorable, and continue favorably, and it looks like will be favorable for some period of time. I don’t see any of those – urbanization, ecommerce, changing lifestyles – changing, and there’s not new building. And you can see new building several years out, just because of the zoning and the permits and so on and so forth. And we don’t see any changes in that.

The other equation to real estate, of course, is sale prices, and with cap rates staying low, with interest rates staying low, with no – and even if they go up a little bit, with inflation so low, I don’t see them going up so much. And that’s base rates. And then the spreads over base rates, however, are not at historical lows. They’re pretty full. So even when base rates go up a little, the spread should come in, because the economic backdrop is strong, so investors should take a lower risk premium.

And so I think you’ve got a very favorable environment for – this is probably more than you want – but a very favorable environment for cash flows against a favorable exit cap rate environment, and a lot of capital in the world looking to buy real estate, so a lot of demand from all sectors. So it’s a favorable environment – it’s a favorable environment for real estate in general, both to own, to sell, and to buy.

**Matt Jarzemsky:** Great. Thank you.

**Christine Anderson:** Thank you, everyone, for joining. Please feel free to call the office later today should you have any questions.

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