Christine Anderson: Good morning, everyone. Thanks for joining us. This is our 2017 fourth quarter earnings call for the media. Today, we have Tony James, Blackstone's President and Chief Operating Officer, Michael Chae, our Chief Financial Officer, Joan Solotar, 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 refer to non-GAAP measures on this call. For reconciliations, you should refer to the press release, which is available in the shareholders section of our website. Today's call may also include forward-looking statements, which are uncertain and outside 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 factor section of our 10K for discussion of risks that may affect our results. Thanks for bearing with me.

There's also an analyst call later today at 11:00 AM. Dial-in details are in the press release and on our website. I encourage you to listen to that if you have any other questions, and if you have any other questions after the call please feel free to give us a ring. Tony?

Tony James: Thanks, Christine, and thank you all for dialing in. I really appreciate that.

Well, I have to say, we ended a great year with a great quarter. Distributable earnings, assets under management, inflows, deployments, and realizations all achieved records. Obviously, we're not going to be able to sustain such record performance every year, but right now, we are certainly firing on all cylinders, and long term secular growth continues unabated.

ENI in the fourth quarter was $850 million, an increase of 5 percent from last year's big fourth quarter. For the year, ENI jumped 41 percent from 2016 to $3.4 billion.

Distributable earnings were $1.2 billion for the quarter, 94 percent above last year's fourth quarter. For 2017 as a whole, distributable earnings were up 83 percent to $3.9 billion. That's $3.17 per unit. This is our best year ever for distributable earnings. Frankly, we believe it is the best dividend year ever for any asset manager in the world.

Fee earnings jumped 21 percent for the year to over $1.00 per unit. We have talked to you in the past about how steady and reliable our fee related earnings are by comparison to traditional asset managers, where investors can redeem, and management fees are directly impacted by market swings. With us, the substantial majority of our assets are locked up for many years, and increasingly, they are actually in permanent capital vehicles. This means our fee related earnings give a rock solid foundation for annual distributions of at least $1.00 per share, even in the worst markets and lowest realization years. This $1.00 would represent nearly a 3 percent yield on our current stock price. This alone is above the current yields of most banks, asset managers, and other financial institutions, without giving any recognition for the vast amount of other earnings we distribute as dividends to shareholders each year.
AUM grew to a record $434 billion, or $414 billion after adjusting for the forthcoming sale of our subadvisor role in the Franklin Square BDCs. We signed that agreement in the fourth quarter, and anticipate a closing before midyear, generating almost $600 million in proceeds to us. We will be rebuilding this business through our wholly owned vehicles.

Even after adjusting for the Franklin Square transaction, firm-wide, AUM grew 13 percent. Considering we distributed over $55 billion to our investors during the year, or 15 percent of the beginning year AUM, our AUM growth for the whole year was amazing. It was driven by $108 billion of inflows during the year. I can't even say that number with a straight face. One hundred eight billion in one year, an unbelievable $51 billion in the fourth quarter alone.

It wasn't so long ago that $100 billion was the total AUM that that other leading alternative firms accumulated in their histories. We raised this much in one year. This is incredible testimony to the power of our brand, the strength of our marketing organization, and the superior investment performance we have delivered to LPs across the board.

Portfolio company operating results are strong, and are benefiting from the pickup in the economy. In private equity, EBITDA growth has accelerated to low double digits for the typical portfolio company. The industrial sector has been especially strong, and a number of our companies are beginning to see some supply constraints, with both wages and cost of inputs starting to tick up. Most of our CEOs believe the tax cut will be a further positive for their results, although this is not universally true.

In real estate, we are seeing favorable supply/demand balance in the US, but rental increases are decelerating as the recovery matures. Operating income is running up low to mid single digits in most sectors, although the variation of results across sectors and across regions is growing.

For both corporate and real estate sectors, continental Europe is showing the strongest growth, followed by Asia. Having said that, North America certainly remains solid, and the new tax law should give it an added boost in 2018 and 2019.

The strong operating performance of our portfolio companies is driving excellent investment returns. In corporate private equity, portfolio carrying values increased 6.8 percent on the quarter and 17.6 percent for the year, and real estate equity investment values rose 5.2 percent for the quarter, and 19 percent for the full year.

In credit, GSO drawdown portfolios were up two to three percent, depending on the business, for the quarter, and eight to eleven percent for the year, despite the low debt yields generally prevailing.

Finally, our hedge fund solutions business delivered an eight percent gross return for the year while maintaining risk and volatility at less than a third of the broad indices. I want to recognize Tom Hill and thank him for leading this business over the last 20 years, and building it from $1 billion in AUM to the $75 billion behemoth it is today.
All in all, the returns from our different groups have exceeded their benchmarks for many years, and stack up well against any competing products.

We also had strong realizations, harvesting $18.7 billion for the quarter and $55 billion for the year, as I mentioned. Gains to LPs, investors, continue to be excellent, with our corporate and real estate equity fund realizations more than doubling investors' money, on average.

The fourth quarter was also terrific for new investments. We deployed $19.5 billion in the quarter, and the total for the year was $51 billion. That's a 50 percent increase over our prior record year.

During the quarter, real estate accounted for over half our investment activity, while on a regional basis, Europe was the most active area. Private equity, however, is off to a great start in 2018, with the announcement of the $20 billion Thomson Reuters deal.

Despite the active investment year, dry powder increased to $95 billion on the back of our very strong fundraising. Most of our funds have investment periods of over five years, so we have no pressure to put the money to work, and can stay patient and disciplined. If there is a market correction, our cache of dry powder means we will be very well positioned to capitalize on it.

On top of the strength of the base businesses that I've described are several new initiatives. We hired Chris Blunt, former president of New York Life Investments Group, as president and CEO of our new Blackstone Insurance Solutions Group. We start off with over $23 billion in AUM from our first handful of clients, and expect this business to grow to well in excess of $100 billion over time.

The acquisition of our MLP manager, Harvest, is also off to a great start. Since we closed on that deal just last quarter, AUM has jumped seven percent already.

In infrastructure, we have filled out a fantastic team at the senior level, and now have in place our lead operating partner and five senior level professionals driving deals. We are targeting a first close in the next several months.

In real estate, we started a new Core Plus business in Europe in the fourth quarter, and have already accumulated $9 billion in AUM in that fund as of year end.

Finally, our retail distribution organization continues to thrive. Sales of our products to retail markets were close to $4.2 billion in the quarter, despite the fact that none of our main private equity, secondaries, real estate, or mezzanine funds are in the market. We continue to add salespeople and introduce new products specifically designed for retail investors. For example, just about a year ago we launched a private non-traded REIT. It accounted for an amazing 44 percent of the entire industry sales of private REITs in 2017, and this week, barely a year after launch, hit $2 billion in permanent AUM.

The newest product introduced in the fourth quarter is a floating rate fund with monthly liquidity designed to be a high yielding place to put cash. If you're nervous about stock prices, but also
worried about what rising interest rates will do to bonds, I don't see why you wouldn't want to be an investor in this fund.

2017 marked the tenth anniversary of our IPO. Over that period of time, we have delivered net returns in the teens to our LPs in our private equity, real estate, secondaries, and credit drawdown funds, despite the financial crisis and record low yields. BAAM has beaten the S&P index with much lower risk. Our AUM has grown nearly five-fold over that ten year period of time, and most of that growth has come through innovation. In fact, products we did not have when we went public ten years ago now account for 60 percent of our AUM.

At the same time, we've dramatically broadened our investor base, yet we are just getting started. I don't think I've ever been able to look ahead during one of these earnings calls and see more growth over the next five years for our firm than I see today. With that, I would happy to open it up to questions.

**Moderator:** Ladies and gentlemen, if you wish to ask an audio question, please key star one. If you would like to withdraw your question, please key star two. Questions will be taken in the order received. There will be a brief pause to compile a list of questions.

The first question comes from the line of Devin Banerjee with Bloomberg. Please proceed.

**Devin Banerjee:** Hey, Tony. Good morning, and thanks for your time, as always. Now that we're in the new tax regime, a lot of the buzz I think in the unit holder community has been about the potential for you and your peers to consider a corporate structure versus the partnership structure. So question for you or Michael or both. I'm curious just what your guys' updated thoughts are on that, as it relates first to Blackstone, and also as it relates to-

**Tony James:** Sorry, Devin, the end of your question was cut off, but if the end of that question was how it relates to the rest of the industry, then I'll answer it on that basis, and Michael, chime in after I've given an answer.

This is obviously something we have looked at and are continuing to look at. The considerations for us are on the one hand, it's clear there will be tax leakage if we convert, and so what we have to determine is the pickup in market value and multiple sufficiently large and sufficiently durable to justify that tax leakage, so net/net, over time, it's a good decision. This is a decision we can make once, and we want to make it deliberately.

And so it's something we're still thinking about, and frankly, taking input on, and we may have the benefit of learning from some others, if they move more quickly, but we haven't made any final decision on that.

As far as the whole industry goes, I think this decision, as I say, will turn on the specifics of a given alternative firm. And it depends partly on the mix of earnings, whether it's fee related or carry or performance, partly on the taxes they're paying now, and some other things. So I really can't comment. I think it will be a firm by firm decision, and it will not be one size fits all.
Moderator: The next question comes from the line of Aaron Elstein with Crain's New York Business. Please proceed.

Aaron Elstein: Tony, I was wondering, with interest rates ticking up, if perhaps your firm would be a little less acquisitive this year than in the past year or two.

Tony James: Well, in terms of acquisitions for Blackstone, or acquisitions for our buyer funds?

Aaron Elstein: For your leveraged buyout funds.

Tony James: Okay. Thanks, Aaron. Well, all I can say is starting off with Thomson Reuters, we're already well ahead of most years, just in terms of the amount that we're putting out. So I don't think that interest rates ticking up the way they have will affect our acquisition activity. Frankly, high yield rates and short term bank rates are still at a very, very attractive level for us by any historical standards. So rates themselves aren't going to be an issue.

Values are high, so we have to be smart about where we put our money, and it's all about, as you know, as I've said in these past calls, it's all about operating intervention. The market's too efficient for us to make a lot of money by buying things and selling them and not doing much to them. We create the value that we give to our shareholders. So where we can find something where we can really run it a lot better, or transform a business through acquisitions and scale, bringing in a new management team, that's where the opportunities are. But no, simply put, interest rates ticking up will not be any kind of impediment for us.

Aaron Elstein: You've had so much success in the past year, and I'm curious if there are any disappointments.

Tony James: Well, we're kind of perfectionists here, so we're a long way from perfection, so I've got lots of disappointments, and therefore, lots of room to improve things.

Aaron Elstein: Like what?

Tony James: Well, you know, let's just take, for example, we're averaging better than two times our money in real estate and private equity. I'd like to average better than five times my money in those things.

Aaron Elstein: Okay.

Christine Anderson: Let's take the next question. Thanks, Aaron.

Moderator: The next question comes from the line of Gillian Tan with Bloomberg. Please proceed.

Gillian Tan: Good day, Tony. Earlier, you said most CEOs obviously think the tax cuts will be good for business, but that's not universally true. I'm just wondering if you can expand on that a little.
Tony James: Sure.

Gillian Tan: In terms of I guess the negatives.

Tony James: Well, I don't think there's a lot of big negatives for most corporations. It's more of the absence of positives, I would say. And what that will turn on is various things. For example, a company that has a lot of leverage loses interest deduction, where one that doesn't, doesn't. A company that's got a lot of international operations, the international operations don't get any benefits from this, and indeed, to some degree, there are some negatives in the new tax law for companies that have a lot of international operations. So those changes can offset some of the positives that would come from lower US corporate rates.

In addition, many companies, and most companies that we talk to, including our portfolio companies, are thinking about what to do with the tax savings, and I think the press has kind of assumed that all of the tax savings go to increase the bottom line. That won't necessarily be true for American business in general, and our companies in particular. A number of companies are looking about how much of that gets reinvested in the business. You know, more R&D, investments in new businesses, investments in marketing, advertising, investments in the workforce, investments in more aggressive pricings to win market share on a global basis.

So how much of the tax savings goes to those things, and how much goes to the shareholders, is still to be determined.

Gillian Tan: Thank you. And if I can just ask a follow-up, I think it was a Pennsylvania LP put out something that said first close on the infrastructure fund was quoted as 7.5 versus 10. I'm wondering if there's any sort of scope for that $40 billion fund to maybe not reach capacity in the long run. I know this is only the first close, and obviously – [Crosstalk]

Tony James: Sure. We're very confident in the long term we'll reach the $40 billion capacity, but that $40 billion target is a very long term target. We never expected to come close to that in the first close. We're going to have a sort of normal, mortal-sized first close, and get started in the business. And when that money is invested, we'll start bringing in new money. And we will build our way up to that $40 billion over the next decade or so.

Gillian Tan: Okay. Thanks for the call.

Tony James: Well, let me just say this was a really boring quarter, because never in history have we gotten this few questions. So thank you all. I'm going to take that as a vote of confidence.

Christine Anderson: Thank you all. If you have any follow-up questions, I'm here all day, as is the rest of the team. Thank you.

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