**BLACKSTONE Fourth Quarter and Full Year 2017 Earnings Investor Call**
**February 1, 2018 at 11:00 a.m. ET**

**Moderator:** Good day, ladies and gentlemen, and welcome to the Blackstone fourth quarter year end 2017 investor call. My name is Derek, and I'll be your operator for today. At this time, all participants are in listen only mode. We shall facilitate a question and answer session towards the end of the conference. However, you may press star one and put yourself in the question queue at any time. And we request that you please limit yourself to one question and one follow-up. If you need operator assistance at any time, please press star zero.

At this time, I would like to turn the conference over to Mr. Weston Tucker, Head of investor relations. Please proceed.

**Weston Tucker:** Great. Thanks, Derek, and good morning, and welcome to Blackstone's fourth 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 the shareholders' page of our website. We expect to file our 2017 10K report later this month. 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 discussion of some of the risks that could affect results, please see the risk factors section of our most recent 10K. We will also refer to non-GAAP measures on this call, and you'll find reconciliations in the press release. Also note that nothing on this call constitutes an offer to sell or a solicitation of an offer to purchase any interest in a Blackstone fund.

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So a quick recap of our results. We reported GAAP net income of $763 million for the fourth quarter, and $3.4 billion for the full year. Economic net income, or ENI per share, was $0.71 for the quarter, and $2.81 for the full year, and that full year amount was up 41 percent, due to strong growth in both performance fees and fee related earnings.

Distributable earnings per common share were $1.00 for the quarter and $3.17 for the full year, both up sharply. We declared a distribution of $0.85 to be paid to holders of record as of February 12th, and that brings us to $2.70 paid out with respect to 2017. And with that, I'll now turn the call over to Steve.

**Steve Schwarzman:** Thanks, Weston, and good morning, and thank you for joining our call. Blackstone reported a superb set of results for the fourth quarter, capping a record-breaking 2017. Full year economic net income rose over 40 percent, as Weston mentioned. Distributable earnings rose over 80 percent to $3.9 billion, resulting in our

best ever year of aggregate cash distributions to shareholders, which we believe exceeds the capital returned by any other public money manager to its shareholders.

Our capital metrics in 2017 were simply off the charts. We took in $108 billion of capital inflows. We returned over $55 billion to our limited partners through realizations. And we deployed over $50 billion around the world, as we continued to extend our global platforms into new strategies, creating many new investment opportunities.

In each of these areas – capital inflows, realizations, and capital deployed – Blackstone set quarterly and full year records, both for the firm and for the alternative sector as a whole. We ended the year with total assets under management of $434 billion, up 18 percent year over year.

The scale of our operations today is really extraordinary, and something I couldn't have imagined when I started this business with my partner Pete Peterson 32 years ago. Today, Blackstone is the largest manager globally and the reference institution in the high returning alternative sector. We've established the most powerful brand among limited partner investors, and have earned their trust over decades by delivering great performance with very limited actual losses of capital.

As a result, our LPs are giving us more of their money to manage for both existing and new products, as we expand our capabilities further along the alternative spectrum. Having built a dominant global franchise in the highest returning categories, such as corporate private equity and opportunistic real estate, this is the logical next stage of the firm's development.

These new areas include more stabilized real estate, such as Core Plus, longer dated private equity, infrastructure, high grade credit, and other areas. We can leverage our existing global teams, and create new products to create a broader menu of solutions for limited partners.

The marketplace for some of these products can be much larger than where we focused historically, and the size of investments we can make here is also much larger. In addition, LPs often allocate more capital to these areas, and this is why, despite the nearly five-fold growth in Blackstone's AUM since our IPO ten years ago, I remain quite optimistic about the firm's prospects. We have more promising large-scale new initiatives underway today than ever before in our history.

For example, as Tony mentioned, a few weeks ago we launched Blackstone Insurance Solutions under the leadership of Chris Blunt, the former president of New York Life's investments group. There is an estimated $23 trillion – that's with a T – of insurance assets globally, a vast, largely untapped market for us, and for just about anybody else except strictly high grade sellers of product.

Chris will lead the effort to provide a range of bespoke investment solutions, from high grade private credit to traditional alternatives, including the option for full outsourced

management of insurers' investment portfolios. We are exceptionally well-positioned to address this market, and I believe we can build a business well in excess of $100 billion of AUM over time.

We're off to a great start with a $23 billion portfolio and investment management agreement with Fidelity and Guaranty Life, a portfolio company in our tactical opportunities area, as well as our Harrington partnership with AXIS.

In addition to insurance, our infrastructure initiative is moving forward. We're still a few months away from our first close, and it's too early to provide an estimate for that yet, but as you know, we have up to $20 billion commitment from a sovereign investor, which will flow into AUM as matching capital is raised. We ultimately expect this platform to be the largest of its kind in the world.

In our real estate Core Plus area, we launched our European strategy a few months ago, which mirrors our US strategy. We also won the mandate to manage Logicor, a European warehouse business, recently sold by our BREP funds. As you may recall, we built this platform through over 50 acquisitions in 17 countries, culminating in the largest private real estate sale in European history. This sale was a tremendous result for our investors, but the story doesn't end there. Given our favorable view of logistics globally, our familiarity with these assets, and the strength of our team in Europe, the buyer subsequently asked us to manage Logicor for them on a long term basis.

These successes bring our global Core Plus strategy to over $27 billion. When we launched this business a few years ago, I shared my vision it would eventually reach $100 billion. I got a little bit of resistance to that from people around the firm, but I think we're well on our way, and I think we're going to do it.

In addition to new strategies, we're layering on additional distribution capabilities to access more investor channels, including broader outreach to the wire houses, private banks, and independent brokers, among others. We're developing new products specifically for those channels. For example, our non-traded REIT, BREIT, had an outstanding debut year, raising $2 billion since its launch last January.

In our hedge fund area, our individual investor solutions platform now manages over $8 billion. And in credit, we just launched our first interval fund, which can be offered continuously to a broad universe of investors. The interval fund structure allows us to translate some of the key benefits of less liquid, often privately negotiated alternative credit, into vehicles that are more accessible for individuals.

At Blackstone, our entrepreneurial culture means we're always inventing new things in the interests of our limited partners. It's a core competency of the firm.

Even as the firm has grown, we've remained totally focused on delivering attractive investment performance in everything we do. It's the key to success in the future. We never lose sight of why LPs put their trust in us. We're often asked if size will be the

enemy of returns, but as we continue to demonstrate, scale is not a disadvantage in our business. Last year, we delivered strong returns across the board, including our real estate opportunity funds, which appreciated 19.4 percent, versus 5 percent for the public REIT index. I'm going to give you that one again, because all these presentations are always a blizzard of numbers. But imagine appreciating in real estate 19.4 versus 5 for the public REIT index. So we're like 1,400 basis points over the standard measures in something like real estate. It's pretty amazing.

And our corporate private equity funds appreciated 17.6 percent. Our underlying portfolio companies, as Tony mentioned, are performing well against a healthy backdrop of strong economic growth and improving confidence. And I remain quite optimistic about the forward outlook.

As I stated on this call last year, some of the major changes that have been underway in the United States, such as tax reform, as well as the efforts to remove or reduce regulatory barriers, were designed to accelerate GDP growth and extend the business cycle. We're certainly seeing that today, and I believe that will stay the case for some time.

These changes are also improving the relative attractiveness of the US market, which I believe will drive greater foreign investment, something that's a little overlooked, I think, in most of the commentary on the tax reform measure.

We will also see the repatriation of significant amounts of cash held overseas by US companies, much of which will be reinvested and used in other mechanisms, as Tony said. All of this should serve to further benefit the US economy and potentially extend the equity rally, which has really been unbelievably powerful, about six percent just in the first month, which I don't think can be annualized.

Better growth will also benefit our portfolio companies and fund returns, which are principally driven by the cash flow growth of our assets. Although robust markets pose challenges for investing, particularly for US opportunistic deals, we're actually able to do more deals than ever because of our broader product mix. Today, we can find and invest in value basically anywhere in the world. Michael will discuss our deployment in more detail. Over the past few years, for example, the entire firm has tilted towards Europe, which comprised nearly 40 percent of our investments last year, and that looks backward-looking like it was a very wise thing to have done.

We started this shift several years ago, before the recovery gained momentum, and people were still questioning whether the European Union would continue to exist. While we've largely moved past those concerns, Europe is still early in its recovery, and some remaining dislocation still remains in certain regions. Overall, I feel great about where we're deploying capital and our ability to navigate the current environment.

I think Tony mentioned in our private equity area that we just signed an agreement to purchase the Thomson Reuters business, which is a $20 billion scale investment that I

think is the largest private equity investment since the global financial crisis.

In conclusion, the firm is operating at an incredibly high level. We continue to deliver attractive returns to investors, which is our mission, and we're doing it across more funds, more asset classes, and more regions. We're staying disciplined in finding interesting ways to deploy capital, creating the basis for favorable future realizations. All of this leads to Blackstone being a significant cash generator, which as our shareholders, you benefit from.

Since our IPO, if you've reinvested our distributions into Blackstone stock, you'd have a cumulative return of over 120 percent in the last 10 years. It could be better. It could be a lot, lot worse, 120 percent over 10 years.

Our 2017 dividend of $2.70 per share equates to a 7.4 percent yield on our current stock price, which is one of the highest of any large company in the world, particularly among those that are A plus rated. As the largest shareholder, I personally find this to be compelling, and I think Blackstone and our shareholders alike have a lot to look forward to. I've never been more excited about the future, and in that regard, I agree with Tony completely. We've got so many exciting things going on here, so many remarkable people at the firm, such good investment processes, and such a unique ability to anticipate where the world's going, and create new products, it's really lots of fun to come to work every day.

And now I'd like to turn things over to Michael Chae, who hopefully is having as much fun as I am.

**Michael Chae:** You can tell I'm having lots of fun, Steve. Thanks, Steve, and good morning, everyone. Our fourth quarter results represented a great finish to an exceptional year. Revenue, economic net income, distributable earnings, and fee related earnings all grew strongly in the quarter, including a near doubling of DE to $1.24 billion, one of our two best DE quarters ever.

Full year results were even more impressive. Revenue rose 35 percent to $6.8 billion, driven by 67 percent growth in performance fees and investment income, while economic net income increased 41 percent to $3.4 billion. Fee related earnings rose 21 percent to over $1.2 billion for the full year, or $1.03 per share, trending favorably to the high end of the path we outlined on last quarter's call.

Management fee revenue rose 12 percent, and FRE margin expanded by 310 basis points to 44.6 percent, our highest ever for a calendar year. Distributable earnings increased 83 percent to $3.9 billion, also a record, with 2 of our 3 best quarters falling during the year, both of which produced $1.00 or more per share of DE.

As you know, our business model is powered by a simple, virtuous circle: inflows, deployment, value creation, and harvesting. Over the past four years, the metrics reflecting these cornerstones of activity have been remarkably robust, $328 billion of

inflows, $133 billion of deployments, $85 billion of appreciation, and $183 billion of realizations. This has enabled us to deliver nearly $13 billion in distributable earnings over that time period, or an average of $3.2 billion, and $2.66 per unit annually. And we simultaneously grew AUM by $168 billion in this period, or by two-thirds, and doubled our dry powder.

While 2017 was just the most recent period in this trajectory, it was our most productive yet across every one of those value drivers. I'll now dig into each of these a bit more.

Starting with inflows, gross inflows were $62 billion in the quarter, and $108 billion for the year, including the acquisition of Harvest, which added $11 billion. Excluding M&A, inflows of $97 billion still represented our best ever year, despite not having either of the flagship global BREP or BCP funds in the market. Our previous record year of 2015 included both of those funds, which accounted for over one-third of that year's inflows.

This illustrates an important and powerful trend at the firm, that we've moved well beyond the capacity limitations and episodic fundraising cycles of the traditional drawdown funds. There are four key drivers to this development. First, we continue to move farther along the risk-return spectrum, as Steve discussed, often through longer duration or permanent capital vehicles. Core Plus real estate and Core private equity together raised $13 billion last year, and now together account for $32 billion in AUM.

Second, expanding the regional footprint of existing strategies. In 2017, we raised over $16 billion of regional strategies, $6 billion for our second Asia real estate fund, which will soon hit its $7 billion cap, $1.6 billion for our first Asia private equity fund, which we expect to hit its $2 billion cap, the extension of Core Plus into Europe, and the final close of our fifth European opportunistic real estate fund, which reached nearly $9 billion.

Third, our newer strategies continue to scale, with large successor funds as well as new adjacencies. Tac Opps and Strategic Partners, for example, together raised $8 billion last year, bringing them to a combined $43 billion of AUM.

Fourth, and very importantly, the emerging high growth distribution channels of retail and insurance, which Steve discussed. Retail comprised $12 billion in inflows in 2017, more than 70 percent of which came from products customized exclusively for this channel. In insurance, our investment management agreement with FG, covering over $22 billion of AUM, provides a formidable anchor position from which to build out this effort. This AUM is sticky, long duration capital with recurring management fee stream. Over time, a growing proportion will be invested in Blackstone funds.

The prospects to significantly grow this business as an evergreen source of capital for the firm are compelling, and it's just one part of a broader multidimensional insurance strategy. Most insurance companies have very small allocations to alternatives today, and we're confident we can create solutions to lift their returns with our combination of products and scale.

Next, deployment. We invested over $50 billion for the full year, including $20 billion in each of our private equity and real estate segments, and $10 billion in our credit segment, which was a record for each of those segments. And we have over $12 billion of investments signed but not yet closed, so we enter 2018 with considerable momentum.

How are we doing it? This large number is in fact spread across a broad spectrum of strategies and risk-return profiles, so within private equity's $20 billion segment of deployments, we had $9 billion in 2017 of higher octane corporate private equity investments, focused on situations where there's a compelling opportunity for operational intervention and value creation, most recently illustrated, as Steve alluded to, by our agreement this week to acquire Thomson Reuters' financial and risk business. One and a half billion dollars were in long duration, high quality Core private equity investments, $5 billion in Tac Opps' flexible mandate to uncover attractive risk-adjusted returns in the eclectic places they hide all around the world, and $5 billion in SP's leading secondaries business, which spans buyouts, growth equity, real estate, and infrastructure.

Similarly, within real estate's $20 billion of segment deployments, $6 billion of opportunistic, over $9 billion in our evergreen Core Plus platform, $1.4 billion in B REIT, and nearly $3 billion in real estate debt.

Blackstone's growth and diversification allow us to do three things at once: provide more complete solutions to our clients' needs across their portfolios, to leverage and extend existing organizational capabilities into new ones, and to provide incremental opportunities that wouldn't have been available to us otherwise, as opposed to displacing investments by BREP and BCP.

Indeed, while the firm's deployment of $51 billion in 2017 was nearly double our 2014 pace, by comparison, BREP and BCP together invested a consistent $15 billion in both of those years, actually, and our – however, our investment pace and a burgeoning range of other strategies more than tripled, from $11 billion in 2014 to $35 billion in 2017. All this is quite positive in terms of building a diverse store of value to drive future distributions.

Moving to investment performance, the measure of the ongoing value creation and the capital we have deployed, across the firm, the funds delivered outstanding performance in 2017. The real estate opportunity funds appreciated 5.2 percent in the quarter, and 19 percent for the full year, while the corporate private equity funds appreciated 6.8 percent and 18 percent, respectively.

For the year, Tac Opps appreciated 15 percent, Strategic Partners 23 percent, Core Plus real estate 12 percent, BREDS drawdown 15 percent, BREIT 10 percent, BAAM 8 percent, and GSO 11 and 8 percent in the performing credit and distressed clusters, respectively. BREP, Corporate PE, and SP each posted their best returns since 2014, BAAM since 2013, and Tac Opps since inception in 2012.

Strong performance across the funds powered $585 million of net performance fees in the

quarter, and $2.2 billion for the year. As a result, the performance fee receivable on the balance sheet was stable in the year, with that $2.2 billion in net performance fee accrual nearly matching the $2.3 billion in net performance fee distributions. Said another way, the unrealized value we created in 2017 fully replenished the firm's store of value, even as we paid out more cash than ever before.

Finally, on realizations, which were $19 billion in the fourth quarter, and $55 billion for the full year. The breadth of our sales activity was immense, with 240 discrete realization events in 2017 across the firm and around the world. These included the largest private sale in the firm's history, Logicor, plus multiple other private sales. We also completed 37 equity transactions, totaling $12.5 billion in the public markets, including the continued sell down of our stake in our highly successful investment in Hilton. And we executed $50 billion of portfolio company refinancings during the year. The firm's ability to achieve monetizations through so many different means is a key driver of value delivery for our shareholders.

I'll now wrap up by touching on two discrete topics of note. First, with respect to our direct lending efforts, as previously announced, we will conclude our subadvisory relationship with Franklin Square in the second quarter, affecting $20 billion of AUM, with a net impact to FRE in the year of approximately $50 million. We view this decision as compelling from a financial and strategic point of view. The $583 million of pre-tax transactional payments we will receive will significantly exceed earnings foregone, as we ramp our new platform over time, and we are confident that we'll replace and ultimately overtake the prior level of revenues and earnings.

We will do so by having sole ownership and control over our platform, allowing us to fully leverage three powerful assets of Blackstone and GSO. First, our leading directly lending franchise and origination platform. Second, our extraordinary institutional LP base, which we will now be able to tap into for this strategy. And third, as both Steve and I touched on earlier, our rapidly growing internal retail distribution capabilities in our private wealth solutions area, the same capabilities that we leveraged this year with BREIT to capture an estimated 45 percent share of the non-traded REIT market, which draws from similar channels as the BDC market.

We expect the separation date and initial receipt of proceeds to occur in the second quarter. We anticipate that a substantial institutional capital base will be put in place and activated in parallel, and that subsequently will enter the BDC channel later this year. As to the use of transaction proceeds, we'll provide specifics in the second quarter.

Finally, on the impact of tax reform, at a high level, the new law won't result in any fundamental change to our business model in terms of how we make investments, finance our deals, or our competitive position in the market. At the portfolio level, we expect a net positive benefit overall. In private equity, the direct impact varies by company. Some benefit materially. For a broad group, it is basically neutral. And almost none appear to be materially adversely impacted.

In real estate, our holdings are generally unaffected directly at the asset level by the legislation. And in credit, we expect our borrowers to be impacted in a similar fashion to our corporate holdings. With regard to credit markets more generally, tax reform should in theory moderately increase the cost of debt relative to equity, but we don't expect it to fundamentally change demand for credit or ability to deploy capital.

Perhaps even more impactful are the potential second order effects on economic growth and business activity that could arise from this legislation, as Steve discussed, from which our companies are well-positioned to benefit, we believe.

As it relates to our structure, the resolution of tax reform gives us a clearer picture of the cost of converting to a C corp. That cost must be weighed against judgments about the magnitude and sustainability of potential market benefits. These judgments are not an exact science, and we will continue to evaluate the issue, take into account any new information and developments.

So in closing, while 2017 is a tough act to follow, we enter 2018 with exceptional momentum. We have never been better positioned as a firm. Our brand, culture, track record, and capacity to innovative have never been stronger. And we are in the early days of attacking newer channels for products of enormous potential scale. These are indeed exciting times for the firm. With that, we thank you for joining the call, and would like to open it up now for questions.

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**Moderator:** Certainly. And at this time, ladies and gentlemen, if you would like to ask a question, you may do so by pressing star one on your telephone keypad. Again, that's star one to put yourself in the question queue. And as a reminder, please limit yourself to one question and one follow-up. Our first question comes from the line of Michael Cyprys, Morgan Stanley.

**Michael Cyprys:** Hi. Good morning. Thanks for taking the question. I just thought maybe we'd start off on tax reform. It sounds like you're evaluating sort of the puts and takes there. So just curious how you see the impact to say your 2017 earnings if you were a C corp? What sort of tax leakage would there be, just to help flesh out how to quantify that, and what the tax rate would look like? And then just broadly how you're thinking about the puts and takes around potential for multiple expansion if you were – or a broader investor base, shall I say – if you were to move to a C corp?

**Michael Chae:** Sure, Mike. It's Michael, and you put out a nice report on this yesterday. Look, I think stepping back, as you know, this involves a cost-benefit analysis, all in the context of what's best for our shareholders over the long term and on a sustainable basis. And the tricky thing about that cost-benefit analysis is, as you know, the cost is known and quantifiable now, and the benefits are not precisely quantifiable before the fact.

So on the cost side, specifically to your question, Mike, with tax reform and tax rates now settled, we can do that math. The leakage on a DE per common unit basis is in the teens on a percentage basis. That varies, based on the mix of character of income in a given year, as you know, but that's the area.

And look, on the benefit side, as we discussed, we're going through judgments and assessments of a lot of different factors, and as you said, it's all in the context of what the multiple expansion would be required to generate, the sort of long term benefit to justify this decision. So we're thinking through that carefully. We think more time and information will benefit our judgments on this, and we don't view this as a race.

**Michael Cyprys:** Great. Thank you. Just as a follow-up, if I could, with the transaction you announced yesterday, the largest deal since – I believe since Hilton, just curious how you're seeing some of the opportunities there around data, just broadly, what you're seeing out there in the market, like opportunities to use data, technology, automation. The company, industry's ripe for change and disruption. And as you look across your company today, do you feel you have all the capabilities and toolkits to accomplish that? Where do you think you need to expand your expertise in that department?

**Tony James:** Yeah. Okay. So, Mike, it's Tony. Yeah, we're big believers in data. In fact, as we speak, our entire private equity group is in – everyone, from Joe Baratta down to the most junior guys – is in Palo Alto attending something called Singularity University, and getting steeped in new technologies, technology disruption, use of data, and so on and so forth. We've also built an internal data group which is now participating with all of our different groups in bringing big data applications to the investment process, and mining our own – starting to mine our own portfolio companies – for data that has value, both in terms of our own investments, and potentially third party market value.

We're big believers in data, and that's certainly a driver behind the Thomson Reuters business. The most valuable part of that business by far is the data part. The terminals are the legacy business for which people think of them, but that's not where the future of that company is.

Having said all that, I think this is a journey that we're just beginning, and while we've got a team, it'll take more investment in the team, it'll take somewhat of a cultural change, it'll take education around our people. It affects all of our businesses, not just the investment side of the businesses, but how we do things internally, and processes. For example, we're starting to use AI to screen job applicants and some things like that. So we want to be the leading firm in our industry in the use and application of technology and data.

**Michael Cyprys:** Great. Thanks very much.

**Moderator:** Your next question will be from the line of Ken Worthington, JP Morgan.

**Ken Worthington:** Hi. Good morning. Thanks for taking my questions. First, with tax reform done, the Congressional priorities seem to be turning to infrastructure. Maybe talk about how a major infrastructure package from Congress would impact your aspirations in infrastructure. And what I'm really hoping to hear is how you can help me connect the dots between what Congress can accomplish in legislation, and how that helps you find opportunities to invest and generate excess returns. Thanks.

**Steve Schwarzman:** Yeah. Sure. This is Steve. I'll take that. The US is estimated to be roughly $2 trillion minimum short in terms of what's optimum to have in infrastructure, and I think in the State of the Union, the President mentioned that he had a proposed package of $1.5 trillion. For people like ourselves and our fund, we've geared it to the private sector, because it's very kludgy historically trying to do things with the public sector.

Now two pieces of what the President mentioned. First was timing. The US is the slowest – I can't say it's the slowest country in the world, because I haven't surveyed every country, but it's completely an outlier in the developed world. It takes typically ten years or more to get things approved. In Canada and Germany, for example, it's two years. So we're five times less effective, which increases the cost of everything that gets done, discourages people from undertaking projects, and basically limits the asset class in that sense. And of course, not all things that government do can be bought by the private sector, because a lot of them don't have cash flow. But to the extent that they do, this provides additional opportunities to put money out in scale, and that would be a – could only be, I believe – and my general counsel may be jumping up and down, but can only be a good thing, in principle, to have more opportunities of different types. And the question is how much money will go into this.

So the proposal I think is a mixed proposal of federal government money, state and local, and private/public partnerships. And that gets up to that $1.5 trillion number. You know, we're in the private partner focused – public/private partnership, and that would be sort of a cherry on a sundae for us. We sort of have the sundae in terms of what we think we're going to be doing in the private sector, but it's only upside, if you will, for more things to finance.

But particularly, if they can agree on just the efficacy of doing infrastructure, try not to make us the least competitive country in the developed world. Give us a shot. And that's got to be very good for this overall asset class.

**Tony James:** Ken, I'm going to chime in. Just look at it from the perspective of the fund, and not so much the country. We don't need any improved legislation or regulatory system to invest this fund really well. There's tons of existing assets out there. One of the defining characteristics of some of these infrastructure assets, many of which are in protected industries or regulated industries, by definition, the structure of a true infrastructure business gives it a quasi-monopoly. And many of those companies are actually rewarded based on what they have invested after all their costs covered. So there's no incentive at all for those companies to be run better and sharper and crisper,

and that's just not the environment that they exist in.

So we think that there's tons of target out there where we can bring our value creation capabilities, which are honed in highly competitive private sector industries, and apply it to this industry, and create tons of value, even in the existing regulatory scheme. What Steve talked about would be fantastic. I'm all for it, and I think we're getting both – when we talk to both Republicans and Democrats, no one wins with this ridiculously slow system we have. But I think there's tons to do even without it.

**Ken Worthington:** Great. Thank you. And just for a follow-up, in terms of real estate investment, so I think $11 billion invested this quarter, big number, largely in BPP and some Europe, from what I saw. Can you talk about the outlook for investment in the flagship sort of US BREP area? And maybe estimate the value of the pipeline announced and not yet closed for BREP 8? I don't know if you can give that kind of detail, but I thought I'd try.

**Tony James:** Well, I'll let Michael think about the specific number on the pipeline, but look, it's – since the great financial crisis, values have certain recovered, and we're a value buyer. I would say that we've shifted our focus from one off individual assets more towards undermanaged companies and some things like that, undervalued companies. We just announced a big deal in Canada, as you saw. So we're finding things to do. But they'll be lumpy, and large scale, where we maximize some of our advantages vis-à-vis other buyers. So the pipeline is smaller, but still, we've got some interesting things in it.

**Michael Chae:** Yeah, in terms of the committed, not yet deployed number, Ken, for real estate, I cited over $12 billion. Real estate is about half of that.

**Ken Worthington:** Great. Okay. Thank you.

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

**Bill Katz:** OK, thank you very much for taking me, the questions this morning. I apologize for my hoarse voice here. Just can Steve perhaps talk a little bit more about the opportunity in insurance? I think you mentioned you think this could get to be a $100 billion business for yourself. Talk about maybe the slope to getting there, and how you see the economics from that. Is it just an asset allocation opportunity, like some of your peers are doing? Or is it an opportunity also to manage some capital, and how much of a revenue pickup could you get from that?

**Steve Schwarzman:** I think the answer is both. It's really interesting. When you have an asset class in difficulty, because of a combination of low interest rates almost across the world, you know, as well as a very restrictive regulatory environment that discourages higher return products, even if they're safe, that's what happens sometimes in the regulatory world.

And we think there's an opportunity for us to help manufacture products. So we probably

– we are the largest generator of fees in the financial world. We generated last year I think somewhere around $160, $170 billion of financings on our different products internally. We have a unique range of things that we do, from real estate and creation of a lot of debt on that real estate to private equity, and our credit products. And all of these can be we believe adapted or customized to create products to satisfy the needs of increased return, with safety, for this asset class.

And to the extent that we can do that, which we think we can, you know, why wouldn't you want to do an enormous amount of business with us, if it increases your return, and you're in the insurance area, and you think it's safe, because it is. And so we look at this as a very, very large potential set, because there's almost no insurance company that isn't to some degree or another suffering from the low yields and the regulatory reserve requirements that makes life really difficult for them. So it's really an issue of manufacturing on our end, rather, I think, than marketing per se.

**Tony James:** Bill, let me give a little more color on that. I think there are – there's kind of three things we bring to the party. Number one, of course, we bring our existing products to the party, and they're all, as Steve mentioned, under-allocated to alternative in general. And part of that is cultural, part of that is historical, and part of that is kind of regulatory and capital.

But – so the first thing we'll do is be able to offer them higher returns at lower risk through our Core products, and of course, those are – those will have the usual fees and carry that we usually charge.

The second thing is they're all short of private credit-worthy assets, so investment grade private assets. Why private? Because private debt for the same credit risk trades – yields a significant yield premium, and that yield premium is very important to them. For the most part, insurance companies do not have their own origination. We have origination. That is what GSO does. It's what our real estate debt business does, and so on.

And in fact, in our equity businesses, we're creating the very kind of paper that they want, but instead of having a place and a set of investors to give it to, we're selling it into the market. So we're already creating billions and billions of paper that they're short and we're long. So it doesn't take a genius to put those two things together.

Thirdly, we're able to – we have some – we've worked on this with some of our existing insurance clients. We have several proprietary structures that other people have not done that embed our products and structures, which give much better regulatory and rating capital treatment for our kinds of products. No one else is doing this. Frankly, no one else has the mix and the breadth of products to do it. And so we bring this new technology to the insurance companies that allow them to put a lot more of their balance sheet into our products than they otherwise could, without hitting their ratings and capital.

So I think we have a very, very powerful product mix, and I think this could be huge over the years.

**Bill Katz:** Okay. That's exceptionally helpful. Thank you so much. And then just a follow-up. Steve, on some of the traditional asset management reports there's been discussion on migration back out of alternatives back into more traditional product. But yet when I see your results and some of your peers have reported, it's sort of hard to sort of see that on a real time basis. Are you sensing any type of cap in terms of where the LPs are? I know at your recent lunch with investors, you had mentioned that some of these caps are being raised to accommodate franchises like yourself to have a global perspective. Are we at a point where this is as good as it gets, or do you think that there's still room to go on the institutional side to grow the business?

**Steve Schwarzman:** Yeah. It's a good question. I don't see those caps. And what's happening is – it was interesting. I was with somebody who runs a very large – one of the largest funds in the world, and he was at Davos, and he was saying, jeez, you know, you're by far our largest GP, but this is just so amazing. Operating with you, we just keep expanding, and you're sort of in a class of your own.

And so we're not seeing that kind of friction at this point. You have to remember, we're in so many different businesses, and each business line we're in, we just don't invest in one thing. You know, a fund will normally have, if it's a private equity fund, it'll have 50 different investments, something like that, with a lot of diversification. Same with a real estate fund. You know, same with a credit fund.

So the market is quite knowledgeable and sophisticated, that there's lots of diversification in terms of risk. It's not the same as different types of sort of money managers in that sense. So I think we're feeling pretty comfortable, and in fact, we have a steady stream of dialogues where people are contacting us who are LPs who want to make major increases in their size as part of what's a term of ours, I guess, strategic partnerships.

And these are very large, chunky kinds of things that lock in relationships, where it's not necessarily just, you know, hi, I've got a fund, please buy my fund. And it's – so in that sense, I would say it's sort of going the opposite of what your concern is.

**Tony James:** Hey, Bill, there's plenty of industry surveys out that survey LP intentions, and they all show LPs putting more in alternatives, and the fastest growing segment of alternatives is private equity.

**Bill Katz:** Got you. And can I just put one more question, and I apologize, I know you said two, but I don't usually do that. Michael, you had mentioned that you're sort of starting the cost-benefit analysis, and I certainly appreciate what you know versus what you don't know. So from our perspective, you've had obviously a lot of time to figure this out. We know the specifics now of the tax reform. What milestones should we be thinking about that get you to figure out which way to go, whether to convert or stay at PTP? Is it just how the stock behaves? Is it potential inclusion in an index, dual structure of the company? I'm still trying to understand like where from here we should be thinking about in terms of key points of decision making.

**Michael Chae:** Yeah, Bill, I wouldn't think about of it in terms of concrete milestones. There's a variety of factors, and we're going to assess them over time.

**Tony James:** And Bill, there's no rush – there's a little bit – the market's having a rush to judgment here. This is a decision we make once and it's forever. So as Michael said, we're not in any rush to make it.

**Weston Tucker:** Great. Thanks, Bill.

**Bill Katz:** Okay. Thank you very much for accommodating the questions. Yes. Thank you.

**Moderator:** The next question will be from the line of Craig Siegenthaler, Credit Suisse.

**Craig Siegenthaler:** Thanks. Good morning, Steve, Tony, Michael. I just wanted to come back to the insurance business. Can you talk about your ability to use FGL as an acquisition vehicle for smaller insurance companies and closed blocks, and then also, what is the appetite to replicate the strategy in Europe, where leverage rates can go even higher? And then like the final part of the question is really what are the incremental margins on this business as you grow revenue and really kind of scale it?

**Tony James:** Okay, so first of all, we are in the business of continuing to acquire insurance companies and closed blocks, not necessarily through FGL, although it could happen there. But we have several insurance vehicles, number one.

Number two, yes, Europe and Asia are both definitely on our radar screen. And number three. This is one of those businesses where I actually think it's kind of a lower fee business, but a higher margin business, like so many of our other businesses, where once you get over the startup costs, it's very high incremental margin. I'm not going to quantify that for now.

**Craig Siegenthaler:** Thanks, Tony. And that was it for me.

**Tony James:** Thanks, Craig.

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

**Alex Blostein:** Hey. Good morning, everybody. A question for you guys around the private equity deal structures, and really dovetailing with the Thomson Reuters deal announced a couple of days ago, so as we look out – obviously, a very significant deal, the largest since – in several years. Do you guys expect the size of private equity deals to increase in the coming years relative to what we've seen? What are you seeing in terms of leverage and the availability of leverage? And I guess more importantly, should we think about more partnership type of deals, like we saw with this one, that would really enable you to write larger sized transactions?

**Tony James:** Sure. So one of the advantages of having a large global multi-sector fund is we can go where the opportunities are. And historically, you've probably seen, we'll do some sort of startup investing, whether in different areas of the world, or different industries, drilling oil wells, or whatever, all the way to the biggest buyouts, and we'll do it across regions, and we'll do it across sectors.

And that ability to go where the opportunities are is really important for our being able to sustain high returns. And an important element of that is being able to do deals that are very, very large, because sometimes that's where we find the best opportunity.

In general, American business has gotten more efficient, so all of – as I've talked before, even in this call, all of the value that we bring pretty much to our investors is value we create operationally. So we're looking for things where we can go in and make a significant difference to the management of the company. In this case, Thomson – the Thomson family believed that we could add a lot of value, and that they wanted to participate in that value with us, which is why they stayed in for almost half of the equity. And so I think that's a win/win.

I do think you'll see some other large transactions. The debt markets are very liquid, very robust. Interest rates are low. And in fact, in Thomson Reuters, we probably could have gotten more debt than we did, but we always like to have prudent capital structures. It's not about maximizing leverage.

So yes, I think there'll be some other big deals, but I don't think it'll be a wave of them, because each – we're looking for deals, not that we can just buy, but where we have to create a lot of value, and that's not always the case, obviously.

And then, yeah, the industry has changed. LPs have become increasingly interested in side by side and co-investments, and they've become increasingly capable of making the decision with you almost as a partner or a co-sponsor from the get-go. So that is definitely here to stay, in my opinion.

**Alex Blostein:**Okay. And then just a quick follow-up for Michael, I think, back to the tax rate conversation, I think you said something in the teens in terms of the earnings leakage. I think you said it on the DE. I just want to confirm that that's roughly the same under ENI, and should we think about the kind of 20, low 20 percent, as a kind of reasonable corporate tax rate if you guys were to convert into C corp, given the 2017 mix?

**Michael Chae:** Well, it is in the teens for ENI as well, and it depends, just as it does on DE, on the mix of the character income in a given year.

**Alex Blostein:** Got it. Thanks.

**Weston Tucker:** Thanks, Alex.

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

**Glenn Schorr:** Hello. Thank you. I just want – just one question on rates. And in the past, I and others have asked the interest rate question and got the right answer of, hey, if it's coming – brought on by global growth, that's a good thing, and in the past, real estate actually did better. And I think that also holds. But my question today, you know, a year later, two years later on, 2.75 on the 10 year and rising, watching REIT markets, the public REIT markets, significantly underperform your private real estate strategies, I'm curious if there's any revisions to the answer on do higher interest rates matter. Are you seeing any changes in demand for any of your products as rates rise?

**Tony James:** So it's Tony. No, I think the answer still holds. We feel very good about where we are in the cycle, and yes, while rates go up, the Fed – I mean, look, they left rates flat this meeting. They're very, very careful about raising rates, and they're doing it in response to economic growth. A lot of people would say the US economy is doing extremely well. Well, if we look at it through the eyes of our portfolio companies or our real estate portfolio investments, things are going great.

So I would say that the Fed is being extremely cautious, and as a result, I feel very good about the economic backdrop creating more value than the higher interest rates would erode.

The other thing you should realize is cap rates are a function not only of treasuries, but also of the spread over treasures. And while base rates are extremely low, spreads have been pretty full here. And so as base rates go up, and we've talked about this in the past, too, I think the spreads have plenty of room to come in a little bit to keep overall cap rates from spiking.

So bottom line, same answer we've given, and I think it's playing out, and you're seeing it. You're seeing higher rates, and you're seeing great fundamentals, and you're seeing great value creation, all that notwithstanding. And then by the way, when we sell assets, you're seeing great realizations.

**Glenn Schorr:** I appreciate it. Thanks, Tony.

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

**Devin Ryan:** Hey. Thanks. Good morning. Maybe one here just on the retail opportunity. You continue to highlight the expansion of footprint into new channels, and clearly, that's going to drive growth. But when you think about from a product perspective where you are relative to maybe where you can be, how should we think about product development in retail over the next several years, and what additional types of products are you looking at there?

**Joan Solotar:** Sure. So I think, as I'd mentioned in the past, the growth is really going to come from three areas. So one is continuing to build out channels, number of new distributors, and that's continuing, and I'd say we're still pretty early stage there. Second is penetrating the channels more deeply. And then third is new product. And even in new product, we're pretty early stage.

So I think you're going to continue to see new product. We're going to be launching something in the channels that's a floating rate credit product. I know Michael had talked about what's happening with Franklin Square. Ultimately, I think that could be significant. But very importantly, as we go into a channel with our performance, our ability to onboard and service in a really differentiating way, in many ways, we are the revitalizing catalyst to an entire sector, and that's what you saw with the private REIT.

So it's a little bit of a mistake to just look at what's there and then what percentage. I think in many ways, given what we can do in a scale way that others can't, and even in terms of weaving product together, we really end up being the catalyst to the growing size. And so we are seeing more demand for floating rate product, and I think you'll continue to see more launches from us.

**Tony James:** And Devin, a couple of other tweaks on that. This – the products in this market tend to be longer duration or permanent capital products, a lot of them, so it facilitates our shift of our mix to more permanent capital products. And then I would just say some of these products can be very large in scale. And so I think the potential for some of these broadly offered retail products is huge.

**Devin Ryan:** Got it. Okay. That's great color. Maybe just a follow-up, another kind of bigger picture question. We're obviously all just trying to map out how assets are going to grow at the firm over time, and that's a challenge. But as you mentioned several times, it's an entrepreneurial culture, and I think sometimes the level of innovation at Blackstone is underestimated. And so I'm not really expecting specifics here, but when you look out over the next several years, and you think about what the firm is working on today, should we be thinking about kind of that incremental or innovative growth, if you will, coming from adjacent products, or are there things that are being worked on right now that maybe could represent a new leg, like infrastructure?

**Tony James:** Yeah, so both is the answer, and there's certainly adjacent products, but infrastructure is a new leg, insurance is a new leg. We've talked about the whole earlier stage growth equity kinds of sector. I'm not going to get too specific on that. That's a new leg. So three major new legs.

Truthfully, some of what Joan's talking about, I'm not sure whether it's a new leg or an adjacency, but it's certainly a different approach. What Harvest shows is there are some long only possibilities. I don't want to go be a normal mutual fund, but niche long only businesses I think you'd have to put in as a new leg. So Harvest would be a new leg.

So I think we have – as I said in the press call, as I sit here and I look forward five years

with existing initiatives where we already have either got products or got people hired and focused on this, I see more growth in the next five years than I've ever seen in 15 years of this firm.

**Devin Ryan:** Yeah. Thanks very much. I think that's helpful, and sometimes maybe underappreciated.

**Moderator:** Your next question will come from the line of Patrick Davitt, Autonomous Research.

**Patrick Davitt:** Hi, guys. Good afternoon. Just a quick one on that last floating rate point, Joan. Is this a product that we should view as a competitor to a lot of the traditional active products out there, or is it more like a floating rate plus type of strategy with different return characteristics?

**Joan Solotar:** Yeah, so it's enhanced floating rate. It's an interval structure, monthly liquidity type product. So it does have a higher return than some of the competing offerings out there currently.

**Patrick Davitt:** Great. And then my follow-up –

**Tony James:** So, Patrick, sorry, let me just say, we have a – we have a view here that investors generally pay way too much of a premium in terms of lost return for liquidity that they never actually need. You don't need to have 75 percent of your portfolio you could sell tomorrow. So we're – our whole strategy has been to sort of build on the – an arbitrage and offer our investors the enhanced returns that come by taking not more risk, necessarily, because we think a lot of our products are less risk, actually, and certainly when put in a portfolio, less portfolio risk, but less liquidity.

And one of the things about today's world is it's overvalued, but it's particularly overvalued on the most liquid stuff. And so there's a – there's a gap that you can drive a truck through for us.

**Patrick Davitt:** Awesome. Thanks. And then a quick one on tax reform. Has the increased cashflows from your US privates followed through to any positive marks yet, or is that something we can still expect?

**Michael Chae:** Yeah, Patrick, it's Michael. You know, what I'd say is, for example, the 6.8 percent appreciation in the Core private equity portfolio in the fourth quarter, that was mostly driven by fundamentals on a company by company basis, not by tax impact. And I think we've been very careful about wanting to factor in tangible, directly observable impacts on a company by company basis from this, and with time, the companies themselves will see what the real world impact is on their businesses, on the market values, and we'll take that into account.

**Patrick Davitt:** Great. Thanks.

**Moderator:** The next question will be from the line of Mike Carrier, Bank of America, Merrill Lynch.

**Mike Carrier:** Thanks. Good afternoon. Just one question. It's on fundraising. Each quarter, you guys tend to surprise the upside, and it sounds like the growth opportunities in front of the firm are substantial. Some of your peers have benefited from sizing up their opportunities, whether it's AUM or FRE. I realize each firm's different, and you guys tend to be more consistent in the level of fundraising. But is there a way to size that opportunity up over the next like one to three years, whether it's in AUM or FRE, given that many of the growth areas are coming from these innovative new areas that may be harder to predict, versus the flagships in the past?

**Tony James:** Well, I'll let Michael think about how to answer that while I bullshit for a minute. But we don't like to give projections, as you know, and certainly three year projections. So we like to sort of under-promise and over-deliver. I think you'll be happy, but you have to trust us on that.

**Michael Chae:** And I'll also bail out a little on the answer. But I do believe that the growth we see, the character of the growth, is a good thing on both FRE and overall AUM front.

**Tony James:** And Mike, go back 15 years. Even through the great financial crisis, we've never had a year where AUM didn't grow, ever. And look at the secular growth over any long period of time. There are ebbs and flows, but it's – we don't see any diminution of that secular growth.

**Michael Chae:** Yeah. And Mike, quite seriously, we don't – when we think about strategy and growth, we don't have to make tradeoffs between FRE oriented growth and AUM generally. We think we can sort of have it all across a whole – a multiple strategy of products.

**Steve Schwarzman:** I think the answer is that for the last five, six, or seven years, I forget which, we've compounded AUM at 17 percent, at the same time giving back enormous amounts of money. So one might think that's pretty good, you know.

**Michael Chae:** Okay. You got three answers there, or more, Mike.

**Mike Carrier:** All right. Yeah. All right. Thanks a lot.

**Michael Chae:** Thank you.

**Moderator:** Your next question will come from the line of Gerald O'Hara, Jefferies.

**Gerald O'Hara:** Great. Thanks for squeezing me in, and just one question for myself as well. Just hoping we might be able to get an update on the Invitation Homes initiative. I

know it's been probably a little while since we've heard on it. But you've got – obviously, housing markets have been strong over the past couple of years, clearly, since you started it, or started buying up homes. And just kind of curious as to where we might be in that cycle. Thank you.

Tony James: Well, so we've got to be little careful here, as it's a public company, and so I'll let them speak for themselves, but we think the residential area still has plenty of growth ahead of it.

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

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

**Brian Bedell:** Great. Thanks for taking my question. This is zeroing back on the insurance opportunity. Of that size of the market that you initially quoted, Steve, what do you see as the addressable market for your effort? And it sounds like this could actually hit that $100 billion mark, or – you know, faster than the Core Plus efforts. Maybe just your thoughts on that. And also, from a product perspective, obviously, a lot of this is yield oriented, but to what degree do you see Core Plus real estate being a component of the investment effort for insurance companies, as well as BAAM?

**Steve Schwarzman:** Yeah, it's always dangerous, asking me a question like that. Everybody in my conference room here is wondering what am I going to say. I think just to start, it will logically build much faster than the Core Plus business, because in the Core Plus business, you actually have to buy individual properties or a group of properties, and each one of those deals is sort of – it's an art form. And that's what we do. And if we can outperform a REIT index – people seem to like REITs – I don't quite get it. But in any case, if you outperform them 1,400 basis points, maybe we do have a better mousetrap, right, that deserves a much higher sort of multiple.

But leave that aside. Those are individual purchases, whereas in this insurance area, we can be generating potentially sort of assets on a much larger basis. We could take over portfolios, where somebody has $25, $30, $60 billion. And so the chunkiness in the insurance area, assuming we position ourselves correctly, and can add the kind of value that we hope to be able to do, should lead to much more rapid growth, logically, in that area.

So when Tony says something like he's more excited than he's ever been, which – and I say the same thing, the reason why we say things like that is we actually believe them. And so that's just one area where if you – you know, I always like thinking about upside as well as sort of more moderate types of things. This is an area that's got a huge upside, if it develops right, and we can do a great job, and we're meeting a need with an industry that's got $23 trillion. I mean, how – you know, if you just balance that and say what can you be, you can provide the answer as well as we can.

But it should be – potentially really scale. You never know how any new business

develops. We've had a pretty remarkable record, I think, of going into new areas, and having them really flourish, because we don't do that many, because there aren't that many really fascinating things to do. And so we've identified this one, and we're going to ride it as aggressively, in a good way, that we can, by producing good product for people who really need it. And they need it in this industry. And there's no CEO almost that I've met in the whole industry that doesn't agree with that, that they need more return.

**Tony James:** And there's no business we get into because we can go get a lot of AUM. That's not the point here.

**Steve Schwarzman:** Yeah.

**Tony James:** The point here is, A, can we bring a solution, a unique solution, to investors with a need that other – that is not being filled and that other people can't fill, number one. And number two, can we fill it with really high performing product? We don't want to do a lot of mediocre product. We don't want to do any mediocre product, just because we get the AUM. That's not the business we're in. We're in the business of delivering superior returns adjusted for risk that other people can't do and can't match. I think there's big opportunity here.

But in general, the equity oriented kind of products we do, whether that's from private equity down to some of the sort of Core Plus all the way into the BAAM stuff, those – all those equity-oriented things, it's probably not more than five to ten percent of the asset pool at max. It's way below that today. It's a fraction of that today. But that's probably the max.

And then the rest of it is credit oriented stuff, private credit, public credit. All of that, you know – a lot of that is target for us, although I don't ever see us trying to be great at what BlackRock and PIMCO and so on do, in terms of managing treasuries and high grade bonds for a few basis points. That's not our business.

**Brian Bedell:** That's great color. And maybe just one more comment. I mean, I agree with you on the liquidity premium and your valuation of liquid assets versus illiquid assets. It obviously makes a lot of sense for 401(k) plans to have larger allocations to illiquid assets. Have you had any traction whatsoever with regulators in convincing them that? Or is that still kind of more of a dream?

**Tony James:** So this is going to happen. It's not going to happen tomorrow, but it's going to happen, because it has to happen. We have an aging demographic in this country where the average savings of someone between 40 and 50 is $14,500.00. We have static incomes, and they cannot put enough away, enough savings, with health care costs and education costs and other things going up, to retire comfortably if they don't earn more on their savings than the two to three percent return that 401(k)s average today. Two to three percent.

Now you put alternatives in there, like pension plans do, and you can average six to seven

percent. It's massively different when that compounds over 40 years and someone retires. This must happen, because there is no other way for society to afford the aging demographic that is our future.

So it will happen, and I assure you, we're going to be working on it, and we're already having some discussions, but things move slowly. On the other hand, the target is huge.

**Steve Schwarzman:** Stay tuned.

**Brian Bedell:** I understand. Great. That's great color. Thank you.

**Moderator:** We have time for one final question, and that will come from the line of Robert Lee, KBW.

**Robert Lee:** Great. Thank you for your patience in taking all the questions. I guess I'm just kind of curious about the – maybe a little bit about the competitive universe. I mean, clearly, you know, you guys are – and some of your peers, but particularly you guys – are global leaders in your business, and it seems like many of the leading companies are clearly US-based, if you think of private investing. But good businesses attract competition. Any kind of sense – I mean, obviously, you've got SoftBank with their Vision Fund and its specific market, but just kind of any sense whether it's out of China or elsewhere that you're seeing – I don't know, I'll call it local champion or others who are kind of trying to come up the curve? And not that they can compete with you, but they can certainly make life more challenging in trying to find investments at good prices and what not. I'm just trying to get a sense of you're seeing anything like that, and if it's having any impact on kind of the investment opportunity in certain markets.

**Steve Schwarzman:** I think we've always encountered that, you know. Markets are global, markets are local. And there have always been good local competition in Europe, and there's particularly good local competition in China, for a lot of reasons, you know, entrepreneurial culture, enormous savings base, lack of visible laws, so relationships are exceptionally important in that culture.

On the other hand, in terms of global types of competitors, we don't find that to be the case, and there are a lot of reasons for that, and I don't expect that to happen.

One final thing before Tony gives you his views, is that SoftBank is an unusual thing. First of all, Masa is a really unusual guy. He's bold, he's sleepless, he's aggressive, and he's picked an area in which to invest, which for the most part doesn't have cash flow. So to the extent that he can raise money to make investments in companies that hopefully will do well, but there's not a guarantee with that, you know, the amount of money that can be deployed in a whole industry that really suffers from lack of cash flow, very rapid investment, you know, and in fact, negative cash flows, to get to break even, that's a highly specialized set of characteristics.

And what he's done quite brilliantly, actually, is gone out to be the defining institution in

that asset class, and the world has given him capital to do that. And his ability to put capital to work in an industry that for the most part doesn't have cash flow, so it can't finance any way other than raising more and more and more and more equity, that any blockage to public markets, access to public markets, will create enormous needs for finance. And Masa is in that space, and he's been very clever, and he's made some very good choices historically, and had good returns.

That's a – that to me is – it's an outlier, you know. And he's an outlier in terms of sort of his – not to beat the phrase, you know, vision. And he's – that's why he's got a Vision Fund, and he's prepared to play, and people are prepared to finance.

Outside of something like that, I don't think we see anybody who's really got the aspiration that we have. US players tend to be very aggressive, and integrative, and like to do that stuff. Most other investors more or less just stay in their geographic areas.

**Tony James:** Yeah, let me take a different whack at that question. I would say, if anything, the competition is less than it used to be, not more. Why do I say that? First of all, it used to be a much – all these industries, private equity, mezzanine capital, real estate opportunistic, used to have dozens and dozens of players that were close to each other in size. You know, the difference between a $250 million fund and a $350 million fund at one point used to be significant. That concentrated heavily. And so there are a lot fewer players.

In addition, all the investment banks and the banks are out of the business. The hedge funds that used to come in and do private equity, now they're not able to do that, because they need liquidity. So I would say, if anything, the competitive scene has consolidated. We have fewer really strong competitors than anyone else than we used to have.

One of the reasons for that is there are scale advantages to our business. So when we – this isn't like public markets, where the bigger you get, the more the transaction costs, and the loss of nimbleness costs you excess returns. In our world, the bigger you get, the deeper you have in the way of operations skills, the more information you have, the ability to do things others can't do, because of knowledge, presence in a geography, brand, things like that, all those matter. So scale helps.

So as you get more scale, you get more advantages, you get more ability to deliver consistently higher returns, and that of course forces consolidation.

And then finally, LPs that once took the attitude of I'm going to have tons and tons of managers, this is a high touch business, and the administrative costs are eating them up. And no LPs, which tend to be public institutions, for the most part, have the budgets to keep up with all of these small managers. And so they want to concentrate their providers. So the other forcing of concentration is on the LP side.

The cumulative effect of those three forces are I think consolidating in some ways – I'm not saying less competitive, because it's very competitive, but fewer competitors.

**Robert Lee:** Great. Thank you very much.

**Michael Chae:** Thanks, Rob.

**Moderator:** And at this time, we have 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, everybody, for joining us today, and please reach out with any questions.