

**BLACKSTONE First Quarter 2018 Earnings Investor Call**  
**April 19, 2018 at 11:00 a.m. ET**

**Weston Tucker:** Good morning and welcome to Blackstone's first quarter conference call. Joining today's call are Steve Schwarzman, Chairman and CEO, Jon Gray, President and Chief Operating Officer, Tony James, Executive Vice Chairman, Michael Chae, 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 10Q report early next 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 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 an interest in any Blackstone fund. This audiocast is copyrighted material of Blackstone, and may not be duplicated without consent.

So a quick recap of our results. We reported GAAP net income of \$842 million for the first quarter of 2018. Economic net income, or ENI, per share was \$0.65, which was down from a very strong first quarter of 2017, as higher fee-related earnings were offset by lower performance in other revenue.

Distributable earnings per common share were \$0.41 for the first quarter, and we declared a distribution of \$0.35 to be paid to holders of record as of April 30th. And with that, I'll turn the call over to Steve.

**Steve Schwarzman:** Thanks, Weston, and good morning. Thank you for joining our call. Blackstone reported a strong start to the year, highlighted by significant outperformance across our funds as compared to global markets, which you may have heard when Jon spoke, continued substantial capital inflows into all of our businesses, at a very active investment pace.

Total assets under management rose to a new record of \$450 billion, up 22 percent year over year. And every one of our business segments, private equity, real estate, credit, and hedge fund solutions, grew AUM to new record levels.

Against a backdrop of declining global markets and a sharp spike in volatility, the value proposition that Blackstone offers becomes even more compelling. In a world where most investors have become accustomed to everything going up, one of the great

attributes of the alternatives business is that it can de-link outcomes and protect investors' capital when negative things happen in public markets, like they have.

Blackstone's consistently strong performance across all asset classes and market cycles is a critical differentiating factor for us versus other asset managers. This consistency and stability deepens our relationships with our limited partners, and results in them wanting to do more business with us.

The de-linking of our performance from market indices was well-evidenced in our first quarter results. Our private equity and real estate strategies appreciated between three and seven percent in the quarter, well ahead of the negative one percent return for the S&P, and the negative eight percent return for the REIT index.

Our credit strategies outperformed the high yield index, while our hedge fund solutions business delivered a gross composite return of positive 1.3 percent in the quarter, with less than one-fourth the volatility of the market, when the S&P, as I said, went down one percent.

What's been happening in markets would suggest this is a good time to invest in low volatility strategies with high returns, instead of an index. Not surprisingly, net inflows at BAAM, our hedge fund solutions business, of \$2.8 billion, were the best in over 3 years.

Blackstone's outperformance starts with being able to choose our spots in terms of sectors and regions, and then engaging in significant operational improvements. We're never buying the market. Now with mostly locked up capital and long term funds, we have enormous flexibility, both in terms of investing our dry powder as well as timing our exits. We have the luxury of not having to worry about meeting near term earnings targets or facing short term redemptions. Instead, the focus always is on maximizing value, which is what we've shown we can do over 32 years.

Our limited partners appreciate our model and how it can drive outperformance with less risk. This is why global allocations to alternatives continue to rise, with Blackstone taking share. Our total capital inflows exceeded \$18 billion in the first quarter, which Michael Chae will discuss in more detail. Since the start of 2015, our LPs have entrusted us with a remarkable \$289 billion of capital. That's almost \$300 billion of capital, which is greater than the total AUM of any of our peers. And that's in only three years. Over that same timeframe, we've returned to our LPs \$143 billion through realizations.

We continue to expand our global platforms into new adjacencies, as well as create altogether new business lines. In real estate, our Core plus platform has grown to nearly \$30 billion in 4.5 years, including 3 permanent capital vehicles, with a fourth coming later this year. As I've said before, I believe this business will ultimately reach \$100 billion, and we're on our way to doing it.

In terms of new businesses, our infrastructure initiative is progressing well. We finalized documentation with our largest investor late last fall, and had our team largely in place

early this year, which is already reviewing a pipeline of interesting investment opportunities. We expect to have our first close in the second quarter, followed by a series of additional closes over the next year. I can't comment further on specific numbers, given we're in the middle of fundraising, but investor response has been positive so far, with broad interest from pension funds, sovereign wealth funds, and others, both domestically and outside the US.

Apart from infrastructure, we're continuing to build out our dedicated insurance initiative with some high quality additions to our team, and our efforts in the retail private wealth channel continue to ramp, with several new products and additional distributor relationships. We're in the early innings of our buildout in these vast, underpenetrated markets, and I believe our AUM in these areas will ultimately be multiples of what it is today.

Our portfolio companies are performing well against a strong economic backdrop, with positive growth virtually everywhere, and that is largely expected to continue for the foreseeable future. Despite the strong fundamentals, however, stock markets have become unsettled recently. This is partly due to increasing worries over global trade, including the relationship between the United States and China, as well as with NAFTA.

I visited China twice in the last few weeks, and have met with the senior leaders involved with their economy. President Xi's speech last week at the Boao Forum, where I was, was an extremely important one, in which he indicated China is prepared to seriously discuss the start of opening its markets and making other significant changes in its economy. President Trump's positive response to President Xi's speech was also important to what I think should be a very productive future dialogue between the two countries, with the prospect for significant change in the trade area.

On NAFTA, talks have taken longer than might have been expected, but I believe it's in all three countries' overwhelming interest to proceed with a revised deal, which I expect will happen over the next several weeks.

To the extent the current volatility in the market continues, Blackstone is well-positioned to take advantage of any opportunities that might arise, with \$93 billion of dry powder capital, the industry's largest.

I'll close my remarks today with some comments on our people and our recent succession announcements. At Blackstone, our most important asset is our people. Our professionals are truly remarkable, and I feel privileged to work with them. Each of our businesses is led by someone extraordinary, with other highly talented professionals around them. When somebody moves up, there's a deep bench of talent to support the transition and replacement.

Because we typically plan succession many years in advance, it is both seamless and organic. And when we launch new businesses, we create additional leadership opportunities for our people. That's part of what makes it fun to work here. The result is a

highly successful formula for career development and a way to perpetuate the unique integration that exists across the firm, even as we continue to grow.

Sitting next to me today who you can't see, but I'm sure you'll hear from him, is Jon Gray, who succeeds Tony James, who's sitting next to Jon, as the firm's President and Chief Operating Officer. Jon is an exceptional individual and a true culture carrier of the firm. I've known him his entire career, having hired him from Wharton in 1992. So he's been at the firm for 26 years. He's a gifted investor and leader, and like many others at Blackstone, a homegrown talent. I could not have more confidence in Jon's ability to continue driving the firm forward.

Tony, I'm happy to report, isn't going anywhere. He's assumed the role of Executive Vice Chairman, and will remain on the firm's investment committees, management committee, and board of directors. Among other responsibilities, he will continue to focus on strategic growth initiatives, of which we have many. Tony has had a profound impact on Blackstone since joining the firm over 15 years ago in 2001. He's the chief architect of many of our successful new businesses, and also drove the institutionalization of our investment processes, and the ongoing development of our people. We've all benefited enormously from Tony's talent and vision, and will continue to do so.

Across the firm, other promotions have occurred, with highly talented individuals moving into key leadership positions, including in real estate, our hedge fund area, and our credit business. These changes lay the foundation for the next several decades of senior leadership at the firm, and support the seamless continuity of our culture.

And it is our distinctive culture, built over 30 years, and instilled in everyone at the firm, that ties us together and drives our company. Blackstone isn't a job, per se. It's a mission to be the very best in the world at what we do. To work at our firm, you have to believe this. You have to love what you do and constantly strive to do it better. Our investors count on the consistent output of that culture, characterized by excellence, meritocracy, and the highest standards of integrity.

No one knew that better than my long time business partner and co-founder of Blackstone, Pete Peterson. Last month we were all saddened to learn of his passing at the age of 91. Pete's death is a great loss for all of us who knew him, including all of us here at Blackstone. Pete and I built this firm together from the ground up, when we had nothing but \$400,000 in startup capital and no clients and no LPs, and it's prospered over the subsequent three decades, more than either of us could ever imagine.

Pete's wisdom and judgment were unmatched, and he was an inspiration to all around him. Pete left a truly lasting mark on Blackstone and on the world, and will truly be missed.

Thank you for joining our call today. I'll now turn things over to our Chief Financial Officer, Michael Chae, another one of our terrific homegrown leaders. Michael, you're on.

**Michael Chae:** Thanks, Steve, and good morning, everyone. The firm's strong momentum continued in the first quarter, highlighted by continued robust inflows, investment outperformance across the firm, and a steadily building store of value. Total revenue for the quarter was \$1.7 billion. Economic net income totaled \$792 million, or \$0.65 per share. Although down from last year's first quarter, which was one of our best quarters ever, these numbers reflect a particularly strong result against a challenging market backdrop.

Attractive fund returns across a steadily growing base of invested capital drove healthy performance and principal investment revenues to \$953 million. Management fee revenue rose 13 percent year over year to \$736 million, our highest quarter ever, while fee related earnings increased 14 percent to \$333 million. For the prior 12 months, FRE was up 20 percent to \$1.3 billion, or \$1.07 per share. That's roughly double our annual FRE production six years ago, a period for which our fee earning AUM has grown meaningfully, and our margins have expanded sharply.

Distributable earnings were \$502 million in the first quarter, or \$0.41 per share, down from the prior year, as we sold less in the context of volatile markets. Away from realizations, however, our other capital metrics, investment performance, deployment, and fundraising, all continue to demonstrate powerful momentum.

Starting with investment performance, our flagship funds and strategies all outperformed the comparable indices in the first quarter, in many cases by a wide margin. The corporate private equity funds appreciated 6.4 percent in the quarter, while tac opps appreciated 5.2 percent, and strategic partners 6.9 percent, all comparing favorably to the 1 percent decline in the S&P.

In real estate, the opportunity funds appreciated 3.5 percent, Core plus 3.4 percent, BREDS drawdown 4.4 percent, and BREIT 3 percent, all well ahead of the public REIT index, which declined 8 percent, as Steve mentioned.

Our performance is driven by multiple factors, and as Steve mentioned, it begins with choosing the right sectors on a regional basis, using our size as an advantage to move scale capital towards those ideas, often across multiple funds, and then creating lasting value in our investments through transformative asset management. And against the backdrop of a generally healthy external operating environment, the result is portfolios that are performing well and expanding in value.

In private equity, our portfolio is seeing broad-based strength, with EBITDA growth accelerating further in the quarter to the low double digits on a percentage basis. In terms of sectors, we are seeing particular strength in our technology portfolio and in the global industrials area. In the latter area, a significant driver of the 6.4 percent corporate PE appreciation in the quarter was our investment in Gates, the largest investment in BCP VI, which we took public in the quarter, resulting in a substantial uplift from a valuation standpoint.

In real estate, our largest current investments are in sectors with secular growth tailwinds, including global logistics, life sciences, US and Spanish housing, and Indian office. Conversely, our real estate funds have less than 5 percent exposure to US retail real estate. The public REIT index, in contrast, has a 20 percent retail weighting.

In BAAM, our composite outperformed the S&P by about 200 basis points, with a quarter of the volatility. During February and March, at a time where the S&P was down six percent, our returns were flat. This kind of performance, protecting capital during periods of significant market downturn and volatility, is in essence proof of concept for our hedge fund solutions business.

Strong fund performance across the firm generated \$537 million of net performance revenues in the quarter, lifting the net performance revenue receivable on the balance sheet to \$3.6 billion, the highest level in nearly 3 years. And despite \$45 billion of realizations over the past 12 months, generating over \$1.8 billion of net realized performance revenue, the firm's performance revenue receivables still grew 9 percent year over year. All of this bodes well for future realizations.

Moving to deployment, we invested \$10 billion in the quarter, our fifth highest quarter ever, driving invested performance revenue eligible AUM to nearly \$200 billion. We continue to leverage our global scale and diversity of platforms to find value around the world. The majority of our capital deployed in this quarter is outside of the US. In general, we're still finding attractive relative value in Europe, and our largest investments in both private equity and real estate in the quarter were in that region.

The firm's single largest investment in the quarter was the acquisition of a 51 percent interest in a 27 billion euro face value real estate portfolio from Spanish bank Santander. This was a landmark transaction, drawing on capital from across the firm, up and down the capital structure. This transaction is an excellent illustration of the firm's ability to identify an area in which we have high conviction and capabilities on the ground, in this case Spanish housing, and deliver a complete solution in scale.

In private equity, we closed on our take private of UK listed payments company Paysafe, and already announced last week a nearly \$1 billion synergistic add-on acquisition to the business. We committed to another \$5 billion of investments in the quarter, including the Thomson Reuters transaction and the privatization of a Canadian industrial REIT, which we expect to close in the coming quarters.

Overall, we believe a more volatile world ultimately leads to deployment opportunities and the potential for excess value creation over the longer term.

Moving to fundraising, gross inflows were \$18 billion in the first quarter, reflecting an increasingly diverse number of initiatives across the firm. In terms of highlights, we had closes in the quarter for drawdown strategies in five different businesses: for the third flagship credit distressed fund, which recently hit its hard cap at \$7 billion; the second

Asia real estate fund, which we expect will shortly hit its hard cap at \$7 billion; our first Asia private equity fund, which is also nearing its revised hard cap of \$2.25 billion; our third tactical opportunities vintage; and our second real asset secondaries fund.

Our Core plus real estate platform has grown its AUM 87 percent year over year to nearly \$30 billion. BAAM is experiencing good momentum with its second quarter in a row of nearly \$4 billion in gross inflows and its best net inflow quarter since 2014, as Steve mentioned.

We continued with our buildout in the high growth retail insurance areas. Although still early stage, we added another \$1.5 billion in insurance, bringing our dedicated BIS platform to \$24 billion, and in retail, we raised \$3.4 billion, with most of this coming from our products that we have developed and customized with the channel, including our daily liquidity hedge fund in BAAM, our new credit interval fund in GSO, and BREIT, which has revitalized and arguably reinvented the non-traded REIT market.

For the prior 12 months, total gross inflows exceeded \$112 billion, a firm record for any 12 month period. Combined with \$32 billion of fund appreciation, total AUM rose 22 percent to \$450 billion, and fee earning AUM grew 23 percent to \$345 billion, both record levels. We are very optimistic about the fundraising outlook for the year.

I'll finish my remarks today with a comment on the launch of our new direct lending platform and on two capital actions we are announcing today. With respect to our direct lending efforts, we concluded our sub-advisor relationship with Franklin Square earlier this month. We're excited about the prospects for this business under the Blackstone GSO brand, with full ownership of the economics. We are in advanced fundraising discussions with anchor institutional investors, and plan to launch in the retail channel in the current quarter, sooner than originally expected. With the strength of GSO's investment platform and Blackstone's distribution capabilities in both the retail and institutional channels, we're quite confident in our ability to rebuild one of the leading direct lending businesses in the world.

The after tax consideration received in connection with the conclusion of the Franklin Square relationship will be used to support a special distribution to shareholders of \$0.30 per unit, or approximately \$360 million in total, to be paid alongside the second, third, and fourth quarter regular distributions, \$0.10 per unit in each quarter.

Fundamentally, we are always evaluating all aspects of our capital strategy to optimize value, seed new funds, support new businesses and strategic initiatives, and engage selectively in M&A. Our announcement today of a \$1 billion share repurchase program is reflective of the firm's considerable financial strength, which has continued to advance over the past several years. We've amassed a cash and treasury investment balance of \$4.5 billion, and at the same time, have put in place a conservative, low cost, long-dated liability profile, with a weighted average after tax cost of debt capital of just over 3 percent, and an average maturity of nearly 15 years today.

We have zero net debt, and remain A plus rated by both S&P and Fitch, among the highest ratings for any financial company. Our balance sheet and liquidity position afford us the flexibility and firepower to further expand our favorable distribution policy to include share repurchases. The catalyst to the program is the desire to offset dilution from issuance related to equity awards over the next several years. While we've carefully managed share creep over time and minimized dilution, we've decided to take this a step further with today's announcement. We believe this \$1 billion repurchase program, combined with the \$360 million special distribution, serve to further enhance an already highly attractive value proposition for shareholders. Most of all, these actions reflect our deeply held belief in the value of our firm and our stock, and our commitment to serving shareholder value over the long term.

With that, we thank you for joining the call, and I'd like to open it up now for questions.

**Operator:** And at this time, ladies and gentlemen, if you would like to put yourself in the question queue, 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 our first question will come from the line of Craig Siegenthaler, Credit Suisse.

**Craig Siegenthaler:** Thanks. Good morning, Steve. Good morning, Michael.

**Michael Chae:** Good morning, Craig.

**Craig Siegenthaler:** I just wanted to come back to the buyback authorization. So number one, does this signal that we could see an increase in stock-based comp above what we've been seeing the last few years? And really, question two is if the stock gets attractive in your view, if it gets cheaper, is there any potential to put a decline in the share count? Or is this really purely to offset dilution?

**Michael Chae:** Craig, to your first question, you should not expect that. These two are not related. You shouldn't expect that increase. And our decision to authorize this buyback and to deliver basically a zero organic dilution policy is really in the spirit of taking our historical discipline around managing dilution and being even more aggressive around it.

As for your second question, look, I'd say in general, we've outlined the parameters around how we approach this. We will be opportunistic, and we will be flexible in our approach on this. And so that's how we're going to think about this.

**Craig Siegenthaler:** Okay. Thank you.

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

**Alex Blostein:** Hey guys, good morning. I want to ask you about kind of the scale in the business that you are well on your way of increasing in a variety of different products. So I guess taking a step back, it just seems like you guys have more growth initiatives today



than you've had in a while. You're investing in a bunch of new businesses. And yet the FRE margins have actually been quite stable, it looks like 45-ish percent this quarter, so actually up a little bit year over year. I guess how should we think about the pace of investing, the trajectory for FRE margins from here, and once some of these additions get to fully scale, kind of what do you see a more reasonable run rate a couple of years from now?

**Michael Chae:** I think you've correctly noted, Alex, that our FRE margins have really enjoyed a great trajectory over time. I think we're up about 500 basis points over the last couple of years. And we think, over the long term, those margins, while we may not continue to increase at sort of that pace, will be stable to expanding over the medium to long run.

In the very short term, I should note, in the next couple of quarters, principally because of the Franklin Square exit, that will pose a bit of a headwind on FRE growth, and perhaps margin, but I don't want to make too much of that, but that's worth noting. I'd say at the margin, the current spending on initiatives is also a marginal drag, and so that's reflected in the current FRE, and will be reflected for – in the coming couple of quarters. But the overall message is one of medium to long term stability around margin to expansion around margin.

In terms of the kind of contribution of initiatives, it really varies. One that we've talked a lot about is the insurance area, and that's one where there are and there will be multiple different elements to that strategy and the type of insurance assets we'll manage under IMAs, a portion of which could be sub-advised, direct LP relationships with insurance companies. So there are all varieties of that.

I'd say overall, a significant portion of those assets over time, not only do we think they could scale, but the long run, and I underscore long run, marginal contribution characteristics of those dollars, are very attractive.

**Tony James:** Let me just jump in. Alex, we always invest in the future, so in our FRE for some period of time, there've been a lot of different investments in the future. I think this is one of the things that we're proud of, that we constantly do that. So there is investment in the future, but it's not different from the past in that way.

The other thing is our permanent capital vehicles, which will account for more and more of the business, and are accounting for more and more of the business, once they get to scale, very attractive SFRE margins. So as they scale, you'll see that having more and more impact on our margins.

**Alex Blostein:** Yep. That makes sense. Great. Thanks for taking the question.

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

**Bill Katz:** Okay. Thank you very much for taking the question this morning. Maybe for Jon since it's his first time in sort of this format, so thank you very much for joining the call. A two part question. So you've been with the firm for a long time, as Steve highlighted, and the firm itself has highlighted a fair amount of opportunity over the next several years. How should we think about, from your perspective, where else you might see some growth? And then a bit more tactically, I was wondering [*inaudible*] Blackstone's real estate book. Maybe sort of walk us through a little bit more how you think about the real estate platform against that kind of backdrop. Thank you.

**Jon Gray:** Thanks, Bill. I'd say a couple of things. Michael and Steve touched on it. Clearly, this retail and insurance push are in very early days. If you dimensionalize it, you'd say in our traditional institutional world, those are \$50 trillion pools of capital, where the pension funds and sovereign wealth funds allocate 25 percent plus to alternatives. In retail and insurance, those are \$50 trillion in the case of retail, \$30 trillion in the case of insurance, pools of capital that have low single digit allocations to alternatives. That creates a lot of white space.

Now the nature of the products, because of regulatory capital requirements, because of maybe yield requirements and liquidity requirements for retail investors, may have to be a little different, but the basic idea that people want high quality investment management at reasonable prices, we think that what's worked in the institutional world is going to work in these two other worlds, and we're seeing it in real time.

Michael mentioned BREIT. You know, the private REIT market did not necessarily attract the highest quality managers, and people were charged an awful lot. We've moved into that space with a really high quality product, and the market's responded.

And so we see this as areas of tremendous growth that are also synergistic to what we do across the firm, because we get more information, more deal flow. It's very beneficial. So those are big.

I would also say generally over time, a little more emphasis on growth, which can mean more exposure to Asia. You've seen we're just completing raising our second Asia fund in real estate. We're raising our first Asia fund in private equity. I think Asia, given its growth, significantly higher than Europe and the US, we'd like more exposure, and our investors would like more exposure there.

And then related to growth, of course, technology, life sciences. Those are areas where we're doing investing today in tactical opportunities and in private equity, but over time, there could be opportunities to raise dedicated funds there. So I think as a firm, we've done a fair amount, we've done well. I think we can raise more dedicated capital.

So there is no shortage of areas to grow. The key thing, of course, and it relates to Steve's comments, is the virtuous cycle requires that we deliver great returns. So whichever area we go into, we have to make sure that we have the right team, the right process, we feel like the market, it's the right time to enter that market, and we can deliver returns. And

then once we do, as you've seen, with us putting up very little capital, we can grow quite a bit.

And so I think there's a lot of room over time. I know there's always been a concern, Blackstone's so big, are you near some sort of ceiling? And people continually would be surprised. Steve pushes us, says Core plus can be \$100 billion. Some folks laugh, and Steve is going to, of course, be the last person laughing here, because he's seen the power of the franchise and what we can do as long as we deliver for investors. So that's one.

On rates, yes, rates rising can have an adverse impact on pretty much all assets, certainly fixed income, on real estate, on corporate. The question is, in that kind of environment, what do you want to own? Because not everything goes down in a rising rate environment. The things that do well, of course, floating rate assets on the fixed income side, which we've done a lot of in GSO and our real estate debt business, and on the corporate and real estate side, it's assets that grow faster.

And so to do that, you need to either buy assets where you're intervening in a big way, as we've been doing on the private equity side with some of these corporate carve-outs, or in sectors where we have real faith in the growth. And that has been global logistics for us, as an example, in real estate, where the push online has led to much faster growth.

And as Michael pointed out in his comments, the big holdings in real estate for us are definitely more growth oriented, Indian office buildings, life science buildings, single family housing in the US and in Spain. We've tried to prepare for what we think is coming, which is an environment of higher rates. You can't hide completely, obviously, but I think as a firm, we've oriented our portfolio that way. We talked about BREIT. That portfolio is almost 50 percent in logistics, versus 8 percent for the public REIT index. It's got almost no retail versus 20 percent for the public REIT index.

So as you think about investing, you don't just buy the market when you're us. You buy themes you truly believe in. You buy assets where you can intervene. And that's how you see the kind of outperformance we delivered in this quarter.

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

**Patrick Davitt:** Hey. Good morning. Could you flesh out the negative distressed market a little bit more? Any idiosyncratic marks there? Any real credit stress in the portfolio, or really just a reflection of the high yield index? And within that theme, are you seeing – in terms of deals being done away from you, are you seeing any kind of increase in risky lending occurring, in I guess what people broadly call the shadow lending sector?

**Michael Chae:** Hey, Patrick. It's Michael. I'll take the first, and maybe Jon will take the second. On the distressed, which I would call flat-ish to slightly down, which is probably actually better than the high yield index, really idiosyncratic, sort of a name-specific basis for the performance, which was generally pretty good. So no particular trend there. That

portfolio has a fair amount of energy in it, but the energy names basically weren't detractors or additive, they performed about the same.

**Jon Gray:** I would say on the leverage side, we haven't seen markets move to a place that make you really nervous. High yield spreads have been tightening. Leverage levels on private equity deals have been moving up. But overall, when you look at the banking system and the discipline out there, we're not seeing excesses. And so I think that's a healthy sign. If you wanted to say what could cause you to be nervous, when you start to see excesses in the banking system and financing, that's a sign of caution. We don't see that out there today, but we are seeing leverage slowly creep up, and we're watching that.

Tony makes a good point, which is the strength of the economy is helping to offset things. I mean, if you just look at the growth, we talked about it, but we had in our private equity portfolio probably our strongest quarter in the last three or four years in terms of EBITDA growth for our companies. And obviously, that's very helpful in the leverage context.

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

**Mike Cyprys:** Hi. Good morning. Thanks for taking the question. Just if you could talk a little bit about the insurance business initiative. You mentioned that insurance investors don't have much in the way of alternatives allocations today, but you also mentioned that there are some differences with this investor base in the way of regulatory and liquidity requirements. So could you talk about the types of solutions that you can offer, how you're tailoring these products for this insurance investor base, what you're doing [inaudible] space? And just lastly, if you could comment on the risk analytics offering for alternative credit products. It seems like a new direction for Blackstone in terms of offering technology solutions. Sorry for the long question.

**Jon Gray:** On the products, I think insurers, just as a backdrop, their challenges, traditionally, they've bought government bonds and corporate bonds, which delivered adequate return for them. And of course, in a very low interest rate environment, that doesn't work. Also, their liabilities have been going up because of longevity. So they're looking for higher returns.

What can they do? They can do more, even under their constrained regulatory capital requirements. They can do more of our traditional alternative products. So that's stop number one.

Number two are more structured products that may have the appropriate ratings, that meet their NAIC requirements, but generate higher returns, on average. And that can be in areas like CLOs. It can be in nonconforming mortgages on the resi side. It can be in commercial mortgage debt. There's a whole universe of things that we touch – if I just gave you a simple example, in the commercial real estate space, we often will make mortgages, sell of the A loan, hold onto a B piece. For the folks who own that A loan, that's a very attractive piece of paper, and gets good capital treatment.

So there's opportunity inside of our firm, given activities we're already conducting, to generate favorable risk-adjusted returns for them. But I do think, to this product, because there's so much demand from the underlying insurers, the key thing we'll be able to deliver to them, these things that work in a regulatory framework for them, I think that's really the key. And again, that's why I think Blackstone's so well-positioned, because of the breadth of our platform, because we're in credit and private equity and real estate and debt and equity, we're pretty uniquely set up. I think it's harder for other firms to deliver what we can.

**Mike Cyprys:** Okay, thanks, and thanks for taking my question this morning. I'm just curious. Obviously you have a lot of new business initiatives taking place, as you pointed out, for a while now. I'm just curious, given that it seems like there's so many opportunities ahead of you, I'm more curious about where you don't think - in the alternative space, where are places you're not that interested? I mean, obviously, things like investment grade credit or liquid – listed equities. Where in the alternatives space do you think, it's just not a market we're interested in? Would it be venture capital or something? Just trying to get a feel for where you think – and why you think that wouldn't be something you'd be interested in.

**Jon Gray:** I think for us it's really a scale question, we've looked at some emerging market areas where we just can't deploy capital and scale. That doesn't work. Some of the true VC stuff may be, again, harder for us. As part of larger platforms, there may be an opportunity.

In general, we look at most of the alternatives space as attractive to us, so we'll get to it over time. I think the question we often get is do we want to go into let's say long only listed equities, and the answer is generally no. Maybe there are some exceptions in very targeted areas. But we look at alternatives broadly, globally, still see a lot of runway. But the short answer to your question, really, where we can't get to scale is where we wouldn't go.

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

**Ken Worthington:** Hi. Good morning. Just following up on Franklin Square and your comments to replace the direct lending business, you mentioned both institutional and retail products here. Is the likely path likely to be more retail or institutionally focused? And on the retail side, does the SEC's fiduciary role outlined by the SEC sort of impact your ability to or maybe how you reach retail here? And then maybe lastly, based on your conversations with the various investors, how does the fundraising environment look for direct lending right now? Thanks.

**Joan Solotar:** Hey, Ken. It's Joan. So we will start institutionally and in retail initially with the big wirehouse platforms. This will ultimately be a much more retail-oriented product. I think that's where most of the eventual growth will come.

In terms of demand and DOL and all the other changes, I think similar to how we thought about constructing BREIT is how we're giving a lot of thought to our product. And I think we think about pricing, net returns to the investor, how we deliver it, service, all of that, will be delivered with the same excellence as we do everything else here.

So we are very optimistic that we're going to be able to replace that capital over the next few years.

**Ken Worthington:** Okay. Fair enough. And then just maybe to follow on Craig's question earlier, on your purchase authorization, you tripled it. You know, the \$1 billion, it's sort of a splashy number. But the message around it seems kind of watered down with the primary use to really just offset dilution, which seemed pretty limited, anyway. So just when was the last time you actually used the authorization? So you've got the authorization. When's the last time you actually used it to buy stock, and was it ever in the open market? And what ultimately is the message we should take away here? Again, it feels part splashy, part boring, but what really should we think here?

**Michael Chae:** Ken, I'll start. It's Michael. It's the first time we've been accused of splashiness. We'll take that. Look, first of all, \$1 billion, to your splashy number, that is about 5 percent of our free flow, public flow, which I think is in line with sort of median sizing for companies' programs. We think it's a sensible number. As I mentioned, we've always been fairly disciplined about managing organic dilution, and we want to be more aggressive here. Putting neutralizing organic dilution as a parameter around this program, we think it makes sense to put sort of scale and structure, and also allow us to execute with some consistency programmatically over time, and not just sort of fire and forget, as is sometimes the case.

You asked about history. We utilized about 20 percent or so of that original authorization, 25 percent, quite early on, and it was generally not open market purchases. So I would view this, while we inherit a legacy program, and it's really a de novo program with a distinctive kind of new approach. And we think it makes sense, and it's a step we want to take. And ultimately, we're thinking all the time about how to serve shareholder value. We're in a position now, with our balance sheet having grown steadily stronger, and giving us more and more flexibility, our free flow has steadily expanded to the point where we can do these things without impairing liquidity in the stock. So we're in a great position, and we're constantly thinking about how to do things to serve value over the long term.

**Jon Gray:** I just would add to Michael's comments, this group at this table in particular, but across the firm, is highly shareholder focused. The employees own 50 percent of the company. We do pay out 85 percent of our distributable earnings. This is going to be incremental to that. And we're constantly thinking about what's the way to maximize value for this company, and trying to get the market to recognize the quality of the business we operate.

**Ken Worthington:** Okay. Great. Thanks very much.

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

**Glenn Schorr:** Hi there. Just one quick follow-up. So you mentioned net accrued carry in three years – obviously, this quarter had a little volatility in it. I'm just curious. I'm not sure if anything got postponed or delayed in the volatility backdrop, but maybe thoughts on what the near term and more intermediate pipeline might look like for exits.

**Michael Chae:** Sure, Glenn. Look, you know, I think as we said at the beginning of the year, 2017 was always going to be a tough act to follow. It's also early in the year from a visibility standpoint, and as always, things are market dependent.

Having said that, the performance of receivable growth point is, as you know, an important one, and not only did it grow nine percent year over year, it grew eight percent just in the quarter. So as you know, that's the nature of our business model, that a quarter where you see less exiting is a quarter where you often also see even more growth in terms of value in the ground.

Another way of thinking about it is our unrealized fair market value of our investments, our drawdown investments, is actually up 16 percent in the last 12 months. So even during a time when we've sold a tremendous amount, our position has gotten meaningfully stronger, which is a great place to be. So we're obviously active in looking at exit opportunities in the real estate area. We have a number of things both in Europe and the US under contract. So it's our constant process of refilling the cupboard, and we feel really good about our position over the long term.

**Glenn Schorr:** Okay. Thanks. Appreciate it.

**Operator:** The next question will come from the line of Devin Ryan, JMP.

**Devin Ryan:** Great. Thanks. Good morning. In private wealth solutions, you touched on direct lending. Can you talk about any other kind of newer initiatives that could be coming? And then, obviously, the education process, if you're trying to think about that as you're rolling out newer products into what seems to be an increasingly kind of wide distribution network, and obviously, the industry is pretty fragmented as you get beyond kind of wirehouses, just trying to think about how you do that as you continue to grow and add new products as well.

**Joan Solotar:** Sure. So I think the best way to think about it is that the growth is going to come from further penetration of the channels that we're already in, and that's a huge opportunity. Second, that we're expanding into other channels, like independent broker-dealer and RIA. And then third, which is new product.

Now in each of those, there's a big pull, based on the comments that were made earlier, which is essentially \$0.97 out of every \$1.00 is still in daily liquidity product, at a time when you have longevity issues, need for yield and return, and you have a lot of advisors who historically just haven't been well-educated enough in the alternatives spectrum to

feel confident putting it in the portfolios, even though their firms are recommending that.

So we started with Blackstone Universities. We've had about 3,500 advisors go through that. But we're really doing a lot more in terms of pushing things out digitally. We're having regional road shows. We're really trying to address hundreds of thousands of advisors, rather than the small number.

So we have initiatives in all of those areas. I think you'll continue to see new products rolling out. We have one additional separate from the BDC, a credit product that's a floating rate. You know, really, what are we trying to address? We want uncorrelated returns. We want to be able to protect against rising interest rates and inflation. And we want to increase the overall returns of their portfolios.

And I think this last quarter, as was mentioned earlier, really highlighted that in a period of volatility, that is what we can provide, the value propositions there. And so there's a lot more pull. And we are the only firm really with excellence in returns across every alternative area. So it's not just individual product. We can weave together entire solutions.

**Glenn Schorr:** Thank you.

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

**Mike Carrier:** Thanks, everyone. Just a quick one. Jon, I think on the other call you mentioned whether it's strategic initiatives or growth outlook, and one was maximizing shareholder value. Given what you guys laid out, I think you got the growth outlook kind of nailed down, but when we think about either the growth in FRE, which recently has been very strong, but even the consistency of the distribution, or even expanding the ownership base, where, maybe incrementally, are you going to be more focused over the next few years, given what has already been kind of put in place?

**Jon Gray:** I think for us, the challenge with public markets is they tend to be pretty short term focused. And so one quarter, markets are off, and we may not sell as much, and our results are lumpier than other companies. But if you look at our company over a longer period of time, the earnings power of the company and the AUM growth are unmistakable.

And so for us, continuing to grow the business, which as we talked about in that virtuous cycle, do a great job for investors, they give you more capital, when that occurs, that should lead to this growing fee earning stream, and then performance fees, you should have a larger and larger base. I would say continuing to execute against that strategy and showing market participants the power of this model, the idea that we have 50 plus percent margins, we utilize very little to no capital, we're in a terrific space, that we're going to continue to execute that way.



Now around your question specifically, are there things we can do to maximize value this quarter, we've got a couple. We've got a special dividend. We announced a buyback related to keeping our share count constant. You know, we'll constantly be evaluating what's the right thing to do. We are a very shareholder-friendly company. We want to maximize value. But we have enormous confidence in the base business.

I don't know many businesses in the world that can grow the way we do with so little capital, and the prospects, the sector they're in, has such a favorable outlook. So I know that doesn't answer what is next quarter or the following quarter, but just like this company has over 30 years, the last 10 years, 5 years, I think the same story plays out, and I think market participants will begin to recognize this and appreciate it.

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

**Brian Bedell:** Great. Thanks for getting me in. If I could just move over to the infrastructure topic and the fundraising pace there, that's starting up a little more aggressively the second quarter, maybe, Jon, if you can talk about how you're viewing the pace of that fundraising over the next couple of years, whether you think you'll hit the internal \$20 billion target within the next three years, and then what kind of opportunities are you seeing in that? What areas are looking a little bit more challenging?

**Jon Gray:** So the \$20 billion, just to clarify, is a long term commitment from our lead investor, and that sort of sits on the shelf, and as we raise third party capital and deploy it, we can call it down. We don't have any internal target for when we'll raise the outside money or how we'll deploy it over time. Will we deploy it? If that's the question, yes. We're pretty confident that in the fullness of time, we're going to raise matching funds and build a very large business. But there's no set time limit.

And a lot of this is going to relate to the opportunity set and the deal flow. The good news out of the box is when you look across regular way infrastructure, when you look at midstream needs, utility needs, there's a lot of capital needed in these areas, and that gives us a lot of confidence about the scale this business can grow to. But we have not set a specific time limit or target.

The nature of this commitment is very helpful for us, because we're building, again, another long term permanent capital vehicle. Adding on to what Tony said, this is set up in a way where once the funds go in, we'll have them for the long term, which is the right way to own infrastructure assets. So this should grow to be very large. It should grow to be a permanent part of Blackstone. We're going to do it like everything we do, in the right way, and the market and the opportunity set will determine how fast it happens.

**Brian Bedell:** Right. So you'll be very disciplined in deployment?

**Jon Gray:** For sure, disciplined in deployment, what makes this fund I think particularly interesting is there's a shortage of large pools of capital that can do really big things at

reasonable return levels, and we think that's an interesting part of the market. So we're hopeful big opportunities will come along, but as you said, we'll be disciplined.

**Brian Bedell:** Great. And then just a follow-up, a C-corp question. Any updated thoughts on what you guys are thinking about that as KKR decides to move? I guess they would be the closest one to move in that direction, if they decide to do so. How would that impact your view to what extent you think in the shareholder-friendly types of actions that you might be able to take going forward, how are you viewing that as a potential arrow in the quiver, so to speak?

**Michael Chae:** Hey, Brian, it's Michael. What I'll just say is that I think our posture is consistent with what we talked about last quarter. We're monitoring carefully all aspects of the issue. We're not in a hurry. This is a race that does not necessarily go to the swift, and you have one shot at making a thoughtful decision. So what others of our peers do, if they do anything, we'll obviously observe and see what the learnings are and continue to look at this. And as we talked about, and as maybe we demonstrated this quarter, we're open minded about taking actions that we think are good over the long term for shareholders, but we want to be very careful about it.

**Brian Bedell:** That makes total sense. Thanks very much for taking my question.

**Operator:** And at this time, I'm showing no further questions in the queue. I would like to turn the conference back over to Mr. Weston Tucker for any closing remarks.

**Weston Tucker:** Great. Thanks, everyone, for joining us today, and please reach out to me if you have any questions.

**Operator:** Ladies and gentlemen, that concludes today's conference.

*[End of Audio]*