Weston Tucker: Good morning and welcome to Blackstone's fourth 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 our website. We expect to file our 10K report later 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 a discussion of some of the risks that could affect results, please see the risk factor section of our 10K. We'll also refer to non-GAAP measures, and you'll find reconciliations in the press release on the shareholders' page of our website. Also note that nothing on this call constitutes an offer to sell or a solicitation of an offer to purchase an interest in any Blackstone fund. This audiocast is copyrighted material of Blackstone, and may not be duplicated without consent.

A quick recap of our results. We reported a GAAP net loss of $79 million for the fourth quarter and net income of $3.3 billion for the full year. Distributable earnings were $722 million for the quarter, or $0.57 per common share, and $2.17 per share for the year. We declared a distribution of $0.58 to be paid to holders of record as of February 11th, and that includes a $0.10 special distribution announced previously, bringing the total distribution to $2.15 per common share with respect to 2018.

So with that, I'll now turn the call over to Steve.

Steve Schwarzman: Good morning and thank you for joining our call. As everybody knows, the fourth quarter was an extremely difficult period for markets, and for most participants in the financial community. Risk assets declined sharply across the board, including a 14 percent decline for the S&P, while volatility spiked. For the full year, for the first time in at least 15 years, every major traditional asset class had negative real returns after adjusting for inflation.

Against that background, Blackstone's funds preserved capital in the quarter. It's hard to believe. And for the full year, dramatically outperformed market indices in almost every area. For example, our corporate private equity and real estate funds delivered positive appreciation of 10 to 19 percent for the year, compared to equity indices, which declined anywhere from 4 to 17 percent. This 14 to 23 percent outperformance, or even more in some cases, in 2018, is remarkable compared to index funds or long only managers, as is the preservation of capital in the fourth quarter overall for the firm.
It highlights our ability to intervene in our investments and the enormous advantages of having long-term capital. We are never forced sellers, and have over $100 billion in dry powder capital to take advantage of dislocations whenever they appear.

Blackstone's highly differentiated investment performance is why our limited partners continue to entrust us with more and more of their capital to manage. In the midst of the financial hurricane that was the fourth quarter, our gross inflows reached $40 billion, our second best ever. This is a stark contrast to traditional money management, where most firms saw net outflows and declining AUM.

And these underlying trends are widely expected to continue. A recent survey of institutional investors found that nearly half are planning to further increase exposure to private market alternatives. Blackstone is today more than ever the reference institution in the alternative space, and we continue to build further on our leadership position, both in our existing businesses, and by successfully entering new areas.

A few weeks ago, we proudly announced the launch of our dedicated Growth Equity platform, which will provide capital to companies during the phase between venture funding and traditional buyouts. We identified a great leader in Jon Korngold, a renowned investor in this space. And like all new businesses of Blackstone, we expect this platform to make our other businesses even better.

In another of our new areas, Infrastructure, we're extremely pleased to report two major positive developments. First, our fund has reached approximately $7 billion in size, giving us significant fire power to pursue large, unique transactions. Second and most importantly, we signed the fund's first two deals this week, both involving very large equity checks. The first is a controlling interest in Tallgrass, the owner of an extensive and vital network of U.S. midstream assets. And the second is in the transportation sector, which we'll provide further details on when it closes in a few months. Together, these two investments should provide additional momentum for a business we believe will ultimately become one of the largest infrastructure platforms in the world.

In addition to Growth Equity and Infrastructure, we have many other exciting things going on across the firm, including in Insurance and Life Sciences, and we'll have more to share with you over coming quarters on these businesses.

The expanding reach of Blackstone's global platform provides more ways for us to find and create value for our LPs. It also provides us great insights from which to learn. Looking at the world today, we remain constructive on the U.S. economy, despite what will be slower growth in 2019 compared to 2018. Employment trends remain strong. The consumer is healthy. And there are no visible signs of a recession, which was the vogue to be talking about in the fourth quarter, which we believe is wrong.

Some regions of the world, like Europe and China, are facing headwinds, including from Brexit and trade issues. Policy makers in those regions are now dealing with the question of how to adjust monetary and fiscal policy to encourage growth.
With respect to China and trade, there are a number of complex issues that need to be addressed. This week, we'll learn more about the state of the negotiations which are finishing today. I continue to believe that both sides want to see and will work towards a resolution, although there can be no assurance we'll reach one, and it may well be achieved at the last minute.

With respect to Europe and Brexit, the outcome is very difficult to predict. Fortunately, the vast majority of people involved seem to have a genuine desire to avoid a hard Brexit, which is important to achieve a better outcome.

In closing, as I look out over the next several years, I envision excellent prospects for the firm and our investors. We have the confidence of our LPs and the flexibility to navigate any environment. As the firm continues to grow, we'll continue to operate as we always have, focused on generating exceptional long-term performance in every one of our funds. And with that, I'm happy to turn things over to Jon.

Jon Gray: Thank you, Steve, and good morning everyone. Despite a challenging quarter for markets, Blackstone advanced against all aspects of the roadmap we outlined at our Investor Day in September. Our message was about strong investment performance driving innovation and significant fundraising, leading to a powerful upswing in the growth and quality of our earnings. We've now launched the fundraising for four flagship strategies, with tremendous early success. Our confidence in hitting our targets for those strategies is even greater today than it was in September, despite the market volatility. Gross inflows reached $39 billion in the quarter, and were just over $100 billion for both 2017 and 2018, a pace we expect to exceed in 2019.

In Real Estate, as of today, we've closed on $17.3 billion for our new global opportunistic fund. This comprises the institutional fundraise for this oversubscribed vehicle, and we expect to hit the $20 billion cap with retail investor closings over the balance of the year.

In Corporate Private Equity, we expect our new fund to exceed $20 billion in size, with the vast majority raised in the first close in the next few months. Along with nearly $10 billion for each of our opportunistic European Real Estate and PE Secondaries funds, we expect to exceed $60 billion from these four flagship funds collectively, largely by the end of the year. This compares to $50 billion raised in the prior vintage, and demand in the market exceeds the capacity limitations we've placed on them.

In addition to drawdown funds, our perpetual capital continues to grow, with $73 billion of AUM across 13 funds. This is an important trend in our business, resulting in greater quality and predictability of earnings. Our Real Estate Core Plus platform, which is almost entirely perpetual capital, has grown to $35 billion in just five years, including another $2.5 billion of inflows in the fourth quarter.

Our non-traded REIT, BREIT, has been on average raising more than $250 million per month. Our ability to raise scale capital through turbulent markets speaks to the strength
of our LP relationships and the trust we've built with them over decades. The key is to deliver differentiated investment performance, which we did again in the fourth quarter and full year 2018.

The Corporate Private Equity funds had a standout year, appreciating 19 percent, notwithstanding some reversal in the fourth quarter due to the downdraft in public markets. Our Secondaries business was also up 19 percent for the full year, while Tac Opps was up 12 percent.

In Real Estate, our opportunistic funds appreciated 10 percent for the year, and about 1 percent in the fourth quarter, compared to a 7 percent decline for the public REIT index. Core Plus rose 11 percent for the year and 2 percent for the quarter.

Our portfolio companies are reporting steady growth, reflective of the healthy operating backdrop that Steve described. We also don't own the market, and benefit from not having many companies heavily dependent on global trade.

In Real Estate, we continue to see particular strength in tech-driven office, global logistics, U.S. rental housing, and in India.

In our Hedge Fund Solutions business, BAAM's PPS composite was up two percent gross for the full year, with the S&P total return index down 4 percent over the same period, the MSCI World index down nearly 10 percent, and high yield down 2 percent. BAAM's positive performance is why we continue to see net inflows.

And in GSO, our performing credit strategy finished the year up 9 percent gross, while distressed credit declined 3 percent, due primarily to unrealized marks in the quarter, on certain publics and upstream energy positions.

We continue to feel quite good about our portfolio overall. Despite investor concerns around the leveraged loan market in particular, we haven't seen a deterioration in the credit quality of our holdings, and our default rates remain close to zero.

Turning to investing, we deployed an active $16 billion in the quarter, and $45 billion for the year. We closed 3 large previously announced investments involving public companies in the quarter, including the former Thomson Reuters Refinitiv business, the Gramercy industrial REIT, and a Spanish multi-family REIT.

Scale continues to be our competitive advantage, and reduced valuations in the public markets could lead to more large privatizations. With pricing for risk assets down meaningfully over the past 6 months, it's a more interesting time to deploy capital globally.

Over the past year, we've been speaking regularly about increasing the growth orientation of the firm, including doing more in Asia and adding to our capabilities in areas like life sciences and technology. We stress the importance of these capabilities, given the rapid
pace of technological disruption across the global economy, and we're quite pleased with the progress we've made towards this objective.

First, with respect to Asia, we now have three dedicated funds in the region, including nearly $10 billion of opportunistic capital in BREP and BCP, plus our new open-ended Real Estate Core Plus vehicle in Asia. Even with slower growth in China, Asia represents two-thirds of global growth, and we expect the region will comprise a greater percentage of our deal flow over time.

Second, in Life Sciences, we completed the acquisition of Clarus in the quarter and are now expanding the team, with a plan to launch the first dedicated Blackstone Life Sciences vehicle later this year.

And third, as Steve mentioned, we've launched a new Growth Equity platform, and we're very excited about the prospects for this business. Innovation and growth continue to be hallmarks of our firm.

In closing, the firm is in terrific shape by any measure. We continue to deliver for our LPs across all of our businesses, and successfully expand into new ones. Investor confidence in Blackstone has never been higher. At the firm level, this translates into strong growth, more stable fee streams, and solid distribution for our shareholders. With that, I'll turn it over to Michael.

Michael Chae: Thanks, Jon. I'll focus my remarks this morning on the key operating and financial highlights from the year, as well as the outlook. Total AUM increased 9 percent year over year to new record levels, through the combination of $101 billion of gross inflows during the year and $14 billion of market appreciation, despite $34 billion of realizations. Inflows were broad-based across the firm, $31 billion in Real Estate, $30 billion in Credit, $27 billion in Private Equity, and $13 billion in BAAM. These totals were records for Real Estate as well as BAAM. And as you've heard so far this morning, our extraordinary fundraising momentum continues unabated in 2019.

Excluding the effect of the monetization of our prior direct lending business in the second quarter, total AUM was up 14 percent year over year. Management fee revenue rose 10 percent to $3 billion for the year, another firm record, with positive growth in every segment. Fee related earnings increased 9 percent to $1.5 billion, or $1.21 per share. For the full year, FRE margin expanded nearly 100 basis points to 46.1 percent, the highest full year level ever, and is up more than 400 basis points over the past 3 years.

For the fourth quarter, FRE increased 23 percent to $433 million. On last quarter's call, I discussed some of the variables that can affect quarter over quarter comparisons, including the timing of intra-year compensation accruals. As such, it's more meaningful to look at full year trends versus any given quarter. Overall, 2018 represented the firm's most profitable year to date on a fee basis, notwithstanding the direct lending sale, and our trajectory is strong. I'll discuss the outlook more specifically in a moment.
Distributable earnings were $722 million for the fourth quarter, or $0.57 per share, and $2.7 billion for the full year. Although the year over year DE comparisons are skewed by the sale of our European logistics platform at a significant gain in last year's fourth quarter, these are strong results, underpinned by record FRE and continued healthy realization activity. And indeed, notwithstanding the external market turbulence in the fourth quarter, it was our third straight quarter of total DE in the $700 million plus area.

In Corporate Private Equity and Real Estate, realizations were completed at an aggregate multiple of invested capital of over two times, in line with the consistent historical performance of those platforms over the past 30 plus years. Net of the hold back and including the final installment of our previously announced special distribution, the total distribution to common shareholders was $0.58 per share for the fourth quarter and $2.15 for 2018. At our current share price, this implies a 6.5 percent annual yield, continuing to make us one of the two highest yielding stocks of the 150 larger U.S. public companies.

As announced last week, we've simplified the presentation of our results by highlighting distributable earnings as our primary non-GAAP earnings metric. DE fundamentally and simply reflects fee related earnings plus net realizations, and focusing on these metrics better aligns the presentation of our financials with how we manage the business. The change is consistent with similar actions taken by our peers, and so far, we've received uniformly positive feedback from both investors and analysts.

We will continue to convey unrealized earnings accruals through our balance sheet net performance revenue receivable. We ended the year with a receivable of $3.5 billion, up 5 percent year over year, with positive performance revenues throughout the year, more than offsetting the $1.3 billion that was distributed to shareholders. In other words, the value we created during a highly volatile and negative year for markets more than replenished the firm's store of value, while simultaneously delivering another year of strong dividends for shareholders. The receivable declined modestly quarter over quarter from a reduction of $200 million related to unrealized marks, plus $300 million of net realized distributions.

Overall, our active deployment pace and appreciation have driven invested performance revenue eligible AUM to a record $210 billion, up 20 percent over the past two years. At the same time, our dry powder balance has grown to a record $113 billion, and will likely expand even further. Taken together, we are extraordinarily well-positioned to build long-term value for the firm.

Moving to the FRE outlook, as Jon referenced, in 2019, we are putting in place from a fundraising and fund launch standpoint the platform for the significant step up in FRE in 2020 that we highlighted at Investor Day. Three of the four flagship funds, Corporate Private Equity, Global Real Estate, and European Real Estate, are expected to launch investment periods throughout the course of 2019 and early 2020, the exact timing of which depends on the deployment pace of the predecessor funds, and each are then subject to four month fee holidays for first closers.
Therefore, the bulk of the positive FRE impact from these funds should materialize in 2020. Our new PE Secondaries fund, however, is expected to launch sooner, likely in the next few months, and does not have a fee holiday.

As for the shape of 2019, the first quarter will be the final quarter of lapping our previous direct lending business. After this, we expect FRE growth more in line with our historical double digit rate for the balance of the year. So overall, in summary, we continue to see a clear path to achieve our targets from Investor Day.

Finally, with respect to returning capital to our shareholders, during the quarter, we accelerated our pace of share repurchases, buying an additional 8 million shares in the open market. This brings us to 16 million shares repurchased in 2018, and a flat share count over this period, zero dilution to shareholders, even while the firm continues to aggressively expand into new areas and sustains a double digit underlying rate of AUM growth. Combined with our regular and special cash distributions, we returned $1 billion to shareholders with respect to the fourth quarter alone, for the second consecutive quarter, and $3.3 billion for the year.

In closing, as Steve and Jon conveyed, we enter 2019 with significant momentum, and have great optimism for what the firm will achieve in the years ahead. We are exceptionally well-positioned to continue delivering for our LPs and shareholders alike. With that, we thank you for joining the call, and we'd like to open it up now for your questions.

**Weston Tucker:** If we could ask all the analysts to please limit their first question just to one question, and if you have additional questions, to get back in the queue. We just have a long queue here. Thank you.

**Moderator:** Everyone, if you wish to ask a question, please key star then one on your telephone. If you then decide to withdraw your question, simply key star two. Your first question comes from Alex Blostein from Goldman Sachs. Please go ahead. You're live on the call, Alex.

**Alex Blostein:** Great. Thank you. Good morning, everybody. First question, just around the marks in the first quarter, I was hoping you could unpack a little bit of what we saw. Obviously, a challenging quarter, but I'm really trying to get a sense of what the public marks were versus the private marks by segment, whether or not you've made any modeling adjustments, or any of that kind of growth or discount rates on the private side of things. And obviously, given the fact that we've recouped a lot of the lost ground here in the first quarter, I was wondering if you could provide any sort of early read on Q1 marks, at least on the public side.

**Michael Chae:** Sure, Alex. This is Michael. I'll take those very good questions maybe in reverse order.

First of all, on sort of the January rebound from the fourth quarter markets, we have
experienced that in our portfolio as well, and if you think about the declines in the market values of our public holdings across Private Equity and Real Estate in the fourth quarter, we've retraced in aggregate about half, a little over half of that, just in the first few weeks of January. And obviously, for individual names it varies, and for some, including one or two of our biggest positions, we've more than retraced. So you're seeing that overall, and you're seeing that with us.

In think in terms of the sort of approach to valuations, obviously, our methodology and rigorous approach remains very consistent. We have a comprehensive, rigorous process, multiple stages of review internally, multiple outside firms to provide vetting and assurance and so forth. Our private investments are value based on long-term discounted cash flows. The projection of those cash flows we obviously update every quarter with our management teams, based on the best information. We're grounded in reality. And they also reflect the detailed operating plans that we as control investors are executing for the business or the asset. So as a result of this careful approach, and it's been over many years, you really see two things. First, in the short term, our valuations don't tend to overshoot on the upside, and the downside, don't whip around with the stock market. And second, the proof is in the pudding. The average, as we've talked about periodically, the average historical uplift to our prior mark when we've sold a private asset in Private Equity and Real Estate, historically has been in the 20 to 30 percent plus range.

So it's not necessarily the intent, but the result of this approach I just described over the long term has been on its face conservatism. And in terms of just disaggregating, as you know, we don't precisely disaggregate externally the publics versus privates, Jon mentioned this, for our Private Equity business, for GSO's distressed cluster, which are probably what you're focused on, for sure, our public portfolio, and also, as Jon said, to some degree our upstream energy portfolio, we're definitely the biggest headwinds for those portfolios in the fourth quarter, but we feel – I just talked about the retracing on the public side overall – and we feel good about our energy portfolio as well in both businesses, and that's evidenced by the long-term track record in both businesses and energy, and it's evidenced by the success we're having in fundraising in both areas currently.

Tony James: I might also mention that the EBITDA of our companies continues to grow in the high single digits. So we are accruing value and paying off debt and building long-term value for our shareholders.

Alex Blostein: Great. Thanks for taking the question.

Moderator: Thank you. And your next question comes from the line of Bob Lee, KBW. Please go ahead, Bob.

Bob Lee: Great. Thank you. I guess my question would be on the Life Sciences and Growth Equity platforms, understanding you closed the acquisition and hired a leader for
Growth Equity. But can you give a sense on how you're thinking – usually, in the past, you kind of ramp up new businesses reasonably quickly. So how should we think about your current plans for when you think you literally will be out fundraising first strategies in these newer platforms?

**Jon Gray:** Sure. This is Jon. I would say on Life Sciences, we've got an existing business in Clarus that's already managing funds today. The fundraising there is really a function of how quickly they deploy their capital, and they've had great success. And frankly, since the announcement of affiliating with Blackstone, the deal flow they're seeing has gone up significantly.

And so I think it's reaffirming our instinct, which is this is a large scale market. Traditionally, there hasn't been a lot of private capital for things like phase III trials. So our, I'd say, optimism about that business and the prospects for it keeps going up.

I said in my remarks we expect to raise money this year. It's hard to put it in an exact timeframe, because it's a function of how quickly they deploy capital. But we think there we have an existing team and organization, we're adding to it, we expect to be in the market this year. Too soon to say size and so forth.

On Growth Equity, Steve talked about Jon Korngold, who we're very excited about joining us. He hasn't yet come here. It's hard to start the business just yet. So give us a little bit of time on that one. But again, the investor response to Blackstone moving into both of these spaces has been extraordinarily positive.

What they're hoping to see, and I think expect to see, is the kind of disciplined investing we bring, downside orientation, even in these higher growth areas, and so putting together great teams, merging them with Blackstone people, our process, raising scale capital, I think this resonates quite well with our investors, and we have a lot of confidence in both areas.

**Bob Lee:** Thank you.

**Sarah:** Thank you. And your next question comes from the line of Michael Cyprys, Morgan Stanley. Please go ahead, Michael.

**Michael Cyprys:** Hey. Good morning. Thanks for taking the question. I just wanted to come back on Asia. You guys mentioned that you want to do more there. I'm just hoping you could talk about that a bit more in terms of your goals and aspirations for your business in Asia, how you see that business expanding, how big a part of the franchise could this look in five years, what that might look like, and then also maybe touch upon some of the challenges that you face with building out Asia.

**Jon Gray:** Well, look, if you just consider the size of Asia – today, I think it's a third of the global economy, and as I mentioned, two-thirds of global growth – and for most investors, particularly in the alternative space, it represents a very small percentage. We
think that will grow as those economies grow and they mature. And so, you know, raising our second real estate private equity fund in the region was very good news. Raising dedicated capital in private equity itself for the first time in 2018, big. An open-ended core fund, also significant.

We hired a senior partner in Japan for us in private equity. I was in Asia two weeks ago, and I would tell you Japan is a market that I think will continue to open up and be more receptive to foreign capital. China, obviously, a lot of discussion around the slowdown, but it is still a very large economy, growing at call it six plus percent. And we think the investment opportunities in that market will grow.

And we've probably been most active as a firm in India, where we've seen really strong demand for office buildings and companies in the tech space – in the BPO area as well. We're seeing tremendous demand there and we've had great returns in India, and that's a market starting off at a very low base that now has a much more pro growth-oriented government.

So you just look at the aggregate size of people, the economic activity in the region, and the limited footprint of alternatives, and all of that points to opportunity. And we have – I did a town hall with everybody a couple of weeks ago when I was there – we now have 300 people on the ground across six different offices. And so for most firms, it's very expensive to set up a business. We've been operating there for some time. We've got a lot of great people. It's hard to put exact numbers and percentages, but I just think we'll raise more capital in the region, we'll expand our footprint. When you talk about something like growth equity, China is a leader in a lot of that as well. I would expect we'll have some exposure there over time.

I just think in all of our businesses, we'll do more in Asia. It will take time. We'll be disciplined. Obviously, there are challenges in some cases around currency. Some emerging markets, rule of law, liquidity. But overall, I think as global investors, you want to have a bigger footprint, and it makes you a better firm, so we're focused there.

**Michael Cyprys**: Great. Thank you.

**Sarah**: And your next question comes from the line of Bill Katz from Citigroup. Please go ahead, Bill.

**Bill Katz**: Okay. Thank you very much for taking the question this morning. So a two-part question, if I can sneak it in. Michael, just in terms of the way you see tempo for FRE in 2019 to 2020, I wonder if you could overlay the margin outlook up against that, given what looks to be a particularly strong fourth quarter. And then unrelatedly, one of the biggest questions we get is just sort of the outlook within private credit. What are you hearing from LPs, just given the fourth quarter volatility, around appetite for that segment? Thank you.
Michael Chae: Sure, Bill. I'll take the first one. On the outlook on margin, I think I mentioned at Investor Day, and we've talked about it before, that if you look over the last kind of decade – almost, nearly decade – on average, we've expanded margins about 100 basis points a year. But it doesn't happen every year, and it happens in different quantums.

So I think the level we produced for 2018, I think you can consider that basically a good baseline for at least the next 12 months. And obviously, there might be variations along the way, but I think from your perspective, that's a good way to think about it.

And I think obviously, the margin experience that you saw this year, and then over time, it reflects the very good topline growth of our business, and I think a good, disciplined approach to cost management in a growing business, and that results in the operating leverage that we've exhibited.

Jon Gray: So on private credit, I would say we continue to see favorable reaction from our investors. You can see it in the inflow numbers. I think investors obviously looked at what happened in the fourth quarter, but the underlying credit factors still look pretty good, particularly here in the US.

There's been a lot of focus in the media around the leveraged loan market in particular, and yet when you look at that market, defaults are less than half of historic levels, and interest coverage is the highest it's been since the crisis. And that's even with obviously LIBOR moving up, which reflects the strength, the revenue and EBITDA growth of companies in the leveraged loan market who are borrowers.

And so to us, and to our investors, we tend to look at those underlying factors, as opposed to the short-term volatility and technical flows in markets. And the other thing I would point to is if you think the US economy is not heading into a recession, these businesses will continue to grow their cash flow. So we have a more positive stance on credit in the US, and particularly in private markets, where you get a very healthy premium. And that's true really in the US and Europe. And our investors are responding to that.

So I know it's a big headline, but again, the facts are still very good on credit.

Tony James: Yeah, it's Tony again. I might mention, too, that we've got a new line of business which is private investment grade credit, and we started that up in the last 15 months, and we've sourced a lot of proprietary merchandise, and we have immense demand for that.

Bill Katz: Thank you.

Sarah: Thank you. And your next question comes from the line of Craig Siegenthaler, Credit Suisse. Please go ahead.
Craig Siegenthaler: Thanks. Good morning. Just given that we have not had an announcement on the C-corp conversation yet, I'm just wondering if you guys are leaning more towards not converting at this point. And also, just given that we had high volatility in 4Q, I'm wondering if that had any impact on the potential decision, because it may have overshadowed or even muted the announcement.

Michael Chae: Hey, Craig. It's Michael. So we would not have you or anyone else read into it one way or the other. Our perspective and our message remains consistent. We continue to consider it actively. As we’ve said before, we're not in a rush. It's a decision you make once. We've not publicly or internally put a timetable on ourselves, a strict timetable.

And to your last comment, it's also fair to say that the extreme volatility in the public markets in the fourth quarter didn't lend itself to discerning high quality signals as well. I think that's fair to say. But that maybe goes back to why not having put a strict timetable on ourselves made sense.

Craig Siegenthaler: Thank you, Michael.

Michael Chae: Thanks, Craig.

Sarah: Thank you. And your next question comes from the line of Glenn Schorr from Evercore ISI. Please go ahead, Glenn.

Glenn Schorr: Hi. Thanks very much. A follow-up on the credit discussion. We all saw how brutal the markets were, but I wonder if you could help put the distressed performance in the right context – what's the right benchmark we should be thinking about, what's realized versus just wider spreads in the quarter, and particularly I heard your overall comments on no deterioration, holding default rates close to zero. So how much did January improve, and what we should look for in terms of capital raising in 2019 in credit.

Jon Gray: So in distressed particularly – there, we have some public equity exposure, and as we referenced, a bit of upstream exposure, and obviously, there was more volatility in those areas. We still feel good about our distressed portfolio, and we'd be hopeful that as markets calm here a bit, you'll see better performance, we'd expect, out of our distressed portfolio.

Overall, credit, I don't know if we put a number against it. What I will say, you know, in the direct lending area where we had exited our venture with Franklin Square and achieved a large payment, we're now rebuilding that business, and have pretty good momentum around that. And Michael may be able to put some numbers on that, but I would just say we have very positive momentum in credit. We expect to see nice inflows in 2019.
Michael Chae: And to that point, just to add on to what Jon said, great progress on direct lending, and we're kind of midstream in – we ended the year with about $4.4 billion of firepower in that area from our fundraising efforts, both institutional and retail, and we are continuing those into 2019, and would hope to, in two or three quarters' time, even approach something like $10 billion of available capital to invest in that area.

And we have gone to work on investing in 2018 in the last couple of quarters. We invested or committed just under $2 billion of capital in that strategy – 17 different deals. So we have great momentum there.

And then elsewhere in credit, in terms of the fundraising outlook, we're firing on a lot of cylinders. So in addition to direct lending, we continue to fundraise, as I briefly alluded to, in our energy fund, with very good momentum. Our European direct lending fund we're focused on as well. In our long only area, the CLO market is open again for issuance. I'm not sure it ever really closed.

So across the board, I think we feel very good about the inflow prospects for the GSO and credit area.

Glenn Schorr: All right. Excellent. Thank you.

Sarah: Thank you. And your next question comes from the line of Devin Ryan from JMP Securities. Please go ahead, Devin.

Devin Ryan: Great. Good morning. Question on infrastructure. Great to see some capital starting to be deployed there, and so wanted to just get an update on the characteristics of the types of investments you're looking at now – what subsectors, what does the size of the pipeline look like? And now that you're starting to put some money to work, how should we think about the pace of fundraising? And should we think that it will accelerate from where it's been?

Jon Gray: Well, we were obviously very pleased to make the announcement – Steve did on the call – which is that we've grown the size of the fund now to approximately $7 billion, and have signed up two very large transactions. And, you know, we've been busily working on this business, bringing together an outstanding team under the leadership of Sean Klimczak. We've hired a bunch of great people, moved other talented people from across the firm. We have, I would say, a very active pipeline of deals. These deals are larger and take some longer time to gestate than typical real estate or private equity deals, and we're having, I think, a very positive response from investors. Particularly, I think we will now, as we start to deploy capital – investors see what we're doing.

In terms of the types of things we'll be doing, in terms of areas, I would say you saw a midstream deal, Steve mentioned something in the transportation space, telecom infrastructure, renewables, all the typical things you associate with infrastructure, we're going to be looking at, have been looking at.
The other thing that I think will be the calling card of the business will be its scale. And today's example, the announcement on Tallgrass, is an example of that. That we think our competitive advantage is being able to do very large transactions in this long duration, open-ended vehicle, which allows us to hold these assets for a long period of time, manage them, invest in them, make them very steady both capital appreciation and income producing assets.

And so being a real scale player is something you're going to continue to see from us in infrastructure. And as a result – I don't want to talk about timing, but we've said it consistently here – this will grow to be a very large business at Blackstone, and the investment discipline and process around this has been excellent. The team's excellent. And it's a very large investable segment, particularly in the US, just given the need for capital and infrastructure.

So we're feeling quite good about this business, and today was a very big day for our infrastructure business.

Devin Ryan: Absolutely. Appreciate the update.

Sarah: Thank you. And your next question comes from the line of Patrick Davitt from Autonomous. Please go ahead, Patrick.

Patrick Davitt: Good morning. Thank you. I think this is the first time you've so specifically called out hitting an institutional cap and then filling the rest of a fund with retail. Could you kind of update us on that tension? I'm in particular wondering how you manage the potential disappointment of those institutional clients that might be left out or get a lower allocation so you can accommodate retail.

Jon Gray: Yeah. Well, it's a great question. It's obviously something we spend a lot of time on. Our client relations are critical to the success of our business. It's why we focus on returns. But you're right. When you have funds that are highly sought after, and you have caps, you try to manage that as effectively as possible, as early as possible in the process. And that of course has encourages investors to move more quickly. I think one of the reasons you see these big closes early in Blackstone funds is investors recognize at times the scarcity issue. We obviously give a preference to existing investors in our funds who are doing re-ups, but we also have retail investors who have been consistently investing, and are doing so more and more over time.

And so yes, in virtually all of our funds, what we do – and this has been a historic practice – is really focus on an institutional fund raise, and then allocate a portion of capital to retail.

Joan Solotar: Yeah, and I would just add, our promise to our distribution partners is that they are in fact partners, and we're not giving them any kind of adverse selection, meaning that, ‘oh, we'll only distribute what doesn't sell.’ That would be a bad outcome.
Sarah: Okay. Our next question comes from the line of Michael Carrier from Bank of America. Please go ahead, Michael.

Michael Carrier: All right. Thanks. Good morning. Michael, given the shift from ENI to DE – the FRE outlook you provided was helpful – but in terms of realizations, can you provide some context, if there's anything notable in the near term. And then more importantly, just over the longer term, how should we think about it maybe vs the past based on the level of the net accrued receivable, portfolio age, and then driving longer dated projects that have more recurring carry at this point?

Michael Chae: Sure, Mike. I think in terms of the near term outlook, as we usually do, we entered the quarter with certain private sales under contract, and so that's the case here. In terms of the realization dynamics, when you step back and you look at our net accrued carryreceivable, basically, over time – and it's obviously lumpy – but on average, in the past kind of four or five years, that amount, obviously not necessarily the specific deals, but that amount has generally been realized over about a two year time period, plus or minus.

So that, again, could ebb and flow, but that's been actually pretty consistent over time, plus or minus, sort of, a half year. The age of it right now is not dissimilar from historical – maybe a little bit younger than four or five years ago. And in terms of the long dated capital, there's definitely – in terms of our fair market value overall – some shift structurally from opportunistic to the longer dated core oriented strategies, although I'd say in terms of the receivable itself, which obviously reflects sort of the carry value, not the gross fair market value, you have the data, and it continues to be the very chunkiest part is from those opportunistic funds.

Michael Carrier: All right. Thanks a lot.

Sarah: Thank you. And your next question comes from the line of Gerry O'Hara from Jefferies. Please go ahead, Gerry.

Gerry O'Hara: Great. Thanks. Maybe a different angle on capacity. Obviously, some pretty material funds coming through the pipeline, so perhaps you could discuss a little of the framework for how you size these strategies, any limitations you might sort of put on it to kind of derive the caps, and I suppose obviously a little bit of the confidence that you have in the deployment outlook. And I'm kind of looking at the flagship funds at this point. We get a lot of commentary, as you might imagine, about just somewhat larger, X percent larger than the predecessor fund, but perhaps something a little bit more granular would be helpful for us. Thank you.

Jon Gray: Well, I'd start by saying in private markets, which is very different than public markets, scale is an advantage. So when GE sold its $20 billion real estate portfolio, our ability to write a single check, very helpful. When Thomson Reuters wants to do a $20 billion transaction around their data business, our ability to write a single check, and
having size, matters. And that's been the story of this firm for a long time, and it continues to be the case today.

That being said, if you look at our funds typically, their size is growing. We said, the $50 billion is going to be at least $60 billion, something like that. So call it 20 percent on funds that are four or five years old. You know, you're growing three, four percent a year, size. Markets have actually grown much more than that.

So we're very disciplined, because for us, the most important thing is the track record. If we disappoint the investors who give us capital, they're much less likely to give us money going forward. And so we think size is an advantage. On the other hand, we don't want to raise too much capital which we can't deploy prudently.

Our history has been over 30 years that we've made that call in the right way. And we get this question I would say in almost every fund we raise, and we've been pretty disciplined. And the growth in AUM in the firm, yes, it's been partially because the traditional funds have grown, but it's been more in the way the business has grown – the movement into core private equity or opportunistic real estate Europe or some of the different products in GSO and BAAM and so forth. The movement into Tac Opps and Secondaries. And we see a bunch of different areas where we can continue to expand.

Now we obviously also have these more perpetual capital vehicles. So we have infrastructure, we have the direct lending business, and we have this very large and rapidly growing core plus real estate business. Those raise money on a regular quarterly basis, and do not have caps. But of course, return targets are lower, and they have a different liquidity profile.

But for our main line businesses, I'd say a lot of discipline around the size we raise, but also recognizing scale is an advantage.

Gerry O'Hara: Thank you.

Sarah: Okay. Thank you. And your final question comes from the line of Chris Shutler from William Blair. Please go ahead, Chris.

Chris Shutler: Hey. Good morning. In the hedge fund business, the performance was down on the quarter, not surprising, but I think about 300 basis points above some of the broad hedge fund indices. I know risk control has always been a hallmark of that business, but can you provide a little more detail around the key reasons for the outperformance in that area? Not just in the quarter, but more broadly in the long term. You know, how much is exposures, how much of it is how you structure the relationships, etc.?

Jon Gray: Yes. I think that the BAAM team has done an outstanding job preserving capital and investing in an uncorrelated way. They recognize their investors are giving us capital there to protect it, but also have it in a liquid format, and their movement away
from just traditional long/short equities or event and some of the activist strategies, and a little bit more towards I'll call it some of the more quantitative strategies, and then quite a bit in more structured credit, has been a very smart pivot. And they've done that now for a number of years, I would say sort of behind the curtain. And the benefit shows up when the tide goes out. And that's clearly the case for BAAM.

And on top of that, of course, they've started to move into these other strategies like the stakes business, which gives them, I think, some additional avenues of growth. So for investors around the world today who are saying, ‘I'm very nervous, I want to be protected, but I need some of my portfolio in a liquid area,’ BAAM has proven to be an excellent solution.

Michael Chae: And I'd just add to that, in December, for example, we were down in our fund to funds about one percent at a time when the markets overall, the stock market, was down nine percent. So that is a commercial for what we do in terms of protecting capital.

And I'd just add to what Jon said, and it picks up on his earlier point about scale. In BAAM as well, scale is a huge advantage. It gives us two things, I think. One, the best information into what strategies are working, what managers are working. And second, access to the best managers, for whom we can design, obviously make scale allocations which matter to them, and often, for our clients, we can design actually bespoke customized strategies not available widely to investors in those hedge funds, though. I would just add those factors to the explanation of our outperformance.

Tony James: And the most advantageous fee structures also comes with scale.

Chris Shutler: Thank you.

Sarah: Thank you. I'd now like to hand the call back to Weston Tucker for closing comments.

Weston Tucker: Great. Thanks, everyone, for joining us today, and please reach out after the call with any questions.

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