BLACKSTONE Second Quarter 2019 Earnings Investor Call
July 18, 2019 at 9:00 a.m. ET

Weston Tucker: Thanks Mark and good morning and welcome to Blackstone's second 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. Earlier this morning we issued a press release and slide presentation which are available on our website. We expect to file our 10Q report 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'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 audio cast is copyrighted material of Blackstone and may not be duplicated without consent.

So a quick recap of our results: we reported gap net income of $647million for the quarter. Distributable earnings were $709 million or 57 cents per common share and we declared a dividend of 48 cents to be paid to holders of record as of July 29th. With that, I'll turn the call over to Steve.

Stephen Schwarzman: Good morning and thank you for joining our call. The past few months have been a remarkable period for Blackstone, characterized by transformation and continued momentum. First, from a business perspective: we continue to extend our leading investment platforms into new areas, allowing us to offer our limited partners a broader array of products and solve more of their issues. And second, in terms of transformation of our company, which became a corporation on July 1, this marked one of the most significant decisions in Blackstone's 34 year history and a key milestone in the evolution and institutionalization of the firm.

As the largest firm and the only one with a leading business across the full alternative spectrum, we've established a truly unique position in our sector, which is in fact the best part of the massive $150 trillion plus global money management industry. Alternatives have historically generated better returns than traditional investments. [*Inaudible*]fees combined with high safety of principal. This is a powerful value proposition and is why our segment of the market continues to experience rapid secular growth and increasing allocations to the top managers, along with the more attractive economics, than any other part of the industry.

Blackstone's ongoing transformation and the extension of our capabilities perfectly position us to benefit from these trends. When we started the firm in 1985 and in the early years we offered only opportunistic private equity and real estate. Over time we've expanded into complementary new areas, in many cases moving down the risk return spectrum and opening up a broader addressable market in terms of capital raising and investment opportunities. Today we offer our LPs over 50 distinct strategies and the entrepreneurial drive of our people means we're constantly developing more.

Our global franchise has never been stronger and we have the confidence of both institutional and retail investors around the world. Our LPs entrusted us with $45 billion of inflows in the quarter and an extraordinary $151 billion dollars over the past 12 months, an unprecedented amount for our sector, driving the firm's AUM up 24 percent year-over-year to $545 billion dollars.

Every one of our businesses is growing and we continue to successfully launch and scale new ones which quickly become global leaders in their own right. Our infrastructure fund has grown to $14 billion dollars only a year and a half after we began fundraising, making it one of the three biggest infrastructure funds in the world. This is a remarkable achievement and speaks to the trust that global investors have in our firm.

In addition to our ongoing business evolution, we've completed our corporate conversion and the market response has been quite positive, which Michael will discuss further. As I stated last quarter, if we continue to grow as the reference institution in our industry and meaningfully expand our potential investor base through conversion, it's reasonable to assume we should close the valuation gap between our firm and other top companies.

While success will be measured over the long term, it appears we are in the early stages of that re-rating process. We are gratified that more public investors are viewing Blackstone as the enduring institution that we are, something that our LPs have recognized for decades. One of the additional benefits of the conversion is that we're now eligible for several of the market indices to which we expect to be added over the coming months. We think it makes sense for Blackstone to be widely owned by all active and index managers. With a market cap of $55 billion dollars, we are one of the 120 largest public companies in the United States. Our firm ranks in the top quartile in all key categories including long term revenue and earnings growth, profit margins and dividend yield.

Blackstone is truly one of the leading public companies of the world, a high growth company in a giant market. And this is becoming increasingly recognized. Thank you for joining our call today. And now I'll turn things over to Jon.

Jon Gray: Thank you Steve and good morning everyone. We can't emphasize enough the power of the Blackstone brand built by decades of strong performance. This leads to a deep reservoir of investor goodwill in the extraordinary growth that Steve described. And with interest rates remaining low around the world, desire for our products is greater than ever. We reported capital inflows of just over $100 billion dollars in both 2017 and 2018 and will achieve significantly more in 2019.

This ultimately drives growth in earnings. Our fee related earnings remain firmly on the path we outlined at our Investor Day, while a crude performance revenue on the balance sheet is at its highest level in four years. With virtually no need to retain capital, we have the ability to make substantial payouts to our shareholders through dividends and share buybacks which totaled nearly $900 million dollars in the second quarter.

We've largely completed the fundraising for our four flagship funds: corporate private equity, global and European real estate, and PE secondaries, which are now expected to reach $67 billion dollars collectively. We've closed on $63 billion dollars or 94 percent of these commitments, including $8.4 billion in the first close of our European real estate fund during the quarter.

We had a final close as well for our secondaries fund which reached 11 billion dollars and we've launched the investment periods for both secondaries and global real estate with the other two flagship funds to follow in the coming quarters.

In addition to these strategies we continue to expand how we serve our customers, transforming the firm as Steve put it, with much greater breadth of product offerings. One of the most significant trends in our business is the growth in perpetual capital. Up 43 percent year over year to $92 billion dollars of AUM across 13 funds. Perpetual capital drives greater predictability of our earnings, given the permanent nature of the assets as well as the fact that we received performance revenues on a recurring basis without asset sales.

Our real estate core plus platform is now $39 billion dollars up 24 percent year over year across four perpetual capital vehicles. These include our non-traded REIT, BREIT, which has grown to eight billion dollars in just over two years and raised two billion dollars in the second quarter alone. BREIT is one of the firm's most exciting growth areas and illustrates the power bringing Blackstone quality products to the retail channel. In fact we expect 2019 to be a record year for retail fundraising in over $25 billion dollars, 60 percent of which will come from bespoke products specifically designed for retail investors such as BREIT, our daily liquidity hedge fund and BAAM, and our credit BDC. Other areas of the firm are seeing tremendous growth as well.

Our secondaries business is up 50 percent year over year to $33 billion dollars of AUM. In credit, we've successfully rebuilt the U.S. direct lending business that we sold last year and it soon will exceed $12 billion dollars of purchasing power.

We also raised four and a half billion dollars for our new distressed energy fund in credit, one of the largest in the market for this strategy and in our dedicated insurance solutions area we added five billion dollars of new mandates in the quarter bringing total AUM from insurance clients to $58 billion dollars. Of course the firm's differentiated ability to raise capital always ties back to investment performance. Our long term performance has been extraordinary including 15 percent net returns annually in both our corporate and real estate private equity businesses for 30 years. Michael will discuss the key elements of our second quarter returns.

Turning to investing, as with fundraising our global scale puts us in a unique position to deploy. Last month we agreed to acquire GLP's US logistics portfolio for $19 billion dollars, which represents the largest ever private real estate transaction. We know this sector extremely well having bought nearly 1 billion square feet of warehouses in the past decade, and with multiple pools of capital with different mandates. In this case our BREP opportunistic funds and BREIT were uniquely positioned to speak for the entire portfolio as a single cash buyer. We also agreed to privatize Merlin for 6 billion pounds, the second largest themed attractions business in the world behind Disney. We owned this company previously and very successfully in our BCP funds. We are now acquiring it in our core PE fund targeting a longer term hold. As with core plus and real estate, having a long term vehicle was a critical differentiator, allowing us to team up with a high quality strategic investor with a similar time horizon.

Overall our diversification into longer term strategies along with other pools of capital gives us greater flexibility and power to invest and create value for our LPs. Despite the challenging investment environment we deployed a record $56 billion dollars over the past twelve months including $18 billion in the second quarter alone and committed another eight billion to pending deals.

The firm is truly firing on all cylinders with terrific forward momentum. For shareholders, we've been striving to make our business easier to understand and own by simplifying our financial metrics, keeping our share count flat, and converting to a corporation. We remain totally focused on delivering outstanding results for all of our stakeholders. With that I will turn things over to Mike.

Michael Chae: Thanks Jon and good morning everyone. I'll begin my remarks details as Steve mentioned on our investor outreach around the conversion. I'll then review second quarter results and the outlook.

Following our announcement in April, we embarked on an extensive roadshow over several weeks with the goal of introducing or reintroducing our firm to investors around the world. The schedule was exceptionally high quality and included over 100 institutions, more than half of which were new to the alternative sector and Blackstone and/or were materially restricted previously in owning PTPs. These are investors with significant investment capacity with each on average managing over $100 billion dollars of equity in AUM. Reception and feedback were exceedingly positive. Investors clearly view Blackstone as the distinctive leader in a very attractive growth sector. And while our stock has reacted positively since our announcement, as Steve discussed, the majority of these investors couldn't own it directly until July 1. Further to that we've now become eligible for several market indices, namely S&P total market, MSCI and CRSP, and we expect to be added to these in the fall. All of this taken together, we believe there's ample support for a continuation of our recent momentum.

Moving to a discussion of our second quarter results, which were highlighted by continued robust inflows and progress toward our FRE targets as well as substantial capital return to our shareholders. Totally AUM rose 24 percent year over year to a record $545 billion dollars through the combination of $151 billion dollars of gross inflows and $20 billion dollars of market appreciation despite $38 billion dollars of realizations in that time period. Fee earning AUM grew 16 percent year over year to $388 billion dollars and was up 10 percent sequentially from the first quarter with the launch of the investment period for a ninth global real estate fund. Management fee revenue in the second quarter increased 17 percent year over year to $844 million dollars, also a record for the firm. Fee related earnings rose 24 percent to $422 two million dollars. For the last twelve months FRE increased to $1.6 billion dollars or a dollar thirty one per share up 15 percent year over year and our forward momentum is strong. Distributable earnings were $709 million dollars for the quarter or 57 cents per share up slightly year over year driven by the strong growth in FRE. Net realizations decline moderately from the prior year but rose sharply from the first quarter which as we discussed on the last call was impacted by the market turbulence late 2018. Realizations in the second quarter of 2019 saw a healthy recovery totaling $10.6 billion dollars including a mix of public and private sales. For example, in private equity, we completed the sale of the cloverleaf cold storage business at a nearly three times multiple of invested capital after a little more than one year of ownership.

And in real estate we sold two blocks of invitation home shares, another highly successful and large investment for the firm and still remain the largest shareholder. Turning to investment performance which is reflective of positive underlying fundamentals, although certain strategies were affected by discrete factors, in real estate the BREP opportunistic bonds had another strong quarter appreciating four point four percent driven by strong performance in the private holdings as well as significant gains in the public holdings. In private equity, the corporate PE funds appreciated zero point seven percent in the quarter with steady underlying performance overall partly offset by declines in certain upstream energy positions and one large public holding. In our secondaries area, it's worth noting that the reporting timeline of the underlying investments which are interested in other private equity funds result in valuations that are on a 2 quarter lag.

As such the decline in S&P second quarter returns are reflective of the market turbulence that occurred in the calendar fourth quarter of 2018 and therefore we expect a resumption of positive performance in the third quarter. In credit, the performing credit funds delivered a strong three point seven percent growth return in the quarter while the distressed cluster declined two point one percent driven entirely by decreases in certain upstream energy positions. Finally in Hedge Fund Solutions BAAM's composite rose 2.0 percent gross, five point four percent year to date, only one fifth the volatility of the S&P, delivering well on BAAM strategy. Overall fund depreciation drove $349 million dollars of net accrued performance revenues in the quarter lifting the balance sheet receivable to over four billion dollars up 5 percent quarter over quarter. Fund depreciation, combined with our sustained record investment pace drove performance revenue of AUM in the ground to a record two hundred twenty seven billion dollars up 15 percent year over year. Moving to the FRE outlook we continue the march toward our previously outlined targets of greater than a dollar seventy per share in 2020 and two dollars per share thereafter. As time passes the variables impact in this view continue to narrow in our degree of competence becomes greater.

In terms of key variables with respect to our four flagship funds, the dollars are essentially raised as Jon discussed. And with respect to the timing of these funds coming online we've now launched the investment periods for two of the funds including PE secondaries, which is currently earning full fees. Global Real Estate, which as I mentioned, is now in its fee holiday and will earn full fees in October. The remaining two funds Core private equity and European real estate will be lit up over the coming quarters depending on the deployment pace and the predecessor funds that are then subject to four month fee holidays.

I'll close my remarks today with an update on our share repurchase strategy. We repurchased 7 million shares in the open market during the quarter bringing us to $24.5 million since launching the current program. We have achieved our target of zero dilution despite the firm's continued robust growth and expansion. Today we're renewing the program and increasing the remaining authorization for approximately $100 million to one billion dollars reflective of the firm's considerable financial strength and position. Alongside our attractive dividend policy, we think this action further enhances what is already a compelling value proposition. Indeed over the past three years we've returned over 9 billion dollars to our shareholders through dividends and repurchases. In the context of continuing to deliver attractive total returns to shareholders as we move into the back half of 2019, multiple catalysts are unfolding. First, the ongoing catalyst of conversion. Second, the catalyst of our FRE accelerating higher with the material step up in 2020 coming into greater focus. The firm's momentum is significant and the outlook is very bright. With that we thank you for joining the call and would like to open it up now for questions.

Moderator: Thank you. If you wish to ask a question key star then 1 on your telephone key pad. Please limit to asking one question then re-queue. Please stand by for your first question. Your first question comes from the line of Alex Blostein, Goldman Sachs. Please proceed.

Alex Blostein: Great thanks. Good morning everyone. Michael, first question for you around the FRE dynamic of the quarter and the forward outlook. Obviously fundraising dynamics is super strong. The FRE margin in the quarter looks like was around forty nine percent up, that’s on the higher end of things, so maybe you spend a couple of minutes on how you guys are picking on the trajectory of the margin going forward. What are some sort of the puts and takes and whether the strong kind of fundraising momentum may ultimately result in a higher run rate of FRE margin than what you previously thought?

Michael Chae: Sure Alex, thank you. First, as we've said before and you know, we think it's more instructive to look at margins over the year to date or annual periods as there is variability from quarter to quarter inter year. So on that basis I'd look at the first half margins which were about 47 percent, which are up about 100 basis points just over hundred basis points, versus full year 2018 which were at about 46 percent. So, we expect some drag in the third quarter from a full quarter of BREP VIII’s fee holiday, from a margin standpoint, along with other puts and takes and there are many. But overall for the second half of the year we expect margins to resemble first half. And that sort of margin expansion full for the full year implied by that is in line with sort of that longer term sort of trajectory that we've talked a lot about. And in terms of the drivers of that, there are a number of sort of micro factors, but broadly speaking it's a function of businesses including [*inaudible*] scaling, and are focusing on optimizing and managing comp and cost structure as part of that across the firm. And you can see that especially in the PE second margin, which enjoyed very good growth and the drivers of that are SP, Infrastructure Funds, Capital Markets business. A number of factors where the management fee revenue was growing, and we're seeing flow through, but again I would point you to kind of the year to date period compared to the full year of last year and think about that as sort of the full year trajectory.

Alex Blostein: Great thanks.

Moderator: Thank you. Next question comes from the line of Craig Siegenthaler, Credit Suisse. Please go ahead.

Craig Siegenthaler: Thanks, good morning everyone. I want to get your updated thoughts on the prospect of moving a very small amount of the voting rights into the flow which would qualify you for the Russell 1000 index next June, which as you know has a pretty large following among [*inaudible*].

Jon Gray: Hi Craig. Our plan is to stick with the structure that's worked for us for 30 plus years, both for our limited partners and for the last 12 years for our public shareholders. We think it's the right long-term governance structure for the company and to maximize long term value. We do think we have seen with MSCI and others an openness to companies that have a dual share classes. And if you look at the performance of these companies over time they've actually outperformed, and we're hopeful that some of these other indices will evaluate that and move to including us in the indices. One of, if not the largest market-cap company out there that's not in some of these indices. So we're going to stick with our governance strategy and work hopefully to convince these indices it makes sense to include us.

Craig Siegenthaler: Thank you Jon.

Moderator: Thank you. Next question comes from the line of Michael Cyprys, Morgan Stanley. Please go ahead.

Michael Cyprys: Good morning. Thanks for taking the question. Just curious how you're thinking about the potential tokenization of private assets, as one could use distributed ledger technology to tokenize and divide up private assets particularly real estate. What sort of impact could that have on the asset class? What sort of hurdles do you see that need to be overcome before any sort of widespread adoption, and can you talk about how you're experimenting with this today.

Jon Gray: Yeah I think when you get to things like tokenization what you need are assets that are very similar, and have the ability to be more commoditized. When you look at larger scale assets particularly in real estate, what you see is it's very difficult to turn those into some sort of computer ledger thing because the assets are so different in their nature. We've seen this with some of the online venues that try to buy and sell real estate. As you get up and scale, it gets harder and harder. I think in industries like housing where it's easier to do it, I think you could see some real penetration over time. I think in more bespoke commercial real estate assets that's tough. And it gets even more complicated if you think about companies in private equity. So we don't really see that as a factor in the near-term.

Michael Cyprys: Ok, thank you.

Moderator: Thank you. Next question comes from the line of Glenn Schorr, Evercore ISI.

Glenn Schorr: Hi. Thanks very much. Two quickies on performance. One is I'm not used to seeing a negative number, in particular up market in Strategic Partners. Just curious if there was anything unique there in the quarter and then maybe just an overall comment performance. The numbers are really good. Obviously long term, really good relative to public indices but curious where you think LP expectations are relative to the opportunities in the market. Obviously raising a ton of money so that might be the answer but thanks.

Jon Gray: So I would just say Michael mentioned it on SP. What you're really looking at is a time lag because you're getting the reports from the underlying managers from Q4. What you're seeing is those results. The Q1 results, which one would expect would be much stronger, will show up in Q3. So I think SP is a unique factor. In terms of the rest of the performance, when we look at the portfolio companies in terms of revenue and EBITDA growth, what we saw in the quarter was very similar to what we've seen in the last couple quarters. We did have I would say a couple of isolated factors around our upstream companies, one large public in our private equity area as well and so I wouldn't want to read too much into it. And when LPs think about this they tend not to look at our performance over quarter. They're looking at our performance within that fund over years and our performance obviously over decades. So in some of these areas I view this as a little bit more of a blip and I wouldn't read too much into it.

Glenn Schorr: If I could squeeze one in on infrastructure I know it's early days when you have raised a bunch of money but it's hard to find deployment opportunities. I'm curious on your thoughts on just overall opportunities out there to deploy and then just more timing.

Jon Gray: Yeah I would say on infrastructure obviously the decline in interest rates, a bit like real estate in the US, has made it more challenging to deploy capital so that's a fair question. I think the good news for us is we're operating at a very large scale and we have the ability to intervene in assets and so we've done a couple of big deals in the port space and the midstream space really out of the box. We have a couple of other large opportunities we're looking at. It is a competitive space but just like everything we're doing today, GLP and Merlin are examples by playing where the air is thinner, which is really the strength of our infrastructure business, we've got a better competitive dynamic.

Glenn Schorr: All right thanks very much.

Moderator: Thank you. Next question comes from the line of Bill Cassidy. Please go ahead.

Bill Cassidy: OK. Thank you very much for taking the question this morning. Just coming back to capital management. Wondering now that you are a C-corp and just given type of investors you're meeting with, is there any refinement in your dividend policy and also curious if you were to think about shifting to an FRE pay out with a year-end top off to make it a more durable dividend policy.

Michael Chae: Hey Bill, it's Michael. I think that we remain committed to our capital policy. We think it's worked well. We made a simple change on structure that we think has had and will have great benefits in terms of making us easier to own. As we did our road show, as we continue to talk to investors, I would not say we heard an undue focus one way or another. And there were different views around our policy, but overall I think broad support for how we manage the business and including that. So we're committed to it.

Bill Cassidy: OK. Thank you.

Moderator: Thank you. Next question comes from the line of Robert Lee, KBW. Please go ahead.

Robert Lee: Great thanks. Good morning. Thanks for taking my question. Really a question on the realization outlook, looking at really kind of more intermediate or longer term. So clearly there is a lot of capital on the ground and if I recall at the Investor Day you kind of put out a number that at that point capital in the ground, you thought could ultimately generate 10 billion of realizations or performance fees. But if you might give us a sense of how your cap on the ground is kind of tracking versus prior periods funds. I mean, you know it is performance kind of in line with what you've historically had at this stage of different funds' life cycle is running better than that. Some kind of framework would be helpful.

Jon Gray: I would say if you look at the numbers I think our deployment pace is in line with historic levels. It's possible during periods of dislocation we deploy capital you know after that post crisis faster. There were periods during the crisis where things slowed down. It feels to us, and you can look in our report that showed the deployment of each of these funds were generally sort of on pace and performance wise. You can see the net returns across the fund in line with what we've done historically. So what you're seeing now is just a larger volume of capital deployed. And obviously Steve touched on a broader array of asset classes and so areas where you're seeing where the targeted returns are lower but in the traditional higher octane drawdown funds I would say in line with historic pace.

Robert Lee: Thank you.

Moderator: Next question comes from the line of Michael Carrier at Bank of America Merrill Lynch. Please go ahead.

Michael Carrier: All right. Good morning. Thanks for taking the question. The fundraising and FRE growth that's been great. Realizations have been a bit more muted for you guys in the industry. You mentioned the growing of AUM, net accrued so it seems like the opportunity is meaningful going forward. I wanted to get your view on the outlook, has anything changed you know in terms of the exit channels or has it been more just about the market volatility that we've seen over the past few quarters. You know it has just been maybe delaying some of the activity.

Jon Gray: We obviously had the market dislocation in Q4 which slowed things down. A lot of this is more episodic, a little lumpier because you're waiting for a particular company or asset to mature. And so it's hard to pinpoint when something's going to happen. I would say market conditions generally for exit are fine. It's really more about - is it the right time for our companies. We have this sort of buy fix it sell it model and sometimes you're midstream in that process. So these things happen, when they do happen you can see obviously meaningful increases in DE as a result. I think the best indicator is the net accrued carry on the balance sheet which is now at a four year high. And that's a very good forward indicator. We can't tell you which quarter it will happen but it should happen over time given the size sort of that's accrued in that storehouse of value.

Michael Carrier: Thanks a lot.

Moderator: Thank you. Next question comes from the line of Ken Worthington, J.P. Morgan. Please go ahead.

Ken Worthington: Hi, good morning. I'm really thinking about the outlook for growth in the insurance business. With interest rates having risen in recent years but falling over the last eight months or so, how might the change in the interest rate outlook impact your ability to grow insurance through acquisition and consolidation, either directly or via F&G as we look at, say over the next year, and if acquisitions seem less likely, can you help better frame the strategy for data growth in the insurance business.

Tony James: It's Tony James, I'll take that one. I would say in general the decline in rates is encouraging insurance companies to sell back books because they're looking at their ability to reinvest the proceeds and meet the liabilities and it's challenged. So that's an opportunity for us that we think will cause considerable increases in the amount of assets insurance for sale. For us, we're looking at a robust pipeline of acquisitions right now, both within F&G and away from F&G. So I'm quite optimistic that the conditions are favorable for our business.

Ken Worthington: Ok, great. And then on the organic side?

Tony James: Well I'm not going to talk about F&G here because that's its own public company. But suffice to say that we're quite pleased with what's happening at F&G on the organic side. Organic growth has increased. They have the capability to do more organic growth and also to do some acquisitions. And as you know, they got a rating upgrade which increases their appeal as a counter party on both fronts.

Moderator: Thank you. Next question comes from the line of Patrick Davitt, Autonomous. Please go ahead.

Patrick Davitt: Good morning. Thank you. It looks like the core plus performance which you included [*inaudible*] came in weaker again, down quite a bit year over year. Could you update us on how to think about that volatility and maybe how to think about it becoming a more consistent generator of fees in that line?

Michael Chae: You know Patrick, it’s not really volatility and there's great momentum there. It's really an intra-year pacing. As you know, the realized performance revenues typically come in BPP on an anniversary of prior investment, generally over a three year time period. And so we have a real line of sight on when during the year those will crystallize. And then more broadly, BREIT, our non-traded REIT, which as Jon mentioned, is a terrific platform with great growth. It's $8 billion today versus about $3 billion a year ago. Those incentive fees crystallize in the fourth quarter. So you combine those two factors and I think the second half of the year, and the fourth quarter particular, you'll see that's the sort of waiting within the year of when the crystallization occurs. So I would not look at in any given quarter of the year over year comparison.

Patrick Davitt: Thank you.

Moderator: Thank you. Next question comes from the line of Gerald O’Hara, Jeffries. Please go ahead.

Gerald O’Hara: Great, thanks. Jon, I think you talked a little bit about the successful rebuild of the direct lending platform and the C-to-C of twelve billion of purchasing power. Perhaps you could give a little bit more color there just as to where you see the sizing of the platform kind of going, and for us the pacing or timing of that growth, if possible. Thank you.

Jon Gray: Thanks Gerald. You know we made a big strategic decision a little over a year ago to exit our partnership. Not many firms would voluntarily choose to give up 20 billion dollars of AUM and have confidence they could rebuild it, but we really wanted to control our own destiny in the space. As you pointed out we've had a lot of success raising money. First with SMAs, with some large institutional investors, and now increasingly in this BDC. I think the potential here for greater scale is significant. We've now raised a large amount of money. It's going to take a couple of years to deploy that money, but as we do that we will continually raise money. This does have the potential like a BREIT to grow to be a very large scale business. And GSO is somewhat unique in its ability to deploy capital with the number of folks out there originating loans and the number of relationships we have. So, I think we're in early stage of that rebuild. I think deployment now is key, as we continue to accelerate in that area. You'll see more fundraising and this should grow to be quite big.

Gerald O'Hara: Thank you.

Moderator: Thank you. Next question comes from the line of Devin Ryan, JMP Securities. Please go ahead.

Devin Ryan: Great. Good morning. A question on retail fundraising. Obviously you had great momentum in BREIT. So I guess there, just trying to think about capacity or any constraints from a size perspective. And then just if possible more broadly, what other products are going to be important to the growth beyond the $25 billion in 2019.

Joan Solotar: So, I think very importantly we've been focused on building out bespoke structures that are open-ended and where we have a lot of capacity. So even in the quarter where we raised almost 7 billion dollars, more than 70 percent of that was from retail bespoke structures. And frankly, although you know obviously we have a great overall firm-raise for the private equity fund, we did not take a lot of that capacity. So I wouldn't think of it as like, "Oh, they raise a lot of flagship funds. That's kind of done." I think more importantly, the concentration in portfolios on the retail side is de minimis. You still are well below 5 percent in both accredited and across qualified purchasers. We're continuing to grow globally. So it still feels like very early innings to us. And if you think just even last year versus this year, last year where we raised around $15 billion, this year we'll be somewhere in the neighborhood of 25, I think it's very early innings

Jon Gray: I would just add that this is really where the power of the brand matters. Raising retail capital recognition among financial advisors and their customers of Blackstone, both here in the U.S. and around the world, gives us an edge that's hard to match. And so we think, as Joan pointed out, early days. If you look at individual investors, even very wealthy individual investors, they have low single digit percentage exposure to alternatives. They're facing the same challenges as institutions and insurance companies, and they want more of what we offer. And by doing what Joan's team has done, which is create products that work specifically for retail customers, you build tremendous momentum. BREIT is leading the charge. We're obviously working out some other ideas that over time hopefully can have similar success.

Joan Solotar: I just want to add one other thing, which I emphasized in prior quarters. We're really running this like a business rather than a sales organization. So, you know also emphasizing that we've invested quite a lot in education and technology, in lots of folks in the field, investor services, data analytics- as something that we can leverage across a lot of products that makes us unique and really has created a wide moat.

Devin Ryan: Great, thank you.

Moderator: Thank you. Next question comes from the line of Brian Bedell, Deutsche Bank.

Brian Bedell: Thanks very much. A two part question. Just one, if you could just detail the amount of principal investment income that should be attributed to treasury sales in the quarter, and just talk about your strategy there in terms of selling treasuries that are on your balance sheet. And then secondly, getting back to the FRE rebuild. It looks like you might have a potential to hit that 2 dollar run-rate at some time during 2020. Just trying to get a sense, obviously it's hard to predict future fund raising for funds that are not yet in plan. But Michael maybe if you could just go over what you have in plan for specific fundraises in the second half, and obviously you mentioned the fee holiday for BREP VIII in 3Q, so I'm just trying to get a better sense of what could come in that FRE run rate in 4Q as a starting point into 2020.

Michael Chae: Sure Brian. A lot of content in that question. So, I think first on the principle investment income, the backdrop, as I said in our remarks, is good realization activity in the quarter. And that's reflected there. And we did also realize some gains in our treasury portfolio. We did it principally with a view of conversion, timing it to allow us to maximize the efficiency of those positions from a tax standpoint, as a P2P. So that was sensible for us to do, and it comprised about half of the principal investment in the quarter. If you exclude that piece I'd say the ratio of investment income to performance revenues was basically in line with prior quarters, around 20 percent. I think on the run rating question I'll just simply say we'll refer to what we've been saying pretty consistently since Investor Day and the last couple of quarters. The confidence around better than 1.70 next year and two dollars thereafter. And the fundraising for the second half of the year, which I think is really a slightly different question. Obviously we are delighted that about 93 percent of those four so-called super cycle funds are raised, but we still have a lot of action in the second half in other areas. Whether it's in our BREDS area, in the beginning we talked about our Life Sciences fundraiser, that really will be a 2020 event. Continuing on the European direct lending fundraise. We've had some closes there, but we expect to have even more significant closings in the second half. We're underway on our strategic capital fundraise within BAAM. So, a number of things across the board including, as always, our perpetual capital fundraisers that are a continuous process.

Brian Bedell: And is BREP VIII comes into the AUM in 4Q, is that correct?

Michael Chae: It's already in. It went in in the second quarter, and is on fee holiday but is in.

Jon Gray: Yeah I think October it starts.

Michael Chae: Post fee holiday

Moderator: Next question comes from the line of Patrick Davitt, Autonomous. Please go ahead.

Patrick Davitt: Thanks for the follow up. I have a broader question on any updates to your views on trade war impacts to the portfolio and/or your investment trajectory- not just China, because it feels like it's expanded beyond that at this point. Thank you.

Jon Gray: We have been seeing globally a slowdown in trade and I would say a slowdown in the industrial economy and some of the commodities and energy have been hit as well, and that's true in the U.S., Europe, and China. So I think that's a factor. And obviously central banks have been responding by lowering rates or signaling they're lowering rates. I think the good news for us is we don't have that many businesses in the global supply chain, either retailers or big exporters. So the impact there directly to our portfolio is not quite as significant. The real question is will it lead more broadly into the economy or into markets. So far, the more dovish tone from central banks has outweighed the slowdown from trade. So we're seeing it but to us so far, not a really big impact.

Moderator: Thank you. Next question comes from the line of Bill Katz. The final question is from Bill from Citi.

Bill Katz: Ok, thank you very much for the follow up as well. I think you may have answered this indirectly through some of your commentary about portfolio revenue and EBITDA and maybe in that last comment, I sort of wanted to step back and talk about where you think we are in the credit cycle and how the firm has positioned, both to weather any kind of concern, as well as potentially target any kind of deployment.

Jon Gray: I would say I know there is a lot of concern out there about credit markets and leveraged loans. But when we look at new deals getting done, the amount of equity as a percent of the capital structure has continued to go up. There's been a modest increase in debt to EBITDA in the market, but when you look aggregately, we generally think credit conditions have been balanced. We don't see a lot of excesses out there. When you look in the leveraged loan market, default rates are near record lows. Coverage is as strong as it's been since the financial crisis. So I think the memory of what happened in 2008 and 09 has impacted market participants and regulators. And we see a fair amount of discipline out there and we're not seeing things anything close to what we saw in the pre-crisis era. And obviously if the economy slows down sharply, it would be an impact to credit, but we think overall the credit markets are healthy and we think the spreads you get paid to be a senior lender and leverage loans is pretty good risk-return, and we're feeling very good about our CLO portfolio and the outlook in that space. So I'd say we generally have a more positive view on the leveraged loan market maybe than the market generally.

Moderator: Thank you. We have no further questions. I will now turn the call back over to Weston Tucker as the closing remarks.

Weston Tucker: Thanks everyone for joining us this morning. Please follow up with me with any questions.

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