Welcome to the Blackstone First Quarter 2014 Investor Call for the Media. At this time all lines are in a listen-only mode. Later there will be an opportunity for your questions, and instructions will be given at that time. As a reminder, today’s conference is being recorded.

I would now like to turn the conference over to our host, Senior Managing Director, Mr. Peter Rose. Please go ahead.

Good morning, everyone, and welcome to our First Quarter 2014 Earnings Call. With me is Tony James, Blackstone’s President; Joan Solotar,
Senior Managing Director for External Relations and Strategy; and Laurence Tosi, Blackstone’s Chief Financial Officer. As always, Tony will go through the highlights of the quarter, and then he would be happy to take your questions.

Before handing over to Tony I want to remind you that there will be a call for investors at 11:00 a.m. today Eastern Standard Time, and the dial in numbers for that are in the press release on our Website. We’d encourage all of you to listen into that also.

Thank you. Tony.

T. James Okay, Pete, thanks a lot, and thank you all for tuning in to our first quarter earnings review.

As you’ve probably seen, the year got off to a great start, with basically every Blackstone financial metric setting a first quarter record. Coming on the heels of a very strong year in 2013 first quarter revenues were up 20% and earnings were up 30% over last year’s first quarter to $0.70 per unit. Distributable earnings rose 24% to $0.41 a unit.
Activity levels were high during the quarter in terms of both new investments and dispositions. In total, we invested or committed $7.4 billion during the quarter and returned $11.5 billion to our investors during the quarter. Despite the return of a lot of capital to LPs, AUM jumped 25%, with all business posting double-digit increases. Over the last year we have raised a stunning $52 billion of capital, excluding acquisitions.

In private equity revenue surged 115% and ENI 209% due to significant increases in performance fees. Despite choppy markets the values of our holdings appreciated 7% in the quarter and have grown 27% over the last 12 months. Operating results at the portfolio company level continue to reflect steadily improving profits and revenues.

We harvested $4.7 billion during the quarter, more than double last year’s quarter, and the average MOIC on these investments, that is the average Multiple of Invested Capital on these realizations, was 2.4 times for our investors.

We were also very active in new investments, investing or committing $3.1 billion during the quarter, also a big increase over the prior year. AUM grew 26% due to both market appreciation and the successful
fundraisings for our Tactical Opportunities business and our Strategic Partners secondary business, both of which will be oversubscribed.

In real estate revenues and ENI remain at the high levels, generally consistent with those of last year’s first quarter. The value of our real estate holdings appreciated 3.8% for the quarter and have increased 27.8% over the last 12 months. Valuations, occupancies, and rents continue to rise across the board, while new supply of commercial real estate remains limited.

We had realizations totally $2 billion during the quarter, almost double last year’s first quarter. The average MOIC on these realizations was 2.7 times.

On the investment side we invested or committed $3.1 billion, continuing near record levels of capital deployment. Much of this activity has shifted from the U.S. to Europe and Asia.

Finally, assets under management jumped 37%, driven by highly successful fundraising for BREP Europe, BREP Asia, and our publicly traded mortgage REIT, BXMT, that’s Blackstone Mortgage Trust. We
also commenced building our core-plus business with its first four investments totaling approximately $1.6 billion.

Hedge fund solutions had strong revenue and ENI growth also, with revenues jumping 16% and ENI 21%. This was driven primarily by new fundraising. Our Composite Performance Index was up 1.8% for the quarter, and has risen 9.8% for the latest 12 months. AUM grew 21%, driven by continued strong appetite for our lower risk equity oriented products from investors.

In our credit business, GSO, revenues declined in the quarter about 7% and ENI was 18% lower due to performance fees coming in somewhat below last year’s very high levels. Investment performance, however, stayed strong, with each of the major strategies appreciate in the range of 4% to 5% for the quarter and each of them surging between 20% and 30% for the latest 12 months. Quite something for debt funds.

Realizations and capital returned to investors by GSO were very strong at $3.2 billion for the quarter and a whopping $13.5 billion over the last 12 months. New investments and capital committed came in at $900 for the quarter, also an acceleration from last year. AUM grew 14% year-over-
year, with robust inflows and strong appreciation more than offsetting the tremendous distributions to Limited Partners.

Our advisory businesses posted results similar to last year in their seasonally light first quarter. Particularly in the first quarter these businesses have lumpy revenues based on relatively few large deal closings. In general, business in these businesses remains good and deal pipelines are up.

Overall, we are extremely well positioned, we think, for the future. We received numerous outside awards for our performance as an advisor, investor, and employer recently. Some of these include Large Cap Firm of the Year, America’s Issuer of the Year, America’s Deal of the Year, and Global Firm of the Year in real estate. Our fund placement business Park Hill was named Capital Advisory Firm of the Year, and Blackstone topped both Pensions & Investments and Vault’s list as the top place to work in financial services.

Earlier this month we issued $500 million of 30-year bonds at a net cost of money of only 5.15%, giving the firm a very solid capital base for many years to come.
The investment performance of all of our different businesses continues to be outstanding. We have many investments yet to be harvested, which will drive strong distributions to both LPs and to our public investors. Our fundraising has never been stronger, as LPs need the superior, uncorrelated returns our funds deliver more than they ever have. And finally, we have one of the deepest, most talented, most experienced, and youngest management teams of any financial institution in the world.

With that I’d be happy to take questions.

P. Rose
Operator, we will take questions now. Thank you.

Moderator
Our first question today comes from the line of Ryan Dezember with the Wall Street Journal.

R. Dezember
Mr. James, I was curious what your view on the IPO market is. You guys had a great run last year, but you’ve yet to sell down a lot of the investments, and La Quinta has kind of traded along where it was offered. So I’m just curious what your view is going forward, and if you could
kind of forecast your ability to kind of continue on this strong streak of secondary sales.

T. James

Well, first of all, let me say that there are a lot of people that are great at investing in public markets, and I don’t consider myself one of them, and that’s probably why I moved out of public market investing into private market investing. So take this with a grain of salt.

My own view is the equity markets were overdue for somewhat of a correction. We’ve had that correction recently; I think it will be mild and I think relatively temporary. I think equity markets will hang in there. And I think in terms of fundamental values equity markets remain attractive, however you still have… in terms of value... So, in other words, as we look to exit investments we still think we’ll get good values for our investments.

But there’s still a lot of money on the sidelines that has not moved into equities yet, and I think interest rates look like they’ll stay low and, from an investor standpoint, unappealing for a long time, and that money will continue to be there and flow into equities. So I think there will be a
continued good equity market, both IPO market and secondary market, for
us to access.

R. Dezember  What’s your latest tally on kind of the amount of stock that you guys have
that you can sell easily, the kind of unrealized stock? Did you guys have
that number handy?

L. Tosi  Yes, Ryan; it’s LT. There’s $36 billion right now of publicly held
securities across the different funds, primarily, obviously, in real estate
and private equity.

T. James  So LT answered how much we had. You say sell easily, you know some
of these are big positions in relation to the flow to the underlying
companies. It’s not like you’re going to—I don’t want anyone to think
that it’s all going to be kind of exited in a few months. It’s really this is
several years’ worth of work.

R. Dezember  Yes. Sorry. I meant that have had an IPO, I guess.

T. James  Yes. Yes. A lot of those companies are doing really well, too, so frankly
we’ve established a market for a bunch of them, but we still expect many
of them to have significant appreciation and outperform the overall markets, and so we’re patient investors with a lot of these. Look, some of them are great companies with a lot of momentum.

L. Tosi
And they have. Year-to-date they’re up more than the S&P and their growth rate aggregate’s about twice the growth rate of the S&P, to Tony’s point.

Moderator
Next question comes from the line of Devin Banerjee with the Bloomberg News.

D. Banerjee
Can you give us your sense of the regulatory environment in and around private equity today? I think most people would agree there are more sort of governmental eyes on the industry than ever, whether it be the SEC’s Presence Exams or the OCC guidelines on leveraged loans or the continued debate in Congress about carried interest and enterprise value tax. Which of these are most concerning to you, if any, and which do you expect to have an effect on the way in which you actually do business?

T. James
Well, gee, there are a bunch of things out there that could happen, however, frankly, given the gridlock in Washington, I’m not sure anything
much can happen. So I don’t think we have any more wisdom on that than you do, Devin. It’s obviously hard to get legislation enacted and the stuff you’re talking about affect a lot more than private equity; that touches a lot of parts in the economy, it touches the capital formation and access for small businesses.

I think, appropriately, there’s a big part of Washington that doesn’t just react to the sound bite but really wants to understand the impact on business and access to capital, particularly for small and medium-sized businesses, which is where our mix of products serves those customers. We give access to capital to small and medium-sized businesses that can’t otherwise access from normal public equity debt markets. So, I know I’m getting off the track a little bit here, a lot of people in Washington understand that, and it’s hard to get stuff done when you start getting into the complexities of it.

In addition to the ones you mentioned, there’s been talk about limiting deductibility of interest. It’s another one that has a lot of unforeseen consequences. I would have said that the one that gets the most press is the carried interest. I don’t know what happens on that; people have been
talking about that now for seven years. But whatever they do down there won’t affect the way we do business very much.

Some of the other ones you’re talking about, the OCC things and whatnot, actually help our businesses, because they further restrict some of the bank activities in terms of what they can do with their own balance sheets, and that opens up more dependence on market-based financing, which in we’re a market-based participant.

So I don’t have a crisp answer for you, because I don’t know what’s going to happen. I worry any time the government gets in and starts to meddle with the capital markets, and they tend to overshoot and they tend to react to headlines without understanding substance and it’s always dangerous, I think. So, hopefully, whatever they do they’ll study carefully and they’ll hear all points of view.

D. Banerjee  In a narrow way has Blackstone increased its compliance staff or its lobbying staff or anything like that?

T. James  Well, legal and compliance is our fastest growing part of the firm by far. We haven’t increased our lobbying staff at all, if anything we’ve probably
cut it back. But we were one of the first firms to voluntarily register with the SEC, and so we’ve been under SEC registration and regular audits since well before we even went public. And we thought that was good discipline, we thought our LPs would get comfort from that, and we thought it was the right bar to set. So we’ve been dealing with this for a long, long time, it’s just there’s more and more and more of it, in more and more jurisdictions, by the way; it’s not just U.S. either.

Moderator  
Question today comes from the line of Henny Sender representing *The Financial Times*.

H. Sender  
Tony, I noticed that the growth of revenues in real estate were up 3.8% compared to a 7% increase for PE. Are we seeing sort of a cyclical change here where the growth in real estate slows significantly?

T. James  
Well, you get a lot of quarter-to-quarter movement in revenues based on appreciation and the market movement of the assets, and so if markets run up and stay high you’re going to see a pattern where there’s a lot of apparent growth in revenues during the run up, and even though the next quarter that’s “staying high” is actually better it won’t show the same revenue growth, because you’re not marking up the assets the same way.
So I think what you’re seeing is just the quarter-to-quarter effect of the asset values.

H. Sender  So you’re not concerned—I’m sorry; go on.

T. James  In terms of the fee revenues—sorry, let me just—in terms of the normal fee revenues and whatnot, which is driven by AUM, you should continue to see that grow nicely.

L. Tosi  Add two facts to that if I can. So, Henny, I think what you’re referring to is if you look at real estate, to Tony’s point, it’s up 3.8% in the quarter on a base of $81 billion and last year it was up 7% in the quarter on a base of $59 billion, so it’s a quite different base that you’re looking at.

T. James  And our fee revenues were up almost 20%, as I mentioned, based on the new fund. So I think, as you know, Henny, the appreciation bounces around quarter-to-quarter based on markets and marks and exits and a lot of things that are beyond our control. The fundamental lifeblood of the business, which is AUM, which sort of drives fee revenues, in other words fee revenues track AUM, that’s up 18% for the quarter.
H. Sender But you don’t see sort of a cyclical leveling off generally beyond Blackstone in real estate, because there is a lot of concern about recent data on housing starts and first time mortgages and all this kind of thing. So I suppose another way of asking is what is your fundamental assumption about real estate in the short term generally?

T. James So when you say leveling off, Henny, are you talking about activity levels, building construction, are you talking about values, are you talking about deal volumes?

H. Sender Not deal volumes, but generally fundamentals in the housing market seem to be less attractive.

T. James Okay. So let’s focus on housing then. Look, housing has had a pretty good run up, but we don’t think it’s anywhere near sort of plateaued. We expect high single-digits appreciation from here this year, and even then I think housing values are going to be below where they should be in terms of their long-term secular plays and below where they should be to justify the kind of building that we need. We’re only building about half the housing units in America that we need based on the population growth. And you can still buy an existing home cheaper, generally, than you can
build one, so you’re not going to have a lot of building as long as that’s the case. So we think housing has a ways to go before it’s sort of topped out in terms of values, and we think in terms of building activity it’s low now and it will be on the upswing.

H. Sender And commercial and office?

T. James So in commercial there are various categories of assets. The areas where we’re starting to see some reasonable amount of construction are apartments and hotels, and then in certain pockets you’ll see some office building, you know you have hot markets like San Francisco, for example. But in general there’s not a lot of new supply coming in commercial real estate away from hotels and apartments, and I wouldn’t say that’s a lot, I’m just saying there’s more there. Hotels seem to be the shortest cycle business, the most responsive, because the leases are like one night long. And apartments have been very stable; they never really dipped, and, as I say, given the lack of building of homes and other residential units, that we’re falling behind the number that we need, it’s not surprising you’re seeing some building in apartments.
But the new supply coming in other branches of commercial real estate is still pretty limited, and that makes a pretty good investment environment, pretty good environment for values, and I think that’s good for the economy, because it means there should be an upswing in construction jobs over the next several years. The lead time on these projects is long, so if you want to go build a new office building in a downtown metropolitan area it’s long. So I think that bodes pretty well for steady growth in the economy as well.

Moderator

Our next question comes from the line of Greg Roumeliotis with Reuters.

G. Roumeliotis

Last quarter you spoke a little bit about how Blackstone sees commodities, and, in particular, some of the challenges involved in the physical commodities business and the liabilities involved with that. And since then, of course, we saw JPMorgan’s physical commodities business going to Mercuria. I was wondering whether you could comment a little about on how the firm now sees commodities, particularly if an opportunity came up to own an energy trading business that doesn’t have any assets, just the proprietary physical traded business, something like [indiscernible] for example, or generally how do you feel about commodities now?
Well, we identified, I think as maybe I said last quarter, I don’t actually remember candidly, but we identified commodities several years ago as an interesting area that we weren’t in, but that touched a lot of our businesses and where we thought there might be some synergies, and the synergies would take the form of us being more informed about commodity markets in our various businesses and companies on the one hand, so information flowing from them to us. But also, given the breadth of our portfolio and the heavy activity we have in energy and metals and things like that, we could maybe flow some business the other way. So there was a two-way kind of synergy we thought might be interesting.

We haven’t yet found the perfect way to express that view and to capture those synergies. And the constraints, we don’t really want to become a proprietary asset heavy firm on the one hand, on the other hand I think just being a trading business without the physical side I think you lack—that’s kind of you miss something there, because you don’t have the insight that being in the physical business give you, which I think are important to be consistently successful in commodities. And then finding the right group with the right culture and the standards of excellence and the integrity and everything that we put so much store on is not always easy either. And
then commodities businesses they’re global, many of them they’re in a lot of strange parts of the world; we have to be very careful about where we do business, who we do business with, how we do business, maybe more careful than entities that aren’t U.S. entities in that field.

So we haven’t quite found the right way to tackle this. It remains of interest, but I wouldn’t count on us doing anything in the short term.

G. Roumeliotis The other question would be for LT. I think the answer may be obvious, and apologies if I missed it, but can you explain to me in private equity why these management fees and performance fees are going one way and investment income is going the other way, and it’s down 8% on the quarter?

L. Tosi It’s just simply a matter that we don’t always have the exact same amount of capital, Greg, in each deal that we do, and it depends on whether we sell all of it out or we actually take a company public. So it just simply is a mix, and I wouldn’t look at it as a trend. It will be lumpy over time, which will inevitably reflect the type of accruals that we have for unrealized gains and the type of exits that we have.
G. Roumeliotis
So, just to be clear, it has to do with how the balance sheet basically
invests alongside those funds or in those funds; it’s not always the same
mix of assets, it’s not always the same exposure for Blackstone itself.

L. Tosi
That’s right.

T. James
If you really unpeel that orange you have things like funds that are in the
catch-up period, an awful lot of the gain goes to carry, so it gets
disproportionate. You also have some assets, which were rolled into the
pre-IPO assets, where the firm has a larger percentage of the carry in
relation to its investment than it does in the more recent ones. So there’s
just a lot of complexity there that varies investment-by-investment and
fund-by-fund.

Moderator
Our next question comes from the line of William Alden representing the

W. Alden
So I noticed that Blackstone Capital Partners V is a little bit closer to
being in carry. Do you have an estimate at this point for when it might
actually cross over?
L. Tosi  
It’s always hard to tell. What we look at right now we try to give you some metrics around that. So it’s about $916 million of appreciation on the equity side that you need to get there; that translates to about a 3% change in total enterprise value or a 6% change in equity. Your guess is as good as ours. The fund happens to be doing very well. The underlying EBITDA on the fund is quite good. I think if you look at the analysts they’re predicting sometime fourth quarter, first quarter, but it’s really market dependent. But from what we look at and what we can see the underlying assets are doing quite well.

T. James  
And we’re basically, what, 3% TEV away.

L. Tosi  
That’s right.

T. James  
So, tell me what the market’s going to do, we could be there shortly or not.

W. Alden  
Then what about sort of the outlook for kind of bigger buyouts? I mean are you guys expecting do more deals like Gates Global or smaller ones maybe more like Versace and Crocs or what?
Well, I think as you’ve seen, one of the things that’s unusual about Blackstone is we have one big fund that does both small deals and it does big deals, it does growth equity and it does traditional buyouts, it invests in the U.S. and Latin America and Asia and Europe. So we feel, in general, that we positioned to have a fund that can do all those things so that we can move the capital instantly where the opportunities are and not have it trapped in subsegments where it’s forced into markets that aren’t appealing.

So I think that’s a hard question to answer. And by the way, the returns that we’ve earned have been pretty good and pretty consistent across all those, whether it’s a small deal or a big deal, it’s a growth equity deal or a buyout, whether it’s industry consolidation, the returns are not that different.

I don’t see, however, given where values are today, having the large buyouts be a large portion of it. That’s not to say we won’t do the occasional one, but we’re trying to get off piece a little bit and do things that are a little more creative, little off the beaten track, and things where we have some proprietary edge we can bring, and that’s less common with large buyouts. We had a particular view of Gates, which we think will
play out and make that a very interesting investment, but I think that’s a bit of an exception.

Moderator  We have time for one more question today, and that will come from the line of Antoine Gara with *The Street*.

A. Gara  I saw that GSO it had commissioned Alvarez & Marsal for an analysis of Fannie and Freddie and the liquidation value. So I wonder if you could just speak about how big of a role Blackstone, by way of GSO, expects to play in the whole GSE reform debate and what kind of issues you’re hoping to work on this year?

T. James  Well, so I’m not as deep in the weeds in this one particular investment, but I have met with the team on it a couple times, I have had some conversations with appropriate people down in Washington a couple times. We have a position in the preferred stock there. We think we have a plan that is not inconsistent with some of the other plans we’ve been talking about publicly that makes a lot of sense in terms of getting the GSEs out of being sort of a liability for the government and launching them with private financing, private capital into a position where they can still serve the purpose that they do, which is to support housing ownership
in America. We’ve been talking to people about that. As I say, it’s not
that inconsistent with some of the other plans.

I honestly don’t think we’re going to be the mover and shaker on this.
While we hope we are listened to in Washington, but clearly this is going
to be a highly political process, and we’re not going to have any particular
influence on that that anyone else doesn’t have, and we don’t have such a
big position as that we’re going to be a make or break kind of force. So
we think we have a sensible plan that’s good for America, and we hope
that gets paid attention to, but time will tell.

Moderator  Ladies and gentlemen, I will now turn the conference back over to your
host for closing remarks.

P. Rose    Thank you, everyone, for joining. If you have, in the course of your
reporting, further follow-up questions please just call the media relations
office and we will help you. Again, thank you all for joining.

Moderator  That does conclude our conference for today. We thank you for your
participation and using the AT&T Executive Teleconference Service. You
may now disconnect.