Blackstone First Quarter 2015 Investor Call
April 16, 2015 11:00 a.m. EDT

Operator
Good morning everyone. Welcomes to Blackstone's First Quarter 2015 Conference Call. And now, I'd like to hand the call over to Joan Solotar, Senior Managing Director, External Relations, and Strategy.

Joan Solotar
Great. Thanks, Regina. Good morning, everyone. Welcome to Blackstone's First Quarter 2015 Conference Call. I'm joined today by Steve Schwarzman, Chairman, CEO; Tony James, President and Chief Operating Officer; Laurence Tosi, CFO; and Weston Tucker, Head of IR.

Earlier this morning we issued our press release and slide presentation illustrating results which is available on our website, and we'll file our 10-Q in a few weeks.

I'd like to remind you that the call may include forward-looking statements which, by their nature, are uncertain and outside the firm's control. Actual results may differ materially. After discussion of some of the risks that could affect the firm's results, please see the risk factor section of our 10-K. We don't undertake any duty to update any forward-looking statements, and we will refer to non-GAAP measures, and for reconciliations, please see the press release.

I'd also like to remind you that nothing on the call constitutes an offer to sell or solicitation of an offer to purchase any interest in any Blackstone fund. The audio cast is copyrighted material and may not be duplicated, reproduced, or rebroadcast without consent.

So, very quick recap of the results: We reported economic net income, or ENI, of $1.37 per unit for the first quarter. That's our best ever and nearly double the prior year quarter, driven primarily by a sharp increase in performance fees. Distributable earnings were $1.2 billion; that's $1.05 per common unit. That's also a record and up over two and a half times the $0.40 that we recorded in the prior year. So, we'll be paying a distribution of $0.89 per common unit. That's to unitholders of record as of April 27, 2015, and that's our largest quarterly distribution to date.

And with that, I'll turn it over to Steve.

Steve Schwarzman
Good morning and thank you for joining our call. The first quarter was remarkable for Blackstone and our shareholders in all respects. As Joan mentioned, it was our most profitable quarter ever, both in terms of economic net income and distributable earnings.

This follows a record-setting year in 2014. Realizations continue to accelerate, reaching a record $13.5 billion in just one quarter, driving a distribution of $2.66 per share over the past 12 months, equating to a yield of approximately 6.5% on our current stock price.

We raised an astonishing $30 billion of new capital in the first quarter alone, which is substantially more than any of our alternative competitors have ever raised, even in a full year, driving our AUM well past the $300 billion mark. And all signs point to 2015 being a very big year for us and our shareholders.

You may ask, and many of you have, how have we been able to build a company like Blackstone and is this success sustainable?

Blackstone really has a very simple business model. We've delivered roughly 1,000 basis points above the stock market, on average, to our limited partners in our funds. When we do that over time and time again, for a 30-year period, we create enormous excess returns for our investors. As a result, our limited partners have given us very large amounts of money over time to invest, and these amounts are accelerating. Our performance over 30 years is what sustains our success as a business.

We designed the firm from the beginning with the idea that we would only expand into new asset classes if there was a remarkable opportunity to take advantage of a major paradigm shift in the markets. In addition, we would only enter this new asset class if we could identify a leader for this new effort who was a ten on a scale of ten.

The third requirement to enter a new business line was that it would increase the firm's intellectual capital so that we could take advantage of these paradigm shifts throughout our entire organization.

In finance, unfortunately nothing is patentable. I learned this early in my career, so when we started our firm we knew we needed to be in the continuous innovation business, not just, for example, in something called the advisory business or the private equity business.

I often get the question of how do we define our competition? What we offer our limited partners is really different by being in all the major alternative asset classes with uniformly outstanding results. We like to think that the companies that are similar to Blackstone include many of the great companies in the world. Among these companies are companies like Apple, Google, Alibaba, Samsung, Disney, Amazon, Boeing, Daimler, Nike, BMW, Starbucks, Caterpillar, Hermes, Luxottica, Whole Foods, Bosch, McKinsey, Bloomberg, Chanel, and numerous others we don't have time to list here.

All of these firms have built enormous brand recognition, and they all share certain differentiating attributes including the best products in their class with the highest quality standards, deep and enduring relationships with their customers, a unique selling proposition, a culture of excellence and of continual innovation, and high levels of employee satisfaction and loyalty.

These firms have created a bond of trust and a sense of partnership with all of their constituencies. Their customers need their products and turn to them first, resulting in a huge percentage of repeat businesses. As a rule, these companies primarily have grown organically so that they can develop and nurture a consistent and unique internal culture. They also have the largest market shares in their respective sectors, all like Blackstone.

At Blackstone, 30 years of excellent performance has created a huge moat around our franchise. There is a reason, for example, that BAAM has continued to grow, when in the hands of all others that asset class has shrunk. Most recently, in real estate, our new global fund raised a record-setting $15.8 billion in only a few months, including the upcoming closings for retail investors. We needed only one close for institutional investors. In fact, for years all of our funds have been substantially oversubscribed. We have limited the amount of money we've accepted to maximize our performance for our limited partners.

This is the power of our brand and we are very protective of it. Just as Apple doesn't franchise its products and BMW doesn't let other manufacturers put its logo on their cars, at Blackstone we don't franchise. We have central quality control with all investment decisions being de-risked and decided upon by one single global investment committee to minimize any prospect of loss and to have consistency of judgment.

Despite our significant growth, I do not believe Blackstone is in any way at a long-term peak, given the amount of assets we're managing today and the amount of capital we're putting in the ground. We were the most profitable public money manager in the world in 2014, as we were also in 2013 – two years in a row – and we continue to report exceptional ENI numbers, $5.2 billion for the past 12 months. This is our best measure of current value creation and future realization potential, and consequently, distributions for you.

These numbers include a benefit from our BCP V private equity fund being in catch-up resulting in additional performance fees for prior period gains. And while this benefit is not perpetual, there are many other important trends that drive our earnings growth.

Our clients are themselves healthy and growing their assets under management, and they're investing more and more into alternatives, the highest yielding asset class in the world in an environment of record-low interest rates. They're also reducing the number of managers they do business with. Consequently, our fee-earning assets under management now are two and a half times larger than just five years ago. And while our cash distributions are accelerating, mostly reflecting realizations from capital we invested years ago when the firm was much smaller, and the capital we invested was much smaller, we are simultaneously filling the cookie jar as our invested monies keep increasing in size.

We ended the quarter with $4.17 a share of net accrued performance fees, which should convert into distributions for our shareholders when we choose to sell these assets. This receivable, contrary to what you might think, actually increased from the previous year despite our very substantial payout of distributions over the same period.

Over the past three years, we've deployed an average of $20 billion per year in our drawdown funds alone. In the past 12 months, this number grew to $27 billion, up seven times from five years ago. Last week we committed to deploy $4 billion in equity capital just in one day with real estate's acquisition of much of GE Capital's real estate assets as well as the purchase of a major shopping center REIT, which by the way, got lost in the shuffle from a PR perspective.

Blackstone is significantly larger today and investing significantly more than we did in the past, planting the seeds for future gains and distributions to you.

There are few other companies of our scale that are simultaneously growing at a sustained rapid rate. In this regard, our analysis of the world's 500 largest public companies was informative. Blackstone ranked right in the middle in terms of size with a market capitalization of $49 billion, but only a handful of these 500 companies had similar financial results.

Blackstone has grown earnings per share by 46% per year over the past five years, combined with an extremely high cash conversion rate per dollar of revenue. Unlike most other leading companies, we pay out the vast majority of our earnings on a current basis. Our dividend yield is actually among the top 5 of all global 500 companies which should be of particular interest to you at a time of record low interest rates.

Further, for the leading companies I mentioned earlier in my remarks, those that are publicly traded, we find that the median trading multiple, PE multiple, is 22 times earnings, more than twice where Blackstone is today.

Our limited partners view Blackstone as the gold standard in the high return asset management industry, and I believe the public markets will come to view us as one of the top companies in the world. We will continue to do what we've always done: generate exceptional performance for our investors.

Each of our businesses is expanding rapidly while at the same time keeping our zealous commitment to protect our limited partner's capital in every investment we make. In the vast number of our businesses, we only commit capital when we see an unusual risk reward opportunity, unlike a long-only manager which needs to be fully invested. We're like a basketball team without a 24-second clock. We only shoot when we get a truly open shot we're confident will go in the basket.

Our business model provides numerous competitive advantages that we believe should enable us to continue generating the extremely strong returns that we have for the last 30 years. This is our unique selling proposition to our limited partners. Given the essential nature of our product and sense of partnership with our growing limited partner base, which continues to allocate more and more capital to our industry and, in particular, to Blackstone, we believe our long-term prospects are exceptionally strong.

Our investors can count on the enduring nature and consistent output of our culture here at Blackstone which is characterized by high levels of achievement, meritocracy, the highest standards of ethics, and a dedication to excellence in all we do. Our people have a total commitment to integrity and never tolerate questionable practices of any kind. This culture is instilled in everyone at the firm and will survive the original founders.

Each of our businesses is led by someone extraordinary with other extraordinary talented professionals around them. Our employees love what they do, and it is no coincidence that for the second year in a row Blackstone has been selected as the best place to work in our industry. This year, for example, and this is hard to believe, we had more than 15,000 applications for only 100 available analyst positions. So, it's six times harder to get a job as an analyst at Blackstone than getting into Harvard, Yale, or Stanford.

It's a privilege for me personally to be associated with the remarkable people we've assembled at Blackstone and who work with enormous zeal and strive to deliver the top investment results in the world for our limited partners with a conservative emphasis on preservation of capital.

We are completely committed to helping our LPs significantly outperform their relative benchmarks and reach their objectives. This includes helping teachers, police officers, firemen, and other state and local employees, as well as corporate employees, retire with dignity; protect and grow university endowments to help students with their education; provide savings for countries for their sovereign wealth funds and central banks to improve the lives of their citizens; help insurance companies meet their obligations to their policyholders; and assist individual investors financially realize their dreams.

Blackstone isn't really a business per se; it's a mission to be the best in all we do and to be special members of our communities as well. Through our Blackstone Foundation, our employees volunteered over 5,000 hours last year and countless thousands more in their own personal charitable pursuits.

Blackstone LaunchPad, our foundation's signature program supporting college entrepreneurs, now touches 350,000 students at 15 universities in 6 states. And our Veterans Hiring Initiative in which we made a commitment 2 years ago to hire 50,000 veterans in 5 years has seen tremendous early success with greater than 20,000 hires already.

On a personal basis, I'd like to thank all of you as our shareholders for your support. We're in this adventure together. We believe it will have a great outcome in the long run for all of us.

With that, I'd like to turn the call over to Laurence Tosi, our financial officer, who has a blizzard of numbers for you that I think you'll enjoy listening to.

Laurence Tosi
Thank you, Steve, I think. That sets a pretty high bar. At least I know if I get fired, I'll have 10,000 people looking for my job. Makes me feel better.

In the first quarter, Blackstone set records for assets, inflows, revenues, earnings, and distribution both for the quarter and the last 12 months, again.

First quarter ENI doubled to $1.6 billion, or $1.37 per unit, on $2.5 billion in revenues. Distributable earnings nearly tripled to a record $1.24 billion, or $1.05 a unit, as public and private market demand for Blackstone-managed assets and companies remained strong and drove record realizations of $49 billion. As a result, realized performance fees and investment incomes were over $1 billion for the quarter and over $4 billion over the last year.

By investing in assets in which we can intervene and actively manage, we have been able to generate above-market returns across cycles. The central driver of our business is the growth in the companies we own and operate, or the hedge fund managers we invest with, or the credits we buy. Those drivers are not short-term market cycle dependent, and when they grow and increase in value, they compound.

Our private equity companies are on average, growing revenues 6% and EBITDA 9%, which is two times the revenue and four times the EBITDA growth of the S&P. Similarly, our real estate portfolio fundamentals, measured by occupancy, rate, and earnings continue to strengthen and perform at the upper range of relevant market measures.

Additionally, both private equity and real estate public holdings, totaling $31 billion, were up over 15% in the first quarter alone. That above-market appreciation contributed to total returns for private equity and real estate which were both up over 20% over the last 12 months, nearly double the total return of the S&P.

Both hedge funds and credit also outperformed their relevant indices despite more turbulent markets in those asset classes. All the funds in those two businesses are up over the last 12 months. While both of those businesses are down slightly on a lower rate of appreciation this quarter, very strong inflows, positive returns, and new products position them well for the rest of the year.

Performance drives growth; sustained performance drives franchise value and investor loyalty. All of Blackstone's businesses had double-digit gross inflows over the last year totaling $77 billion. Coupled with strong fund performance the "asset-based expansion" of Blackstone totaled over $100 billion in the last 12 months, easily outpacing the record $34 billion of fee-paying capital we returned to investors.

With our LPs needing to reinvest the gains and initial principle, we have seen unprecedented demand for every segment of Blackstone, leading to the $30 billion of capital raised in the first quarter alone that Steve mentioned.

Think about it this way: since the third quarter of 2012, the firm has grown in assets an astounding 50% from $205 billion to $310 billion. At the same time, the ENI has grown 150% and distributable earnings 550% because as our asset base appreciates, and inflows are invested, the business model accelerates. All of that occurred while returning $124 billion back to our investors, proving that higher returns and realizations are positively correlated to investor demand and strong inflows.

The long history of market outperformance coupled with best in class products across asset classes has deepened our relationships with our clients. In Blackstone's case, the franchise sum is, by the design and everything we do, much greater than the parts. Not only is our investor base rapidly expanding, we have also observed a trend where our largest clients are making concentrated investments in our funds above prior funds' commitments, suggesting a winnowing of managers that favors Blackstone as market leader.

I also want to focus on a few key sustainable drivers of our results that you should keep in mind. The first is balance: Each of our four leading investing businesses represent between 21% to 30% of our total assets, and all are growing at double-digit levels, three to four times that of traditional managers. Any one of those businesses would be a top alternative manager with best-in-class market share returns and profitability.

Also, they contribute at different times in the cycles, creating a balance. This quarter, private equity led in ENI. Real estate led in distributable earnings. Our hedge fund business led in fee earnings, and our credit business grew the fastest in assets.

Operations: Selling out every drawdown fund of the last several years, some in record time, is a reflection of our fund investors recognizing and rewarding our distinctive strength and strategy of operating the assets we buy and the long-term outperformance that creates.

Global: All of our segments are anchored by a single global fund and over the last year, 50% of our capital was put to work outside the US where the dollar can buy more in places like the Eurozone, or bank dislocation or growth rates create unique opportunities. Investors value that balance.

Opportunity: All of our businesses grew between 14% to 15% over the last year and, in fact, as of today, all of our businesses represent a very small portion of the capital in their respective asset classes, evidencing, even as a leader, still remarkable opportunity to grow.

In private equity, BCP V, the firm's largest fund, has continued its strong momentum, realizing $254 million of performance fees in the first quarter and $870 million life-to-date, with $1.5 billion of net accrued performance fees still yet to be realized. The fund has now returned 100% of its committed capital and has $19 billion of value at current asset levels yet to be realized.

A few finishing thoughts about forward-earning indicators and momentum. A key measure for forward earnings is the growth of net accrued performance fees. That balance grew from $3.5 billion in the first quarter of 2014, to $4.9 billion at the end of the first quarter of this year, despite the fact that we realized $2.5 billion over that same time frame.

Those realizations represent 71% of the first quarter '14 net accrued performance fee balance and generated more than $2 a unit in realized performance fees. Remarkably, that means that Blackstone's asset base expanded faster than the record pace of realizations by adding $4 billion in total net performance fees while paying out $2.5 billion over the last year.

In the first quarter alone, we realized nearly $1 billion of our 2014 year-end performance fee receivable, but more than replaced that with $1.3 billion of new accruals. As the asset base expands, the rate of appreciation needed to grow ENI decreases, and lower realization rate can achieve greater distributable earnings.

We have talked in the past about the compounding effect built into Blackstone's earnings model, whereby we effectively create new performance fee assets via appreciation. The impact of that inherent momentum in our fund structures is reflected in another forward indicator: Blackstone's $151 billion of assets currently earning performance fees. That AUM measure is up 30% year-over-year. In fact, the fastest growth is in hedge funds and in credit.

In terms of investing, we continue to leverage our unique global footprint, operating expertise and scale to commit or deploy $8.3 billion through the first quarter and the first few weeks of the second quarter of this year. Not including an additional $4 billion, excuse me, $8.3 billion through the first quarter and an additional $4 billion that we committed in two large transactions announced in real estate last week, bringing the total to $12.3 year-to-date.

Our new business growth drivers and innovations are also contributing materially. Strategic Partners, which has been in a growth trajectory since it integrated into Blackstone less than two years ago, is up 30% to $12.5 billion. Our real estate Core-Plus platform, 18 months after its launch, is at $5 billion and just closed a $2 billion deal on Friday. Tac Ops is midway through its second fundraise and is at almost $10 billion, and our leading retail distribution effort generated $11 billion in inflows over the last 12 months.

The list is long, the opportunity is large, and the momentum real. Thank you very much for joining our call. And with that, we'd open it up for any questions.

Operator
Thank you. (Operator instructions.)

Joan Solotar
And just to remind you if you can, first round, just ask one question since we have a long queue, and then you can just come right back in. Thanks.

Operator
Your first question comes from the line of Michael Carrier, representing Bank of America Merrill Lynch. Please proceed.

Michael Carrier
Thanks, guys. Maybe the first question is just on the level of deployment activity and the opportunities that you're seeing. I think the real estate has been very clear and evident in terms of what you guys are focused on. I guess, just on the private equity side and then on the credit side, it sounds like you are doing more in Europe in credit. I just wanted to get a sense of, given the environment, where do you see some opportunities to still hit some of those returns and maybe in private equity, do you shift more to the core product for lower returns but still attractive opportunities?

Tony James
Hi, Mike. It's Tony. How're you doing?

Michael Carrier
Good.

Tony James
Well, private equity we're seeing a lot of that active deployment, and generally speaking values are high so if you live on buying public companies with a lot of leverage, I think that's not a good place to be. But some of the things we're emphasizing are, first of all, we have a lot of – we're building a lot of assets where particularly in the power and energy area where essentially by building our own asset, we're building assets with high teens cash on cash returns, we're getting in at book value and when we exit them when they're flowing assets, we can sell them at much lower cap rates and get capital gain.

We're also varied to a lot of consolidation. We buy a very good management team, small company and then can roll up the industry and the roll up acquisitions, even if we pay a fairly full multiple for the platform company, it's small in the context of all the things we can roll up and by the time we exit, our embedded costs in there is five or six times EBITDA. I should note that the average EBITDA level in our private equity portfolio is only four and half times today. These are not leveraged-driven high priced things.

We're also buying growth companies that need capital to grow, and I think we are getting some pretty good values on that. Those prices haven't been run up as much as many other companies by the availability of debt and low interest rates. And then finally we're doing a lot in the specialty finance area where the asset quality is high but the financial crisis wiped out a lot of competitors. And frankly, they went out of business, not because they lost money on the asset side of it, because they couldn't roll their liabilities. Well, giving them capital to grow, the customer need is still there, it's been a great place for us. So we're finding a lot of interesting things to do, putting a lot of money out and the returns are as high as they've ever been. So that's private equity.

Credit: A lot of focus on energy, obviously, and they're very active and engaged in a lot of energy stuff. You also mentioned Europe, the lending platform in Europe, which is a new effort for us. is going great guns. And so, some of the back up in the credit markets there for a while gave us some good mezz opportunities. So I think we're chugging along in that business as well.

Michael Carrier
Okay. Thanks a lot.

Operator
Your next question comes from Michael Kim representing Sandler O'Neill. Please proceed.

Michael Kim
Hello, guys. Good morning. Just coming back to sort of the realization ratio of about 70% on an LTM basis, that L.T., that you mentioned, which I think was up pretty meaningfully versus closer to 50% in 2014. So I know there's a lot of moving parts and assumptions beneath the surface, but just wondering if you could maybe talk a little bit about the sustainability of that ratio, particularly as you mentioned the receivable sort of continues to grow?

Laurence Tosi
So, Michael three-year average on that conversion, to use that word, is 40% and you're correct. In the last 12 months, it's closer to 70%. I think it's been particularly active over the last couple of quarters in particular, so I don't know that it'll stay at the 70% rate and I'm not sure it needs to. It actually only needs to be 45% to 50% to eclipse the distributable earnings of the last 12 months over the next 12 months. So the number may come down, but the earnings may grow.

Michael Kim
Okay, got it. Thank you.

Operator
Your next question comes from the line of Dan Fannon representing Jefferies. Please proceed.

Dan Fannon
Thanks. You know the $30 billion of AUM that came in this quarter, and wondering how much of that came from the retail channel and if you can kind of expand upon the relationships that are happening beyond what was established with Fidelity, within that set, well, I guess over a year ago. And also just a mix of generically between kind of existing and new customers – you talked a lot about the re-up that's happening from some of your larger clients, just wondering if you can give us some ballpark numbers as to the percentage of repeat customers within that big AUM number?

Laurence Tosi
So Dan, maybe – this is L.T., maybe I'll take the retail piece and maybe Tony will take the overall piece.

So, retail continues to both surprise us as well as to be a significant contributor. So, it was about $2.5, $2.6 billion in the first quarter came from the different retail systems, one. Two, there's a couple of trends in there that are very positive, which was in the systems that we've been in for a long period of time, we're seeing individual financial advisors distribute Blackstone funds to a greater set of their clients. We're seeing a greater set of financial advisors invest, so you've got greater penetration both within each advisor and then across it, and if you look at the list over the last six months, there's four, five distribution channels that we had not even tapped until that period. So it's a very strong story in all regards in the years off to an important head start with that.

With respect to my comments on the larger funds, I don't know, Tony add to this, was we are seeing some of our biggest clients, and part of this is the fact that the demand exceeds the capacity on making more concentrated bets in our larger funds and we see that as our two flagship funds come through in real estate and private equity. And I think it's a very encouraging sign.

I would point out though that that set of largest investors is – some are the same and bigger than they were in the previous ones, and some are new and they're quite significant. So we're seeing both a trend towards concentrated investment in Blackstone and a trend where very large-scale investors are starting to come in. Our most recent funds are now down to about 60% to 65% in North America. Five years ago that was 85%, which means also we're seeing some really nice global growth.

Tony James
Okay, so on the re-ups, I don't have exact number, Dan, but it's extremely high. And we're also getting a lot of cross-fund investors, so increasingly, investors take more and more of our products, which is reflected in some of the same trends that L.T. was saying. But there are very, very few investors in capital who are not re-upping today.

Laurence Tosi
Less successive funds, about 85% re-up rate and the cross-fund investments are 65% to 70%, more than one fund.

Dan Fannon
Great, thank you.

Operator
Your next question comes from the line of Patrick Davitt representing Autonomous. Please proceed.

Patrick Davitt
Good morning, guys. Could you give an update of where the ENI catch up is relative to the distributable earnings catch up on BCP V?

Laurence Tosi
So the overall catch up on a blended basis, Patrick, is 85%, on an ENI basis you're close to 100%, and on a DE basis you're about 60%. So that gets the blended basis of 84%. So the way to look at that is, going forward, as we have appreciation, the ENI – the firm will accrue 20% of the appreciation and BCP V, but as the distributions are done, we'll still be in the 80/20 catch up for the foreseeable future.

Patrick Davitt
All right, thanks a lot.

Operator
The next question comes from the line of Brian Bedell representing Deutsche Bank. Please proceed.

Brian Bedell
Great. Good morning, guys. Maybe you could talk a little bit about – a little bit more in detail about real estate, post the GE deal, do you see other types of assets out there and then how does that influence your view on fundraising even after the big – BREP VIII fund and then maybe just comment on the continued success in Core+, the $5 billion, where you think that can go in the intermediate term, and then just on the IRRs you're underwriting both for BREP VIII and Core+? Thanks.

Tony James
Okay, so in real estate we still see a lot of activity. There's a lot of – in particular in Europe, we're extremely active. We're still seeing a lot of activity in Asia, and so those are undiminished. The US is – GE was great, but as Steve mentioned, it overshadowed a multi-billion dollar take-private of a REIT that we announced the same day that got no press at all because of the GE deal. We spent a billion and a half to buy the Sears Tower and that's going to be a fantastic deal, I think. So there's plenty of big chunky stuff to do in the US as well.

We don't think that we're at a real estate peak; we think we're somewhere in mid-cycle. There's good values to be had on the buy side, and there's a reasonable market to sell on the sell side. It's kind of right in balance and it's a great time.

In terms of driving more fundraising though, away from Core+, which I'll come to, these are episodic funds where you go out and raise them and then it takes a while to deploy them. So we're not going to be raising the next global fund for a while. Our Asian fund has a ways to go, but our European fund got invested very quickly and we actually went and did a re-up or a top-up and we're coming through that very quickly so we'll be out in the market again fairly soon with a European real estate fund.

In terms of Core+, it's going great. We've recently closed some transactions. We've got sort of a – it's money we don't take down until we have places to put it and we have a backlog of interested investors and we're working on a bunch of deals. Where do I think that can go? Well, Steve set that number already, I think, for us.

Steve Schwarzman
I said when we started this business, in ten years we'd have $100 billion of AUM. We're one year into it. We're at five-something. That's amazing for just starting up, and I think as a pretty bold type of an expectation, but I think we're on track because the way businesses grow, is they typically start slower and the more you do, the more investors you get, the more money they give you and so starting out in the 5-6 range year one gives me a good sense that we've got a realistic shot of achieving what I think we can do. In life, when you start businesses, you have to have an aspirational dream that everybody understands, that's realistic, achievable but pushes, and I think that's where we are with Core+. We're very happy as are the people investing with us. We get lovely notes and emails from them.

Brian Bedell
It's been remarkable. Maybe just the IRRs that you're targeting for BREP VIII versus Core-Plus?

Tony James
Well BREP VIII IRRs are the same as all of our BREP funds. We shoot for in the 20s. And Core+ is in the low teens.

Brian Bedell
Great. Thank you so much for that color.

Operator
The next question comes from the line of Michael Cyprys representing Morgan Stanley. Please proceed.

Michael Cyprys
Hey, good morning, guys. Could we talk a little bit about the opportunity that you see within credit? It looks like you raised over $6 billion or so of capital in the quarter. Curious if you could just elaborate a little bit on which products those went to and also could you share your latest views on how you see that direct lending opportunity opening up in the US and Europe and how Blackstone is executing against that?

Laurence Tosi
It's L.T. I'll start off, Michael. And so the inflows with respect to the quarter that you saw in credit were largely in – they really were across the whole platform. We did have a quite a few in the CLO space. The BDCs continued to grow and then there were some separate account inflows as well. I think that – so the story there is really balanced. And that's really what's been taking hold for them for some time. They do have some new products that they're working on now which Tony referenced, and you'll see more of that in the second quarter. But if you look at where they are year-over-year and their growth, not only in their fee earning assets, but also their inflows, they're really well positioned and they're seeing good opportunities.

Tony James
And I just might add a couple of things on that. Direct lending in Europe is off to a great start and we have BDCs here. There are other parts of the world we can do that and we're thinking about that. The separately managed accounts that L.T. mentioned before are primarily focused on the energy opportunity and they've had a very successful energy sleeve, so to speak, to jump on the opportunities that have been created.

And then with GE Capital going through the reorganization it's doing, I think there will be some very interesting opportunities for GSO, and so we're getting geared up to kind of focus on that and see what we can make of it.

Michael Cyprys
Great. Thanks for taking my question.

Operator
The next question comes from the line of Bill Katz representing Citi. Please proceed.

Bill Katz
Okay. Thanks very much. I guess a multi-part question; some of them related.

Can you give us a sense of what's left on BCP V in terms of catch up? Steve, I'd be curious what the response is to the new private equity fund that's in the marketplace where you mentioned it could be a second quarter event. And then stepping back, I know it's very fluid and early, but what's your sense of the opportunity that may or may not come out of the proposal by the Department of Labor for maybe Blackstone and the sector at large?

Tony James
Blackstone and what, sorry?

Bill Katz
For both Blackstone and the sector in terms of alternatives into the retail channel given what seems to be an exclusion of illiquid assets into the channel, so curious your thoughts.

Laurence Tosi
We can do that in reverse. Maybe I'll answer the BCP V question and turn it over to Steve for the –

Steve Schwarzman
Yeah, I mean L.T.'s already answered it. We're 85% through the catch up and so that's where we are on that.

Laurence Tosi
Can I add one thing – it's important to distinguish that there's unrealized and realized and the 85%'s a blend and on the unrealized basis, we're pretty much through the catch up, 98.5% and then with respect to the realization part, we're only about 60% so quite a long way to go.

Steve Schwarzman
Okay, on BCP VII we have restrictions on what we can say because we're out busy marketing and so we can't tell you how we're doing exactly. But there's really terrific receptivity to the private equity area. The returns in that area have been really excellent historically. There's actually a very good response to Joe Baratta, who's running that business, which is terrific because one of the things that's important as a firm goes forward is that you have a new generation of management and I get all kinds of unsolicited positive things after Joe goes and visits somebody usually, followed up by some large amount of money, which I guess is the best way to express your love and appreciation of someone in the finance business. So, I think that all seems to be going well in that area.

Tony James
We have a hard cap of about $17.5 billion on that. As you know, we've had a pattern of getting our hard caps, so we're optimistic about this one.

On the fiduciary duty clause, which is what I think is what you're referring to, I don't think that's going to affect us much. I think it'll – and you can argue it will help us in various ways because I think our performance and the returns we give will make us the sort of an easy choice and other choices will be more difficult. But I haven't really studied the details of that so much. I think some of the things like some of those private client products with huge loads and things like that will be challenged. We'll see how that all that plays out.

Steve Schwarzman
I think longer term in the interest of the regulatory apparatus to provide access for retirement products for alternative asset illiquid products. Given the safety of products historically and the major outperformance, to deny people access to these products to somehow be protecting them so that they can earn lower returns, so they don't have as much money to retire with, strikes me as a very odd policy outcome and I would suspect at some point that will change because it's illogical for it not to change. In large part because most people don't have adequate money to retire.

So I'm hopeful that there will be a change in that area though I can't predict when that would happen, but it's so illogical to take the position that we're in now that change should come at some point and when it does it's sort of the leading brand name in our business with the kind of performance across the board that could be a very, very good thing for the firm.

Bill Katz
Thank you for taking my multi-part question.

Operator
Your next question comes from the line of Devin Ryan representing JMP. Please proceed.

Devin Ryan
Hey, thanks. Good morning. Question from me on the leverage lending market and volumes are down year-to-date, not sure how much of that is demand versus supply, but just curious of you're seeing any change in the timeline to organize financing and bring deals together in private equity just given – I think some of the larger banks have been a little bit less active in that market. Then, if you are, does that create opportunities for you just given your probably better cost of funding, just curious what you're seeing in that market right now.

Tony James
Well, we're – there's definitely resistance to leverage over six times EBITDA. That has increased, I suppose. There are lenders you can go that are not subject to that but they're obviously [indiscernible] group. So in general, we're driving our capital structures to that sort of leverage level. Frankly, we don't like to be much above that leverage level anyway so it's not much of an impediment. There aren't many businesses that justify more leverage than that on them. So I would say it's not so much more time.

I think the banks in general are short, don't have enough opportunities to put attractive earning assets on the books. This is why you have them, for example, asking negative interest rates and asking – giving back deposits and asking depositors to pay the banks and all this kind of strange stuff. So, the appetite is there and I don't think the timing or structuring of the deals or anything is really that impacted of it, but you're not going to see a lot – you're going to see big deals that require leverage of more than six times, it will be slower and will be harder.

Steve Schwarzman
But even absolute leverage, which I thought was embedded in your question, is lower just because with higher prices, private equity investors are typically more cautious which creates sort of fewer deals for the industry, not necessarily for us in certain specialty cases, but for the industry which is just less business for the banks to prosecute.

Devin Ryan
Got it. Appreciate the perspective.

Operator
Our last question comes from the line of Patrick Davitt representing Autonomous. Please proceed.

Patrick Davitt
Hello, guys. Thanks for the follow up. I have a broader question. You've had a pretty good relationship historically with the Chinese government and we're increasingly seeing some cracks in the data we're getting from there. I guess the question is broadly how concerned are you in terms of the direction of that economy and more specifically the Blackstone exposures that you already have in the current portfolio?

Tony James
Okay. So –

Steve Schwarzman
Do you want me to do it? China – is this a China question?

Joan Solotar
Yes.

Steve Schwarzman
We don't have a lot of exposure as investors. The impact of China is that it's slowing. I was just there for, off and on, for like two weeks. And they talk about the new normal with great pride actually and what it means is we're slowing down. They've said publicly that their target is seven; they're very specific, they said around seven. So the reason they probably said around seven is there's a good expectation it would be lower than seven, so they didn't want to hang themselves on seven and they reported seven just in the first quarter.

So what's happening is that their export model is being challenged by their own prosperity. That's sort of an odd thing that when Xi Jinping took over, he basically said I want to make my people more affluent, the average person more affluent. And to the extent they achieved that then having cheap labor to drive exports collapses on itself, if you will. So they know they have to pivot their economy and move to a different, more mature model with more consumption and services and things of that type, which is what they're in the process of doing. That will be a complicated thing because China doesn't provide the way you might suspect in those sort of old age protections and medical protections that some of the developed world countries, of course, provide.

So people have very high savings there, like 40% plus. So you have to drag those savings out and put them into the economy, which means they're now going to be putting in enhanced governmental safety nets. So that's being designed, actually by one of our old friends, Finance Minister Lou Jiwei, who's in charge of CIC. So they're building that at the same time they're pivoting the economy and this is a lot to deal with.

And I think the expectation is that, in terms of overshooting or undershooting expectation, their economy will probably undershoot. What's fascinating, it's still huge—you pick a number, it doesn't matter what it is, whether it's six or something even lower, it's huge. And what is in fact the same growth that they had in absolute terms a few years ago.

So they have a lot of complex things in their financial system. They've got enormous reserves, the biggest in the world and nobody close, roughly $4.8 trillion of reserves. They're working on getting their economy in a good zone. I think they'll also be using this infrastructure investment bank, they've taken $90 billion out of their reserves, $50 billion for the infrastructure bank and $40 billion for the silk road program, which is also building infrastructure.

And they're going to be able, I think, to use their surplus capacity within China, whether it's steel or other types of infrastructure-type stuff they've built for themselves. They're going to start building it for other countries, which is a very intelligent thing. And they'll have the rest of the world actually paying for that. So sometimes it's in your interest to do good things for other people. I think that's the benefit they're going to get from their infrastructure bank.

So that's sort of the China story. We have a number of investments there; I think they will all do quite well. They're oriented to the service sector and IT or medical, which are two big targets as part of their economic pivot. Deals are tough to do there. Actually, deals are easy to do there if you want to pay very high prices, and they're hard to do if you're really trying to buy value.

So we have a great team, we have a lot discipline in what we're doing. I think we like – but at the moment it won't be a huge consumer of capital for private equity but it will be for real estate because real estate has different asset classes doing either not so well or well. So in the area that is doing well, as part of their middle class growing and so forth, are malls and logistics because this huge burst of activity with their internet and internet shopping, they all need enormous logistic support and so being part of that chain is a very good thing.

So like in any large economy, the second biggest in the world – I'm giving you too long an answer, but I actually know something about this – that all is not good, all is not bad. There are sectors that we think are going to do extremely well and there will be sectors that won't, and you'll have a gradually slowing economy.

The biggest impact is on the emerging markets because they won't be consuming as many commodities. China buys, just in the grossest sense, like 50% of a lot of the commodities in the world. They are the commodity market and when they cut back, boy you feel it, whether you're in the oil business, whether you're particularly in the iron-ore business, which is one example, and other commodities.

Wow, you really—they really impact the market in a very fundamental way and so that kind of super cycle in commodities will for most commodities have a tough time coming back and that'll affect a variety of countries all over the world, whether that's in Asia or in Africa, or in Latin America, or in the Middle East, or Russia, or Canada. You know, people, the big resource countries will feel anything with China. And that's biggest issue with China in a funny way, its impact and shadow it'll cast over other countries as it changes its mix in its economy.

So that's the long form answer.

Patrick Davitt
Very helpful. Thank you.

Operator
I would now like to turn the call back to Joan Solotar for any closing remarks.

Joan Solotar
Great. Thanks, everyone, and we're available for any follow-up questions.

Operator
Thank you. Ladies and gentlemen, thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Good day.