# Final Transcript

**THE BLACKSTONE GROUP: Second Quarter 2014 Media Call**

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## SPEAKERS

Peter Rose – Managing Director, Public Affairs Group
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Joan Solotar – Senior Managing Director, External Relations & Strategy
Laurence A. Tosi – Senior Managing Director and Chief Financial Officer

## PRESENTATION

Moderator Ladies and gentlemen, thank you for standing by. Welcome to the Blackstone Second Quarter 2014 Media call. At this time all participants are in a listen-only mode. Later we will have an opportunity for questions and answers with instructions given at that time. As a reminder, today's conference call is being recorded.

I would now like to turn the conference call over to your host, Senior Managing Director, Peter Rose. Go ahead, sir.

P. Rose Good morning everyone, and welcome to our Second Quarter 2014 Earnings call for the media. With me is Tony James, Blackstone's President; Joan Solotar, Senior Managing Director for External Relationships & Strategy and Laurence Tosi, Blackstone's Chief Financial Officer.

As always, Tony will give you the highlights for the quarter and then he will be happy to take your questions.

Before handing over to Tony I'd like to remind you that there will be a call for our investors at 11:00 a.m. eastern standard time and I would encourage you all to listen into that also. The dial-in numbers are on a press release on our website. Thank you, and, Tony.

T. James All right, Pete. Thanks, and thanks, everyone, for joining our second quarter earnings call. Overall it was a spectacular quarter, frankly. Revenues in the quarter were up 56% and economic net income surged 89% over last year's quarter. Year-to-date revenues in ENI are up 39% and 61% respectively, spectacular growth.

Distributed earnings were $0.65 per unit for the quarter, more than double last year. And this was driven by over $13 billion in realizations for this quarter alone. The growing spread and diversity of our funds and the expansion of our current yield vehicles, hedge funds and secondary funds, all of which have regular distributions, are combining to deliver increasing stability of our distributions to our unit holders.

Strong investment returns and fundraising of $14.5 billion during the quarter powered a 21% growth in AUM to $279 billion and this is despite the high level of disposition activity. Gross inflows of new capital across our product mix in the last 12 months were stunning, $62 billion.

As a firm we've moved away from the episodic fundraising of years past, which caused AUM to ebb and flow somewhat and now, given the breadth and balance of our product line, we're always in the market and we have a much steadier stream of inflows today than we've ever had in the past and I expect that to continue.

A few highlights on each business. Private equity had a truly spectacular quarter, with revenues more than doubling and earnings more than tripling. The portfolio appreciated 8.4% in value during the quarter and is up 28.3% over the last year and that's the composite portfolio across private equity, Tac Ops and strategic partners.

A primary driver of this strong appreciation, strong investment performance is EBITDA growth of our portfolio of companies. EBITDA growth has moved from the low single digits over the last 18 months to low double-digits last quarter. This is in distinct contrast to the S&P 500, which is stumbling along at growth rates of only about 2% and it's a credit to our management teams at our portfolio of companies.

In addition, our large PE fund, BCP V crossed the preferred return hurdle and produced $487 million of carry income in the quarter. Because we were in the catch-up phase, we get a disproportionate share of the gains and losses from BCP V until we've earned back to 20% of the total. While we were in this phase the effect of changes in values of BCP V will be magnified.

Overall realizations were high at $4.2 billion for the quarter, but new investment kept pace with $4.3 billion deployed and committed during the second quarter. AUM of private equity grew 28% year-over-year driven primarily by strong fund raisings by strategic partners, our secondaries business, which hit its hard cap of $4.4 billion and the final closing of Tac Ops I. Despite the recent vintages we're already in the process of raising our follow-on energy fund and our second generation Tac Ops fund.

In real estate the core opportunistic funds appreciated 6% in the quarter and 28% over the last 12 months, interestingly the same percentage as private equity. This powered growth of both revenues and earnings of close to 30%. With the Hilton and Brixmor follow-on offerings it was a big quarter for realizations, showing nearly $7 billion during the quarter of monetizations.

New investment activity also stayed strong with over $5 billion deployed and committed, the most of which was in Europe. AUM growth in real estate was 26% driven by the excellent reception to our Asian and European opportunistic funds, strong growth of our publicly traded mortgage REIT, which is called BXMT, Blackstone Mortgage Trust and a strong start to our core-plus real estate business.

Although our current $13 billion flagship real estate fund, BREP VII, completed its fundraising just two years ago, like magic it has grown to $16.8 billion today through recycling and co-investment. And despite this expansion and despite this recent vintage we are already approaching full investment of that fund and anticipate being back in the market with BREP VIII sometime early next year.

In BAAM, our hedge fund solutions business, things really continue to roll. Revenues grew 20% year-over-year and earnings rose 16%. BAAM produced composite returns of 2% for the quarter and 11% over the last year with much, much lower volatility than the overall equity market. This performance substantially exceeds that of the hedge fund industry averages and drove a 21% increase in AUM over a year ago.

The growth in AUM includes an additional closing on our new drawdown fund, which acquired interest in the GP's managing hedge funds, bringing that fund to $2.3 billion. It also includes inception of our daily liquidity products for retail-oriented accounts and continued growth of various permanent capital vehicles in this business segment.

Our credit business, GSO, generally posted returns of 2% to 5% this quarter and 16% to 31% over the last year, depending on the product area. Considering that real interest rates are near zero, 15% to 30% annualized returns in debt products are truly amazing. Revenues and earnings at GSO were up 8% and 27% respectively.  AUM grew 12% driven by the launching of three CLOs moving up \$1.9 billion and a near doubling of our highly profitable hedge fund strategies, which leapt from \$4.6 billion to \$9.3 billion.

Advisory revenues overall were about flat with last year's second quarter while earnings grew 13%.  Park Hill and our capital markets businesses had strong quarters offset by a slower quarter in our restructuring business, which is just what we expect as the economy heals and markets stay strong.  Our M&A business is up 41% year-to-date as it participated in the general pick up of M&A volume.

So, as you can see, in general, things continue to go extremely well for us across the board.  All of our businesses are producing best in class returns, growing AUM and spawning exciting new products and growth opportunities.  New investment activity remains strong.  We have a lot of dry powder and we are in a great position to continue to harvest the massive gains that are not only already embedded in our portfolios, but continue to grow in our portfolios.

I was asked at our recent Investor Day what makes Blackstone special? Why is it the only firm that has been able to build leadership positions in multiple businesses? And how does it continue to be able to post best in class performance across all the different alternative asset categories? I think the answer really boils down to three things.

First, we maintain a small-firm feel where the organization is flat, our leaders are all very hands-on, in the trenches and everyone thinks like an owner. Second, we have a special culture, one that emphasizes camaraderie, sharing and helping, a zest for the business, innovation and a passion for being the best. And, third, we have amazing depth of talent from incredible leaders heading each of our businesses and amazing depth of talent right on down through the ranks to the newest employee.

With that, I will be happy to open it up to questions.

Moderator We will first go to the line of Will Alden with the *New York Times*. Go ahead, please.

W. Alden	Hey, guys, thanks for taking my question.  I was wondering if you could tell me a little bit more about what happened with Blackstone Capital Partners V in the quarter and what was behind it crossing that threshold?

T. James	Okay, well I'll talk generally and then maybe I'll turn it over to LT for specific numbers, if you'd like that.  But in general, as I mentioned, this is a maturing portfolio.  The EBITDA growth rate of the companies in BCP V is actually higher than that of private equity overall, so the companies are doing very well.

And we've had not only the appreciation that comes with that, but we've actually had a lot of realizations.  So, of the gains that I mentioned over $120 million were actually realized in the quarter in terms of cash, so it's not just marks by any means.

And so, the way the carry works is we're entitled basically to 20% of the gains, but the LPs get their expenses in the 8% return back before we get anything.  Then once we get over that 8% return we get 80% of the gains and they get 20% until we have 20% of the total and then from then on we get 20% of any incremental gain.  So, that's a little bit of gobbly-gook maybe, but I hope you understand.

So, we're in that phase where each dollar gain here, $0.80 goes to us as catch-up to getting us to the full hurdle, the full carry that we're entitled to. I don't know if you want more specifics than that, Will, or whether that does it.

W. Alden That's great. Thanks.

Moderator We'll go next to the line of Devin Banerjee with Bloomberg. Please go ahead.

D. Banerjee Thanks. Hi, Tony, thanks for your time. I wanted to get a little kind of philosophical on you. At the end of your Investor Day you were also asked, you and Steve were asked, what you thought the biggest challenges to Blackstone as a franchise are. And I think you both answered that it would be sort of regulatory forces and unwise regulation.

Obviously, that's kind of an exogenous factor. You know, you can lobby and stuff and whatnot, but ultimately it's sort of out of your hands. I wanted to ask you what you thought the biggest endogenous or internal challenge is to your growth because you're clearly well on your way to managing $300 billion plus, you're basically pulling away from your peers in the alternative asset class. Steve has said you're probably on your way to half a trillion in assets.

So, with that growth what do you think the biggest internal challenges are? Is it that small firm feel do you think that may be stressed or what other factors could it be?

T. James — Well, that's an interesting question, Devin. It's probably the kind of thing we ought to have a glass of wine and discuss.

D. Banerjee — Sure, anytime.

T. James — I think the small firm feel is partly the culture of a place and probably the way it's managed and it partly reflects the character of its leaders and partly it reflects its roots. And we're still an entrepreneurial company and we still have first generation -- our founder is still our CEO, all of which helps.

And at DLJ I watched a firm in similar part of its development and we ended up with 6,000 or 8,000 employees and still had a small firm feel.

Blackstone has 2,000 employees today and I think it's got the same small firm feel, frankly, it had when we were 400 about, when I joined.

And part of that is because each of our business units is in and of themselves small, so we have more business units, but each one feels like an elite SEAL team. And they act that way and they have that sense of camaraderie and togetherness. And our biggest businesses have only a couple hundred people and they're spread all over the globe.

So, we don't have big offices and big units and so I think we can continue to grow substantially, we can double our headcount and still, if we manage the place right, keep our small-firm feel. So, I don't think that's the big issue.

I think at some point the playing field gets certainly more crowded in terms of more funds doing more things and on the margin those funds or those businesses sometimes either could find themselves competing with each other in a way or they could find themselves going after the same opportunity. As long as we can keep the spirit of team play, I think we can sort those out smoothly.

But, certainly, in some other firms that I've had exposure to where internal politics is vicious it becomes very difficult to sort that out. But, for example, our advisory, we have a big restructuring practice as GSO grows and it does a lot more in bankruptcy and distressed financing clearly we're not going to be an advisor on one side and a principle on the other, so, clearly, there's more potential for conflict.

So, I don't think that's going to limit growth necessarily, but it is a challenge to manage because we have a lot of entrepreneurial and creative, aggressive people and they're spawning a lot of new businesses and they're great at seeing white space and going for white space. And sometimes a couple of them see the same white space and go for the same white space so we just have to sort that out.

And then, of course, and posed by the exogenous factors is a much more rigorous legal and compliance requirement today and it's not that we were doing anything wrong before, we weren't, we were flawless before, but now you're actually kind of second-guessed for doing things that are perfectly okay and you spend an awful lot of time justifying that and that's a challenge to manage.

And as much as anything, sometimes we do things that are totally within the bounds of not only legality, but fairness and ethics and everything else, and yet it becomes a press issue or something where we get a lot of questions. So, doing the right thing, but still being challenged for it or questioned about it is frustrating and takes more management.

D. Banerjee — Yeah. Is that taking actually your time and Steve's time, like when the SEC comes in for its normal presence exam are they drawing you into the room or is it mostly your compliance staff taking more time?

T. James — No, the SEC, I mean our compliance staff keeps us honest day-to-day and makes sure we do things in totally professional way all the time, but when the SEC comes in they want to talk to business people.

D. Banerjee — Yeah, okay. Thanks. Appreciate it.

Moderator — We'll next go to the line of Greg Roumeliotis with Reuters. Go ahead, please.

G. Roumeliotis — Thank you. Good morning, Tony. I have three brief questions to actually follow up on Will's and Devin's questions. On BCP V I wanted to ask if you expect it to be above the hurdle rate also in this quarter, in the third quarter and in the coming quarters? Any potential for clawbacks, etc.?

T. James Well, clawbacks aren't really relevant for this question. Clawbacks really relate to distributions as opposed to the accrual of carry.

G. Roumeliotis So, just to be clear, although you're catching up, you're not really taking any carry out of BCP V; you're accruing the catch-up, but you're not taking it at the moment?

T. James No, we're paying out carry as well, but clawbacks don't, as I say, it's just money we retain, we hold back. But in any event, I think BCP V should continue to accrue more than the pref. The EBITDA growth of the companies is higher than 8%, and we're getting cash flow and pay down and all that, so in a static market, we should continue to accrue more in the pref.

However, you tell me what the stock market's going to do because that's an overlay I can't control.

G. Roumeliotis Okay, that's helpful. Thank you. And also, we see now since the beginning of the year in terms of ENI private equity being a bigger contributor than real estate, but, obviously, in terms of realized carried interest and distributable earnings real estate still dominates and I was wondering how you see that mix moving forward?

T. James Well, I think real estate will continue to drive a lot of dispositions because it's got a mature portfolio and cap rates on real estate are low and properties are doing very well and so we've got a full cupboard there and I think they'll continue to be the lead horse in distributions.

But in terms of proportions I think you'll see private equity increasing their proportion as they start to harvest some of the gains they have embedded in their portfolio. So, I would say it would rebalance a little bit, but with real estate still leading.

G. Roumeliotis Okay, that's also very helpful. And, finally, on Devin's philosophical question about if any of your asset management, if I could expand it generally to asset management in general, and traditional asset managers versus alternative asset managers. There's a lot of soul-searching in traditional asset managers about where growth comes from. And, obviously, firms like Blackstone have a lot of growth ahead of them still, but they're also looking at opportunities in retail, but also still complain every now and then, as I hear Steve speak on the discount between traditional and alternative asset managers.

Do you consider or would you ever consider in the future any bolt-on transactions or any really transformational acquisitions or even approaches from other people in the traditional asset management space?

T. James Well, we've talked about that over the years and we just think that, first of all, the answer is probably not and we've talked about it over the years, but because we just feel like that's a commoditized business and a lot of the big successful firms that do that do it through strong distribution so it's a push business to retail investors. It's not really our strength. We have a high bar for acquisitions that we make.

We have to have the ability in those companies to have sustainable, superior performance. So, as you know, in public managers that's very hard. There's regression to the mean. The best guy in the last five years is probably not better than median in the next five statistically, so that's one bar that wouldn't be met.

Secondly, there have to be significant synergies both ways with what we buy. We have to make them better, they have to make us better. It's hard to see that because of the appropriate compliance, Chinese walls between public and private, how that works there.

Thirdly, we like businesses that are really talent-driven with relatively few elite people, not lots and lots and lots and lots of bodies. We want to be the Navy SEAL and not the infantry. And they're more infantry type businesses culturally.

So, when we look at a lot of things it just doesn't seem, and sort of why, you know, we don't need that at all. Why would we buy a slow growing business and lower our growth rate? Why would we buy a low margin business when we have high margins? Just no matter what we look at we think, gee, I like where I am and I don't like where they are, so why rush to where they are?

G. Roumeliotis How about if they need you? That would be out of the question, right?

T. James Well, we love our business, but we're a long way from being anywhere near a value that we think is fair value for our business. But at $100 a share, I don't know, I'd have to think about it.

G. Roumeliotis Okay, thanks so much, Tony.

Moderator We'll next go to the line of Henny Sender with the *Financial Times*. Please go ahead.

H. Sender Hi, Tony. I have a couple of questions for you. On the one hand your investment and exit pattern is driven by the life cycle of your fund, but it's also driven by where the values are, particularly in the stock market. So, could we just talk for a minute about the private equity business? You had a lot of exits. If the stock markets continue to slow the rate of acceleration, will there be less exits do you think and could you also talk about the extent to which you are able to put more money to work in private equity because that pace of investment in private equity has picked up recently and I wondered why and whether you expect whatever elements contributed to it to continue? That's questions number one and two.

T. James

Okay, on the exits driven by the stock market I don’t think sustaining the exit pace we’ve had is in any way dependent on the continued escalation of the market or an acceleration of the escalation of the market. However, so you’re looking at the first derivative, that is, the pace of change of the stock market or the direction of change of the stock market rather than the pace of change and it is dependent, though, on the level of the stock market.

So, if the stock market hangs in where it is today I think you’ll continue to see some good exits. If the stock market were to drop a lot, obviously, that would impact our public pace. Now, whether that actually lowers the exit rate or not is dependent on two other factors. Number one, what’s happening with strategic M&A? Because as the stock market has gone up, strategic M&A is at a much earlier phase in its cycle and is rising rapidly. And we’re starting to see some more strategic exits than we saw before.

And even in a lower stock market if the strategic M&A continued it could actually lead to an acceleration of dispositions, particularly, because in IPOs we don’t usually sell very many shares, so even an IPO doesn’t lead to a real realization for three or four years. So, even a lower stock market as long as the M&A market continues to build momentum could actually accelerate dispositions.

The other thing is, of course, the credit markets. And a number of our dispositions and realizations have come through recapitalizations and things like that, taking advantage of historically low, long-term interest rates and, again, as long as that stays about where we are, which the Fed is saying it will, there will be no diminution of that. But if interest rates rose a lot and the credit markets were in turmoil, you'd see less of that although I frankly think interest rates have been low enough long enough that that form of exit has pretty well played its course out in the mature portfolio and future ones will just come as companies progress and pay down their debt and as long as the markets stay open there will be some more opportunity for that.

So, there will be some more of that, but we'll kind of work through the backlog, so to speak. That gives you a little color on exits, perhaps. On the putting the money to work, we're in a lumpy business so one Gates in the right quarter changes the amount a lot, but it's hard to extrapolate from one deal. There might not be a big one for a long time. I would say, in general, and Gates is sort of an exception. Not much of the money we're investing is actually going into traditional leveraged buyouts. A lot of it is going into things, which is growth capital or new builds of stuff and one thing and another.

And in some sectors, like energy, for example, there's a huge demand for primary capital, just energy producers, power producers, infrastructure, there's just need for that all over the world and you're able to provide capital to build those assets and buy in essentially at book value and you're therefore disconnected from public multiples and things.

So, we've emphasized stuff like that. We've also emphasized growth capital for companies with really high organic growth rates, which we think will be kind of exciting IPOs some day and also you get paid to wait, so if the market does back up and your company has high organic growth rates you're accruing equity value in a very different way than if you buy a slow-growing mature company where a lot of the driver for your returns is either pay down of debt or one shot operating fixes.

Because once those things are done you don't accrue a lot of value annually, but with a company growing in 15%, 20% each year you wait you get a lot more value.

H. Sender So, I mean do you see the strategic M&As as competition who are raising the values and you just don't want to play in that, so to that extent you're a victim? Or do you see the strategics as your exit in many cases and therefore you're a beneficiary of their renewed animal spirit?

T. James It's some of both, of course. And there's another way we benefit from a lot of strategic activities because a lot of times when big companies, one big company buys another, they'll reallocate assets and they'll sell off pieces.

So, a lot of M&A activity tends to beget more private equity activity, even though on a given asset we may be blown out of the water by a strategic buyer. Generally speaking, though, the kind of businesses that private equity is focused on have traditionally not been ones which were either of much interest to strategic buyers or, particularly when we're on our more growth-capital oriented kinds of investments where there's an entrepreneur or a controlling shareholder who doesn't want to sell out to a strategic at this point because they think there's a lot of growth and a lot of value to be accrued and maybe in five years they'll sell out, but they want to really build the company for a while before that happens, either through organic growth or consolidation.

So, many times the companies we're investing in are ones where strategics have been ruled out.

H. Sender — Turning to the next question, you would say that Blackstone results are not dependent on easy money since, a) you've outperformed the S&P and b) a lot of the increase in valuation comes from the growth of EBITDA, yeah? Is that right?

T. James — Well, that sounds like a trick question to me. So, let me rephrase it. I think that Blackstone results are not dependent on low interest rates directly and many of our businesses are actually looking forward to somewhat higher interest rates. And the EBITDA growth of our companies has been a really important driver to our returns.

However, the level of the stock market is clearly important to our valuations.

H. Sender Thank you. And final question for you is are you seeing public pension funds increasing their allocation to alternatives and is part of the reason of your astounding $60 billion increase in assets under management over the last 12 months reflecting a) that they are increasing their allocation and b) that you're getting a bigger share of that increased allocation?

T. James Well, first of all, clearly both institutional and retail investors and you didn't mentioned retail, but it's important, both categories of investors are increasing their allocations to alternatives. So, the simple answer to that is yes.

In terms of share, I don't really know because we don't really track market shares that way, but we're getting fantastic receptions to our products and I think in the last year just about every single one of our products has hit its hard cap.

So, what limits share is less our ability to raise more sometimes than just we're capped out and we know, it always kind of tears us up to see all that unsatisfied demand go to our competitors, but that's happening. I don't know where that's leading shares, but we're getting great reception to our products.

And the big growth has been in retail now where I think in the last 12 months we've raised something like $8 billion to $10 billion of retail up from a few hundred million five years ago. So, the big growth is retail and it continues to churn and chug along and so, those are some of the factors.

H. Sender — Very helpful. Thank you so much.

Moderator — We will next go to the line of Ryan Dezember of *The Wall Street Journal*. Please go ahead.

R. Dezember — Good morning. Henny took care of some of my questions, but I was wondering if you could offer some color, you know, you talked about the money that you did put to work in private equity, I think $2.2 billion during the quarter. Where did that money go? Which deals did that go into?

T. James — I'm going to turn it over to LT.

L. Tosi — It actually follows a theme, I think, Ryan, that Tony went through before. So, one of the deals was Kronos, an interesting technology-based platform; Outerstuff, which is a retail apparel for sports; the Versace deal closed in the quarter and we had AccuBump, which is a security company and we also had an energy services infrastructure business.

So, it follows the themes that Tony gave you that it's unique businesses that are either high growth or have a unique position. But I would described all of those as being somewhat off the run private equity deals that you wouldn't see in a typical LBO.

R. Dezember Right, and I think, if I'm not mistaken, all but maybe, I think the infrastructure business is probably the Mexican wind farm that you guys are involved in.

L. Tosi No, that's not what I'm referring to. That was some of the deals that closed, but that's not the one I was referring to. That was one of the deals.

R. Dezember A lot of those, if I'm not mistaken, those were not necessarily full-blown takeouts where you bought like a stake, whether it be a minority or a majority stake in a business. Are you finding it hard to do deals where you have kind of control right now or is that a reflection of the elevated multiples and the high stock market?

T. James — Ryan, it's a question of price. It's easy to do controlled deals right now. There's tons of financing and there's lots of stuff for sale. We're trying to avoid frothy auctions.

R. Dezember — Okay. Do you see that changing in the coming quarters? You mentioned a lot for sale. There hasn't been a public to private LBO of note in some time. What's your take on that? Is that kind of like an old, something of the past, just like club deals or is that just a moment in time where for various factors there haven't been any deals like that?

T. James — No, it's not a thing of the past. I think it's a cyclical thing and I think it's valuation-driven. You take a stock market at an all-time high and then you put a significant premium on it and values are just daunting. But, by the way, there have been some public to privates in the real estate space. We've done a couple of them. We did one bid in Italy, for example.

R. Dezember — Okay. And just kind of general outlook for the IPO market? You've got a couple of things on file yet do you see the market still being pretty receptive to your companies?

T. James — Yeah, I do. I mean, we've got good companies with excellent managements. They're growing multiples of GDP and I think they're good investments for equity investors. As long as the economy stays good and a lot of the markets stay good, I think the IPO market will stay open.

R. Dezember — Okay. And just one more, what's your pipeline look like for the deals you're seeing offered to you? Is it kind of more of the same? You know, obviously, there's always kind of the fairly transparent auctions going on for various, particularly other private equity firms', assets. What's kind of like, can you give a sense of the mix of opportunities you're seeing, things that are coming to you in the market, things that, I'm sure you can't be specific on some of them, but just kind of a flavor of what's out there for you guys to choose from right now?

T. James — Well, okay, I think in private equity it's the same answer that I think that I answered for Henny in terms of the kind of mix. It is what it is. It's more growth stuff. It's more consolidations and it's more things where we're building new assets, infrastructure-related assets, energy-related assets, all that stuff continues to be pretty active.

You know, there's a few more opportunities in Asia than there have been and some interesting things there, but, in general, in the U.S. and Europe the traditional private equity things that we like in terms of value I would say the deal flow is below average. We're finding, obviously, interesting things to do, we're very happy with what we've been doing, but it's a lot of work and it's a lot of sort off the run stuff, sort of eyeball stuff, if you will, by comparison with traditional, public to private or big leverage buyout.

On real estate I would say there continues to be some interesting things, but there's been a more marked geographic shift whereas in the last few years an awful lot of the money was put to work in the United States. Europe's come up strong lately than the United States. The sort of future pipeline in the United States is looking skinnier, still pretty robust in Europe and growing rapidly in Asia. So, there's kind of been an eastward shift in the real estate activity.

R. Dezember Great. Thank you very much.

Moderator Next we'll go to the line of Dan Primack with *Fortune*. Go ahead, please.

D. Primack — Hey, Tony, good morning.  Hopefully, you and I can discuss this over wine with Devin later.  A quick question, I'm curious if you can shed any light on where Blackstone is vis-à-vis on settlement negotiations on the Dahl case?  You guys, obviously, are just one of four defendants left on this thing at this point.

T. James — Well, there's no real change there.  As you know, we think this case is completely meritless, complete malarkey and we continue to battle it, but beyond that, [unintelligible] litigation --

D. Primack — When you say that are you saying you guys are prepared to defend it in court in November?

T. James — We think it's outrageous.

D. Primack — Appreciate it, thank you.

Moderator — We'll next go to the line of Sasha Dai with *The Wall Street Journal*. Please go ahead.

S. Dai Good morning, everyone. Congratulations on a strong quarter. Tony, my colleague Ryan has been pretty extensive in his questions. I only have one question to follow up on the regulatory issue. And I apologize for making this even more frustrating for you.

My question is in regards to the group purchasing programs and related fee issues. My colleagues have written about it recently. I know you guys have always been enthusiastic and supportive of the programs and I can clearly see the benefits to portfolio companies, the general manager and fund investors. But the fees that Blackstone received from the intermediaries and whether that's been shared with the fund investors has attracted some scrutiny and attention, at least from the press.

To what extent has the scrutiny changed your way of thinking about and dealing with the fees in that regard?

T. James It hasn't changed it at all. We've created an intermediary, which saves our portfolio company something like $600 million a year, so a huge number. And our LPs love it.

S. Dai Okay, great. Thank you so much.

Moderator We have a question in queue from the line of Chris Witkowsky with Reuters. Go ahead, please.

C. Witkowsky Hey, Tony, thanks for taking my question. I just wanted to follow up on the Tac Ops fund. You mentioned that there's actually a Tac Ops II out in the market. I'm wondering if you can provide any further details about that? And also how that business is doing, if that's still very busy.

T. James Okay. So, yeah, we're just beginning the second generation of Tac Ops. The business has been spectacularly successful. We got that fund invested in just about two years, which is faster than we thought. They've done over 30 transactions. They have probably the deepest pipeline of any business we have.

In fact, there's so much interest – and the returns have been great, well into the 20s – so, it's been so good it's kind of, frankly, it's a little stunning to think that we had our final close within the last 12 months. We've not only had our final close on that fund, but we started the next generation.

And it's caught us a bit, not by surprise, exactly, because we knew it was going great, but we're scrambling now to get the fundraising machine going.

C. Witkowsky	Is that second generation, is that officially in the market fundraising now?

T. James	Well, Tac Ops is a different business. It's structured in some ways in the sense that I think it's got 180 different entities to it, or some such thing. So, there's a lot of SMAs and there's a commingled fund and some of the SMAs are fully invested and we're already talking about re-upping them. So, yes, is the simple answer.

C. Witkowsky	Got it. And the idea there of separately managed accounts for single investors, is that something that you're seeing a lot of appetite for?

T. James	Yeah, it's funny. I'd say there are two drivers, and it's across our businesses, there are two drivers for that. Increasingly big investors want something tailored to their needs and I think the business that got on that first was our BAAM business.

It shifted from being a traditional fund-to-fund to now more than half of their assets are individually tailored. But we're seeing it in real estate, we're seeing it in credit, we're seeing it in Tac Ops. And then the last business for it to come to, interestingly, is really traditional private equity, but we're starting to see it there as well, where investors want something specifically tailored to them in terms of a specific play or a specific region or a specific longer holding period or different return risk profile or whatever it is. So, there's definitely more of that. And some of our new products are spawned when a big investor comes to us and says, I'd like X. Can you build X for me?

And we build X and then, lo and behold, of course, we find that other people want the same thing and so there's definitely more of that. That's one force. The second force is increasingly some of the big investors are saying, gee, I don't have the staff to monitor a couple hundred different managers. I'd like to concentrate my assets more on fewer managers and you guys who can do, you guys are about the only ones that can do multiple things globally well, so I want to give you more and I want it to be cross-product, but I want it to be special; again, let's design it so that it has special features and specifically tailored fees and things like that.

And some of that we've put historically under the moniker of strategic partnerships. So, there's definitely more of that. So, that second bucket I'll call cross-product SMAs where the first one was custom-designed product SMAs.

And then, thirdly, there is an attitude on the part of limited partners that somehow, even if it's the same product, an SMA is better. They just feel like it's more individual and so some of it is ironically very much the same as the commingled fund, but it's in the form of an SMA. For whatever reason they like that. So, all three of those factors are driving the creation of more SMAs.

C. Witkowsky Got it. And, finally, in terms of retail investors that you mentioned, I'm curious do you have specific products for retail investors and kind of how are they coming to you?

T. James Well, yes. We take our basic core investment acumen and package it in a special way to retail investors in a number of different ways. So, we have closed end funds, we have RICs, we have traditional drawdown funds. We have specially created multi-product funds, we have things that trade, things that are private. And so, across our firm all the different businesses have multiple different retail products.

And some of them are targeted to be bought and sold on the stock exchange in a hundred share lots by moms and pops and others of them at the other end of the spectrum, are target towards multi-billionaire family offices and they're much more institutional like, but not necessarily the same. And so, we have the full spectrum of stuff in retail and we'll continue to push that and continue to hit and offer our services to everywhere from very, very affluent, ultra-high net worth, down to normal investors.

And I'm not sure what you mean by how that comes to us, but we have a dedicated retail team that's quite large here that constantly talks to securities firms, trust companies, endowments, foundations, family offices, high net worth asset managers and so on, and they're constantly in dialogue with them and they're constantly creating product for them.

Some of them to play general themes, but some of them are very specific product needs that those systems will ask for, just like I mentioned with the SMAs where they'll want something – can you design this for us. –

and so, our people are constantly talking about that. They're doing the product design and then they manage the distribution.

C. Witkowsky Got it. Okay, thank you very much.

Moderator Next we'll go to the line of Evelyn Lee with Private Equity Real Estate. Please go ahead.

E. Lee Good morning, Tony. I had a few questions about real estate, one being your core-plus platform that's a relatively new business for you guys. Could you talk a little bit about the growth of that business thus far and your outlook for continued expansion?

T. James Okay, Evelyn. Well, we're very excited by this. So far we've done four one-off transactions. The total equity involved in those transactions is probably close to $2 billion. We've got another in the market and they look really, really good. And we've got a number of conversations going on, some in the form of commingled funds, some in the form of SMAs. And so, it looks like this will be a very big business for us.

So, I would say we've just begun, we've just scratched the surface yet it could be that we have a huge amount of growth ahead of us.

E. Lee — Okay. You mentioned comingled funds. How likely do you think you'll be coming into the market soon with a fund for this strategy?

T. James — We're in the market with one.

E. Lee — Okay. And then you mentioned the BREP VIII. I was curious if you could offer any more color on that. BREP VII is the largest real estate fund ever raised, so you think you're going to, is anything safe that you can say about BREP VIII?

T. James — No, we're not in the market yet and, obviously, we'd hope that it would be at least as big as BREP VII.

E. Lee — Okay. All right, well, that's all my questions. Thanks so much.

Moderator — And that is all the time we have.

P. Rose Thank you, everyone. I know that there are a few of you who are in line for follow-up questions. We've just, unfortunately, run out of time because we need to prepare for the 11:00 call. With the follow-up questions call my office and we'll get you on the phone with the right person or get the right answer to you.

Thank you, again, for joining.

Moderator Ladies and gentlemen, that will conclude your conference call for today. Thank you for your participation and for using AT&T's Executive Teleconference Service. You may now disconnect.