BX Fourth Quarter & Full Year 2014 Investor Call – January 29, 2015

Coordinator: Good day, ladies and gentlemen, and welcome to the Blackstone Fourth Quarter and Full Year 2014 Investor Call.

I'd now like to hand the call over to Joan Solotar, Senior Managing Director, External Relations and Strategy. Please proceed.

J. Solotar: Great. Thanks and Good morning, everyone. Welcome to Blackstone's fourth quarter/full year 2014 conference call. I'm joined today by Steve Schwarzman, Chairman and CEO; Tony James, President and Chief Operating Officer; Laurence Tosi, CFO, and Weston Tucker, Head of Investor Relations.

Earlier this morning, we issued our press release and slide presentation illustrating our results, and you can find that on our website, and we're going to file our 10-K in late February. I'd like to remind you that today's call may include forward-looking statements, which are uncertain and outside of the firm's control and actual results may differ materially.

After a discussion of some of the risks that could affect the firm's results, please check the "Risk Factors" section of the 10-K. We don't undertake any duties to update forward-looking statements, and we will refer to non-GAAP measures on the call and to find reconciliations, please look at the press release.

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

So, a quick recap of our results. We reported economic net income or E&I per unit of $1.25 for the fourth quarter. That's our second best ever, and $3.76 per unit for the full year, which is a record, and 22% above 2013 with double-digit increases in both performance and management fees.

We also had record results in distributable earnings, $1.1 billion for the fourth quarter. That's $0.92 per common unit, and that was up 35% year-over-year. For the full year, it was $2.51 per common unit. That was up 61%. We will be paying the distribution of $0.78 per common unit. That's to unitholders of record as of February 9, 2015, and that's our largest quarterly distribution ever and no, the cupboard isn't dry as you'll soon hear, and I'll turn it over to Steve Schwarzman.

S. Schwarzman

Thanks a lot, Joan, and good morning, and thank you for joining our call.

2014 was a terrific year for Blackstone, our fund investors and our unitholders. After breaking several asset and earnings records in 2013, we, again, shattered those records in 2014.

Our realization activity continues to accelerate with a near doubling of realized performance fees during the year, and our stock is now yielding a remarkable 7% for our unitholders. This 7% yield makes little sense to me in the world of ultra-low interest rates, and especially given Blackstone's enormous momentum.

2014 was also a record year for capital raised, new investments, realizations, and both total and fee-earning assets under management. I believe it's quite unusual for any firm in asset management to achieve great results in all of these areas at the same time, which is what Blackstone again delivered in 2014.

Our AUM has compounded at a 16% rate since we went public in 2007, and this growth is despite the extremely negative impact on financial and money management companies from the global financial crisis. That's 16% compound growth since we went public.

Our economic net income and cash earnings have both doubled at double-digit rates over the same period. We've been able to achieve this sustained growth because of the very long record of outperformance across the board spectrum of alternative asset classes since 1987. This outperformance in different alternative classes for almost 30 years is the most important driver of the wide moat around our businesses, and it is the key reason why white space for others who have only recently entered these alternative asset classes remains white space.

Blackstone is unique, and while the stock market has not yet reached the logical conclusion to distinguish us from peers by awarding a premium multiple, our LPs have for many years distinguished us by entrusting us with as much new capital as the next four largest alternative managers combined. I believe it's only a matter of time before you reach a similar conclusion.

We are completely focused on delivering excellent investment performance net of fees. As good stewards of our investors' capital, we practice the art of the long view, and we think not in months and quarters, but in years and decades. This output is consistent, rational and yields great investment returns and further growth. And for the second year in a row, Blackstone is the most profitable public asset manager in the world. I just want to repeat that. For the second year in a row, Blackstone is the most profitable public asset manager in the world.

In 2014, as Tony mentioned, our private equity funds rose 22% for the year while our real estate funds were up 21%. Our credit drawdown funds had gross returns of 15% to 25%. While some of our other individual funds were above or below those composite numbers, overall our returns again dramatically beat global markets with the All Country Stock Index simply flat for the year with us being up 21% and 22%. Our full year composite returns in private equity and real estate were between 700 and 800 basis points, better than the S&P 500 Total Return Index, which, as you know, had a very good year, up 13.7%.

We believe that the combination of sustained low interest rates and low oil prices will have a positive impact on the US economy for 2015 where the majority of our assets are located. That said, market volatility has significantly increased recently with sharp swings in stocks, currencies and high-yield markets, particularly concerning the energy sector. As markets correct, they present the potential for abnormal deal flow with favorable risk-adjusted returns.

With one of the industry’s largest tools of dry powder capital at $46 billion, we can move quickly to take advantage of a vintage or a market opportunity in a large-scale way. We can also rapidly raise additional capital to take further advantage of investment opportunities. This was the case with our European real estate fund in 2014 where we raised over 5 billion euros in just six months and then upsized it to 6.6 billion euros by going back to our original investors six months later to keep up with our rapid investment pace and the opportunities there. By the way, having our European real estate funds denominated in euros has helped insulate our investors from the recent sharp decline in the euro.

Now, we’re doing it in the energy space where we just raised our new $4.5 billion private equity energy fund in only a few months again. The timing of having that capital available now really couldn’t be better, and we’re accelerating our plans to raise additional capital to augment our existing large energy business at GSO, which is higher up in the capital structure.

In total, Blackstone raised $19 billion in the fourth quarter, and as Tony mentioned, $57 billion for 2014, which we believe is a record year for any alternative asset management firm with no one close.

While these numbers are quite exceptional without qualification, it is noteworthy that they were achieved without either of our flagship global private equity or real estate funds, which have begun marketing in 2015 and historically have been our largest funds. Inflow from these funds will start in the first half of this year.

In terms of investment pace in 2014, we deployed a record $26 billion in capital. The capital we deploy each year sows the seeds that produce earnings a few years out after we improve these companies and real estate investments.

Our 2014 investments, when coupled with our current level of management and incentive fee earnings, should generate around $3 per share in total cash earnings assuming no growth in our asset base. In other words, to understand Blackstone, if we never grow our AUM and simply freeze the business with the same types of general returns we're making today, we would generate approximately $3 per share in cash earnings with no growth, and we are growing rapidly.

We continue to build out the firm in the same way that we have since inception. We identify an opportunity, move our best people to launch new funds, and quickly build scale, rapidly turning them into market leaders. This also provides a great career path for our exceptionally talented and younger professionals and partners.

We don't franchise out investment decisions. This protects our investors and the Blackstone brand name. For example, when we first launched our Tactical Opportunity business in 2012, we identified a market opportunity. We staffed it with a great team of professionals from across our businesses led by David Blitzer, and we were able to raise over $5 billion initially. Two years later, we're back in the market with our second fund raise, which we think will be as large as the first.

I mentioned our second energy fund, which is double the size of the first, where we have the same team that's been investing in energy in our private equity business for many years. In the real estate debt area, we started at zero, buying real estate debt at a discount in 2008, and we've turned that business into a $9 billion platform with multiple vehicles investing across mezzanine, liquid CMBS and senior mortgages, all with great internal growth. The list of these types of things that we do goes on and on.

Having successes again and again does not come from simply buying a market or getting caught up in a trend. In real estate, for example, a discipline around buying good assets at a discount to replacement value with a view toward what we can do to improve the asset and drive value has allowed us to develop a dominant position. We're the largest purchaser of real estate in the world.

This is our buy it, fix it, sell it strategy. I know many of you will continue to ask about our energy exposure as you did on the earlier call, which is one of the most frequently asked questions in the investment business today.

In private equity, we sold much of our exposure to oil prices early last year and overall, our portfolio is quite diversified. Many of our assets are oil price agnostic, including energy transportation, infrastructure where we have offtake agreements, merchant power, renewables and other types of energy-oriented investing. In fact, less than one-quarter of our energy exposure is impacted by oil prices.

In credit, we also feel great about our portfolio, which is diversified across subsectors and commodities, and where we're generally protected by being more senior in the capital structure. Energy has been a significant and very successful sector for us, and we've been, without question, one of the top performers in the world over long periods of time.

Our first energy fund, for example, has already achieved a 34% net annual return, which is in line with the performance of our overall energy portfolio since 1997. Imagine that – returns in the mid-30s since 1997. We've also had consistent leadership over the last decade, which is largely homegrown. This experience through cycles and our relationships with talented industry executives gives us both access to proprietary deal flow, and the discipline to not chase marquee deals at cyclical peaks.

Energy investing is not as simple as buying a market, which would be a bad idea, and is why many investors will lose money investing even today despite asset price declines. Our team does not underwrite new investments that require above mid-cycle commodity prices to earn an acceptable return. Rather, they look for mispriced assets where our management teams can create value by a leverage that we can control. Examples could be lowering the cost per well drilled, designing better wells to extract a higher percentage of the oil in place, cutting overhead costs, and picking the time and form of our exit. We capitalize these investments conservatively to survive a cycle.

We are incredibly well positioned to take advantage of the distress that is now engulfing many companies in the industry, and expect to see many unique opportunities in distressed debt, recapitalization, new equity investments, capital expenditure programs, farm-outs and the other types of things that Tony mentioned. As is always the case, we will stick to our discipline and patience in finding the best investments.

Looking forward, 2015 is shaping up to be a very big fundraising year. Aside from the global funds which I mentioned, we're also seeing great traction with several new and innovative products which could grow to be quite sizeable over time. For example, our Real Estate Core+ strategy has already reached $4 billion in its first year. BAAM's Retail registered product platform is up to $3.2 billion across several funds, and there are many, many opportunities to expand our presence to retail investors throughout the firm.

We raised $11 billion from the retail channel this year, and expect that number to grow significantly. We're building out Senfina, BAAM's multi-strat—well, we call it multi-strat, other people call it multi-strategy trading platform, in order to provide additional capacity and diversification for our clients, and that's getting a lot of interest. At GSO, we're raising a new European direct lending fund for which we're targeting approximately 2 billion euros by this spring.

I'd like to finish my remarks today with a few comments on our culture. No firm can grow at our rate with our outstanding investment results over close to a 30-year period without an extraordinary culture. Our culture is defined by extremely talented individuals, a passion for excellence, enormous energy and responsiveness, and a real sense of mission and integrity. It's a place where people know each other and want each other to succeed.

We are risk-averse as a culture, but we're also looking for unusual upside opportunities. Our business is to protect our investors' capital and find ways to dramatically outperform any relevant index.

Our support people share our sense of mission and excellence in all they do as well. Our culture is enduring; it's mutually reinforcing. It's almost impossible for anyone to be here at Blackstone without sharing these core values. This enables us to adapt very quickly to shifting opportunities and risks, and you can see the result of that in our strong performance year after year.

It's a privilege for me to work here at Blackstone, and while I couldn't be more pleased with the firm's extraordinary results, I'm most excited for what the future holds. Thank you for your support, and look forward to sharing together in our continued success.

With that, I'll turn the call over to LT.

L. Tosi

Thank you, Steve. As Steve pointed out, the basic design of Blackstone is to raise long-term locked up capital from the world's most sophisticated investors, and to compete in markets that consistently generate the highest returns in asset management across cycles. It follows that as the leader in the highest returning markets that Blackstone, again, leads all public asset managers in growth, margins, earnings and distributions.

In 2014, fund performance across Blackstone drove what we call asset base expansion of $81 billion. Of that total, $24 billion was generated by fund depreciation and $57 billion from inflows, which, when combined, easily outpaced the $31 billion of fee paying capital returned to investors. All four invested businesses materially contributed to this asset base expansion, each contributing between $14 billion to $24 billion to the total. This expansion also proved, once again, that higher returns and realizations are positively correlated to investor demand and strong inflows.

Blackstone's continued asset base expansion also builds earnings power as revenues reached a record $7.5 billion, up from 14% from the prior year. Private equity and real estate, as Steve said, had 20+% appreciation, and that helped drive performance fees and investment income to $5 billion, also up 15% from the prior year. Management fees also showed strong growth, up 12% to a record $2.6 billion with double-digit growth in all four business segments.

Advisory had one of its best years ever on a surge in M&A activity and continued strength in capital placement and restructuring. In fact, each business contributed materially and in different ways to our 2014 results, combining to create a consistency and balance that we believe is unique. Private equity had the highest economic income growth; real estate led in distributable earnings, our hedge fund platform in fee earnings, and credit in inflows. Every business did its part.

The firm's earnings power was also evident in the revenue mix shift towards higher margin performance fees, resulting in $4.3 billion of E&I, or $3.76 per unit, up 24% from the prior year. Realizations were up even more, growing 51% to $45 billion, which included $21 billion of gain for our LPs, which drove distributable earnings to $3.1 billion, or $2.51 a unit, up 61%. Net realized performance fees and realized investment income were up 106%, demonstrating growing, not diminishing, momentum for realizations.

Blackstone's operating model and broad fund mandates drive superior profitability and investor returns. Blackstone has consistently had margins in excess of 50%, reflecting the fact that we had built in talent leverage, with each business being managed by a single integrated global investment team managing a growing number of funds with a high degree of investor overlap. Additionally, the firm remains very disciplined on cost, and as a fixed compensation ratios across all businesses.

Similarly, we have contained controllable non-compensation cost growth to just half the rate of fee-earning asset growth, or about 6% in 2014. This discipline is rewarded in margin expansion and can accommodate the strategic initiatives of each business to successfully invest in high-growth opportunities without sacrificing financial performance.

In my remarks last January, I tried to draw attention to what we see as the forward indicators that investors can look to for guidance to Blackstone's future performance. One key indicator is the net accrued performance fees and the realization rate of those fees.

At the beginning of 2014, we had $3.4 billion of net accrued performance fees. Despite the fact that Blackstone realized or had a realization rate of 53% of that amount in 2014 which totaled $1.8 billion, we still managed to grow the net performance fee receivable for the sixth straight year. In fact, it was up 34% to $4.6 billion, which translates to almost $4 per unit in future earnings.

At the end of 2014, 61% of the net performance fee receivable, which is roughly $2.42 per unit, was either a public security or an asset in liquidation. That balance is 50% higher than a year ago and 10% higher than the figure I just gave you in June during Investor Day, indicating that the realization rate for '15 should remain high.

Following on Steve's remarks on earnings momentum, maybe we can look at it a slightly different way. One way to think about exit rate earnings is by applying last year's 53% realization rate to the current receivable balance, which would generate $2.10 per unit in net performance fees in 2015. Add that to the $0.85 in fee earnings this year and the exit rate comes to just over $3 a unit without any further accruals or inflows.

When you think about accruals and inflows for 2015 however, keep in mind there is a compounding effect built into Blackstone's earning model whereby we effectively create new performance fee paying assets through fund asset appreciation. Blackstone currently has $150 billion of assets earning performance fees. That total is up 33% over last year, even though $45 billion of assets were returned to investors.

That growth in the performance fee earning assets is a multiple of the fund returns as it represents the cumulative impact of new assets invested, inflows and appreciation. Said differently, a lower level of return over a greater asset base produces greater financial returns. In fact, without additional inflows in deployed capital, we only need 75% of the appreciation we experienced in '14 to see similar performance fee revenues and asset base expansion in '15.

As Steve pointed out, the appreciation outlook remains positive. As of the end of the year, the operating fundamentals remains strong as well in private equity with EBITDA growth of over 8%, well above the S&P average and real estate fundamentals accelerated in the second half of '14 as oil prices and low rates had a positive impact on demand across asset classes. Evidencing the carryover of this momentum into '15, we should point out that realization activity remains robust as we already have closed or announced $6 billion of realizations in the first few weeks of the first quarter alone.

A final comment on capital and distributions; the firm ended the year with $9 of cash in investment per unit on the balance sheet, up 24% from the end of 2013. Based on the continued financial strength, largely flat share count over many years and conservative capital positioning of the firm garners us an A+/A+ rating. We intend to continue to distribute approximately 85% of distributable earnings going forward. That will include gains on investments.

This policy reflects our confidence in our ability to grow our capital base through fund returns and growth without negatively impacting the high rate of Blackstone's future growth. The payout represents among the best in class payout ratio for an asset manager, something we believe Blackstone can and should maintain for its unit owners over the long-term.

With that, thank you very much and we'll open it for questions.

J. Solotar — Thanks, everyone and since we have a long queue, if you could limit first round to one or two and then just get back in. Please open it up to questions.

Coordinator	No problem. (Operator instructions.) Your first question will come from the line Craig Siegenthaler from Credit Suisse. Please proceed.
C. Siegenthaler	Thanks. Good morning, everyone.
J. Solotar	Good morning.
C. Siegenthaler	I just wanted to circle back on energy here. I was wondering; could you share with us your net IRR targets and capital raising targets for both the second Energy PE fund and also the new energy debt fund? And also, it looks like BEP I was only marked down modestly in 4Q. Can you also talk about the sequential change in valuation adjustments in 4Q given what you see on the public side and also on the mark-to-model side? Thanks.
T. James	Okay. Well, it's Tony. Let me take a whack at that one. We're going to hit our hard cap on the new private equity, energy private equity fund at $4.5 billion. Just remember that every energy deal is split between that fund and the main fund. So, to invest that fund, we have to invest something like $8.5 billion of energy investments over the next five or six years; so, just FYI. The credit funds would be several billion dollars, but to be determined. The IRRs, well, we think we'll exceed the 20% bogey that we deliver to our investors year in and year out. In energy, we exceeded by a lot, but it doesn't mean that that's our—we always hope to, but we're not necessarily underwriting to do that.
J. Solotar	The performance in the fourth quarter.
T. James	Yes, performance in fourth quarter. Well, this is what Steve was saying. We sold a lot of our oil. We only have – about less than a quarter of the portfolio is oil exposure. By the way, in the other portfolio, the other 75% are a bunch of assets that benefit from lower oil and gas prices because they're energy assets that are downstream; in other words, they generate power things and they use energy as feedstock. So, it's not like our portfolio all moves up and down with energy prices.
L. Tosi	In fact, actually, Craig, if you look across both GSO and private equity, the cumulative total impact of oil prices last year was less than 50 basis points.
C. Siegenthaler	Great. Thanks for taking my questions.

S. Schwarzman — I think you'd find that to be really quite an unusual performance compared to virtually everybody else who invests in that sector no matter who they are.

Coordinator — Your next question will come from the line of Michael Cyprys from Morgan Stanley. Please proceed.

M. Cyprys — Good morning, and thanks for taking the question. Just a question about future investment returns in a low growth, low-flation environment, and with the back up in credit spreads and regulators looking more closely at the levered loan market, how do you think about hitting your hurdle rates on opportunistic strategies? To what extent is there a greater focus today on operational improvements in portfolio companies and the role of information technology? I guess just lastly around what's your view on the availability of leverage going forward. Thank you.

T. James — Sorry. Would you say that last part again?

J. Solotar — Leverage going forward.

T. James — Okay. So, all of our investment strategies, well particularly in real estate and private equity, are heavily driven by intervention into the fortunes of the company and creating our own value. We cannot make returns simply by buying a company, levering it and selling it. If we don't create value and make a significant difference in the fortune of the company, we don't make the investment and we don't make—because we can't make the returns that our investors expect. So, that's point one.

Point two is the touchstone that we look at above all else is unlevered returns. Leverage is an amplifier, but if you don't earn good basic solid unlevered returns, it'll amplify the upside of the loss; it will amplify the downside and leverage always has a risk. So, our touchstone is we have to earn unlevered returns above what the public stock market will give equity investors. We do that by buying right, by being smart about that, but also by the operational intervention that I mentioned.

So, leverage for us is not the critical driver. If we have a little less leverage we might have slightly lower returns on a piece of paper, but we'll also have lower risk and more consistency and not necessarily much different fund level returns.

In terms of the amount of leverage, we're generally getting five to six times leverage, six times EBITDA today and very often, we're buying companies where we're actually taking much less because they're more growth oriented or one thing and another, or because we just feel like it's too much leverage. We want to see a lot of pay down to de-risk investment over time. So many times, we don't actually take all the leverage that the market offers us.

S. Schwarzman: And that's just in the private equity field. The firm is much, much bigger than just the private equity business. In our real estate, in our business, we're keeping the same types of returns. We're seeing a lot of places to deploy money, particularly in Europe. Borrowing has been no issue in our real estate businesses and our credit businesses, they benefited by some of the blow out in spreads that have happened and less capital available, particularly in certain types of industries, as will private equity. So for example, the energy area is going to be a very good thing for us, and there's way more things to do than there is money to do it and certainly expertise.

So, I think what Tony was saying of course is on the mark. It's a little more difficult in terms of volume, but the easy thing to do in private equity, it's easier at the bottom of the cycles. But at the bottom of the cycles what you find is nobody wants to sell you anything either.

So, we've lived through these types of market conditions and done quite well with them. But, fixing things up is really important. We don't buy anything unless we've got a road to dramatically increasing the performance of a company.

M. Cyprys: Great. Thank you.

Coordinator: Your next question will come from the line of Bill Katz. Please proceed.

B. Katz: Okay. Thank you very much for taking my questions this morning. The first question is a little tactical in nature, but it looks like the comp line was a bit more volatile than we were anticipating despite pretty good realization dynamics. Can you sort of walk through was there some year-end accrual adjustments, or how are you thinking about that in the concept of your profitability levels?

L. Tosi: Okay. Bill, it's LT. So, you're looking at the E&I comp ratio, and there's a couple of facts. It is related to some of the factors you just mentioned.

So, when you talk about the biggest factor and you do have an earnings shift because you're now seeing more performance fees come through both on a realized and unrealized basis. And so, that's affecting comp ratios to the downside because we typically have a comp ratio on fee-related earnings between 48% and 50%, and we're closer to 45% on performance fees.

The second piece is we were typically conservatively accrued on comp bill over the course of the year and so that leads to a seasonally lower comp ratio in the fourth quarter.

A third and smaller factor is we made the decision in the fourth quarter to change the vesting schedule on some of the deferred shares that we give. They used to immediately vest; we changed that so a three year ratable vest, frankly, to pick up the retention characteristics that are helpful with that. That impacts advisory and BAAM in particular.

The last piece is, Bill, that in some of the pre-IPO deals that are coming through, there is a lower comp ratio than the typical 45% that we guide to for performance fees. When you're looking at BREP IV, V, and VI, BCP IV and BCP V, when they have an outsized impact on the earnings, you do see it come down over time. That will continue because there's still $22 billion of assets across those five funds and so it will continue but it will be to the lower side, over time.

B. Katz: Ok, that's very helpful color, LT. Thank you. Second question is, and this is probably a rich man's problem for you guys, your gross sales are very strong and realizations seem like they're going to stay strong, so that dynamic seems to put a little bit of a sideways pressure on fee paying AUM. I'm sort of curious, as you think about that aspect for 2015, just given the ins and the outs, would you expect to see a leveling off of fee paying AUM growth or could you actually see a reacceleration of growth, despite a higher realization backdrop?

S. Schwarzman: This year, despite all that realizations and so forth, fee paying AUM was up 9%, which is not so bad as most other people in our industry shrink when things like that happen, and we're going to grow through that. I think, without predicting what this will be next year, I think we mentioned that we're going into a cycle with our largest funds out in the fundraising cycle. I don't think you need to be worrying about what's embedded in your question that we're somehow going to go into some other shrinking mode or something of that type that might be a concern.

J. Solotar: Bill, just to add on, looking through all of the analysts' models, actually where there was a little bit of over estimation was on the marketable side. It really didn't have to do with the realizations which were strong; it was that there was an assumption of stronger growth in them and GSO.

L. Tosi — For ’15, we’re expecting a couple of mega funds coming in and so I think it should be a good year.

B. Katz — Thank you so much for taking the questions.

Coordinator — Your next question will come from the line of Marc Irizarry from Goldman Sachs. Please proceed.

M. Irizarry — Oh, great, thanks. On the real estate business, I’m curious, how you see the realization environments shaping up in 2015. I guess there’s still a good portion of the real estate portfolio that’s private, and as it exits. I’m curious how the private versus public exits are shaping up? Thanks.

S. Schwartzman — This is Steve. We see a very vigorous environment through realizations for real estate. There’s a lot of liquidity, a lot of our properties have done what they’ve been asked to do, if you will, in terms of improvements. We’re quite optimistic about that, Marc.

T. James — Marc, we expect, basically, higher realizations in ’15 than in ’14. I should say it’s both public and private; there’s a very robust private bid but there’s a public market acceptance has been good, too. It’s all across the board.

M. Irizarry — Okay. Can you give us a read on the private equity portfolio’s performance? How much of that was multiples or markets versus the underlying operating performance? What is it kind of telling you about the go forward environment for 2015, maybe not in the US, but also globally, potentially?

T. James — Okay. Most of that—it’s not multiple, for the most part, it’s operational performance. As I mentioned earlier, our portfolio companies are continuing to grow their revenues and EBITDA in the high single digits and continue to grow that at a premium to the S&P 500 which, considering we buy what are generally considered to be mature companies, is pretty good. It is a testimony to our operational intervention.

That premium—I would say the growth rate is slowing down a little bit, as it is for the S&P so the premium’s being maintained. Some of that, of course, is currency translation; our companies that are global companies, when the dollar is strong and the euro is weak, that’s reflected in currency translation.

That's what's the main driver for the value accretion. The other thing that's a driver is when we actually do liquidations, we tend to do the actual realization event at a premium to what we've been carrying it at to our mark. You'll see, actually, even though we do try to mark our assets conservatively but fairly, but when we have a realization event, it's almost always at a premium to the mark. LT, what's it been averaging?

L. Tosi — So over a very long period of time it's been close to 20 to 25, but frankly in a more, as you would say Tony, benign market, it's actually higher than that. Over the last year, it was closer to 30 plus.

T. James — The proceeds realized versus the mark immediately prior. In high realization periods, that will play through the ENI, as well as the DE.

M. Irizarry — Alright, thank you, guys.

Coordinator — Your next question will come from the line of Brian Bedell from Deutsche Bank. Please proceed.

B. Bedell — Hi, good morning. Thanks for taking my questions. Just two if I may, one, LT, what do we have left for the BCP 5 catch-up going into 1-2 '15? The second one would be on fundraising, aside from the big mega fund, what's the outlook for fundraising in BAAM and then in credit and is the growth that you mentioned Steve, in retail, [indiscernible] last year and better in this year – is that mostly in those two segments?

L. Tosi — Brian, good morning. I'll take the first question which is, right now, we're about 65% of the way through the catch-up. I'll add one slight wrinkle to that, you should think about on timing which is the realization catch-up is only really 44% of the way through. If you see a little bit of—I saw on some of the reports this morning that people saw higher unrealized and less realized out of BCP V. The reason for that is there's more catch-up to go in realizations than there is in unrealized, but we are 65% of the way through.

T. James — On the fundraising, I think it would be a mistake to think that the only fundraising we're doing are the two mega funds. We've got Tac Ops which is actually having a very successful fundraising as we speak. We've got Strategic Partners with three or four products in the market. We've got a number of products in the market at GSO and BAAM continues to be on a roll.

It's pretty much a—oh, and by the way, real estate has also got a bunch of SMAs and the Core-Plus business which is also doing very well.

I would say, across the board, every silo has multiple funds. We probably overplayed the mega funds in terms of, if you had the impression that was pretty much it. The retail products, they reflect a lot of that stuff; there's retail distribution in every fund and every silo.

L. Tosi — Our evergreen funds are probably underestimated which are funds that are constantly in the market and that's been averaging better than a billion dollars a month over the last year.

B. Bedell — Okay. Great, great. Thanks very much.

Coordinator — Your next question will come from the line of Michael Kim from Sandler. Please proceed.

M. Kim — Hi guys, good morning or good afternoon. My question has to do with one of the concepts that we've been hearing about more recently around longer dated funds. Just wondering if you could talk about the thinking behind these strategies, as it relates to potential returns, fee structures, and/or holding periods, and how they might fit into your product development plans going forward?

T. James — Okay. I think in a low return environment, LPs are compensating for lower compounding rates with longer duration. At the end of the day, if they do that right, they could still accomplish their funding goals. I think there's more appetite for people rather than getting frustrated by not getting a lot of—twenty returns, and having the money sit in public markets which are probably averaging—most economists say they're forward projections that are 4% to 5% return. In public markets that would be something like 2% in treasuries and 3% to 4% in bonds and 5% to 6% in public equities, so that's your public market thing. It's not a bad thing to, basically, park a lot of money in something that yields or returns low double digits, and let that money stick; sit out there and work for you, work for you, work for you and compound.

That's the thinking that's causing some of these people to want and go to infrastructure funds where we have some interesting things working to core-plus real estate, to something we call core private equity, all of those things share that in common. I think they're all significant return premiums over what the public market offers, but longer duration. Most of them, because of the lower compounding rates, i.e.

double digits instead of 20s, the gross spaces have lower fee and carry structures.

For us, we don't eat IRR. In our business, carry is—what drives the value of the carry is the multiple of money is the dollar gained not the IRR. For us, these can be very, over time, very attractive fund structures in terms of driving distributable gains. They're also attractive because the duration of the assets means that we don't have to keep giving the money back quite as fast so it can compound, if you follow that.

For us, I think, it's a really—by the way, it's also somewhat lower risk, in general, so the appetite—we're talking some very big numbers in terms of the potential here. I can't remember what Steve threw out last time on core-plus real estate, but I think it was $100 billion number.

M — Over ten years.

T. James — These can get very, very large and LPs are more comfortable with bigger allocations to some of these things.

M. Kim — Great; that's helpful. Thanks for taking my question.

Coordinator — Your next question will come from the line of Glenn Schorr from Evercore. Please proceed.

G. Schorr — Hi, thanks. You mentioned the $11 billion raised from the retail channel this year and you seem to be, obviously, expanding the product set. I'm curious where you think you're at in terms of penetration on the channels, penetration of the end user client because we were starting at such a low level and if there should be a natural seasoning, never mind your good performance, but a natural seasoning that raises those numbers over the next couple of years?

S. Schwarzman — I think we mentioned before that only 2% of retail investors' assets are in alternatives. Within that 2% bucket, there's a lot of liquid type of products that they're buying. The institutional market is about 20% so the scale of the opportunity at retail is really, really very large. You can come up with a lot of different testaments for what that might be.

I think that part of it is constrained by some regulations that were created in the 1930s when alternatives didn't even exist. That limits access to certain types of our products to the public whereas the downside has proven to be completely negligible, unlike the stock market. The upside has proven to be very powerful. Ultimately, to provide for people's retirement, which right now, most Americans are in desperate trouble to finance their own retirements. Somebody ought to change these antiquated laws and provide access to products of our full slate and I'm hopeful that over time, if you want to dream the dream, and people do rational things. How are people going to retire? It's not on Social Security; it's not enough money for most Americans. We're one of the major answers for that.

The numbers could be very, very large overtime, but one thing, I think, for sure, is they're going up as more and more people have better and better experiences with these products.

L. Tosi To point out one thing about penetration, we look very closely, Glenn, at who is buying the funds when they're put in front of net worth advisors, how many advisors, how many of their clients are putting in the fund at what the assets are. Each metric is showing growing momentum which confirms our original strategy what we thought that the Blackstone brand would have a lot of affinity. Each time, regardless of the fund that comes in, we're seeing more advisors put more of their clients and more assets to work and that's why you're seeing the trend go from a couple billion dollars only three years ago to the $11 billion that Tony and Steve gave you today.

There's definite penetration, but that still remains far short. The typical high net worth clients only penetrated in alternatives as Steve defined as 2% to 3%, and they should be somewhere between 10% and 15% and, depending on where they are in their earnings life cycle, maybe higher. There's a long way to go and we're designing now products that are actually specifically tailored to that audience and also products that let them get around some of the issues of periodic fundraisers, etc. Those are the dynamics.

G. Schorr I appreciate it. The only other question I have is, and forgive me if it's not right, correct me, but, historically, I thought of Blackstone as more of an opportunist in general with investors, especially in both real estate and private equity and the funds you would open would have open mandates to allow you to go and seek out the best opportunities. Now I'm thinking mostly about energy right now, but you happen to be opening more energy specific funds, I'm curious if that's a little bit of a shift in thinking, going to where the demand is or it's just really good timing because we're about to have some great opportunities to invest on the energy side?

T. James We've always tried to take advantage of opportunities the market gave us. Back in 2008, we set up a bunch of credit vehicles, we thought credit was way over sold, and set up some dedicated vehicles to buy bank loans and other credit because we thought it was a great opportunity. Of course, it worked out very well. We think energy's a topical on that.

One thing you've got to remember about energy, though, is it's a gargantuan sector. It's not just oil and gas, it's got all kinds of power development, pipelines, transmission, refineries, product, service companies, capital goods companies, etc., etc., etc. It's global and it's something like over 10% of all the capital spending in the world is on energy related stuff. In emerging markets there's massive development, power development opportunities of which we're availing ourselves. There's a huge renewables sector where we have dedicated teams.

The thing that's different about energy than other sectors is it's really big, it's global, and, as I mentioned in an earlier answer, some parts of energy are correlated positively with oil and gas prices and some parts negatively, and some parts not at all. There's almost always something to play there. More generally, we don't see hiving a lot; we don't see really changing our strategy has worked really well for us over many years. We believe in the generalist fund, we believe in the global fund, but where we see a lot of our opportunity we also believe in offering that to our clients.

G. Schorr — Okay, thanks very much.

Coordinator — Your next question will come from the line of Dan Fannon from Jefferies. Please proceed.

D. Fannon — Thanks. Within hedge fund solutions, can you elaborate on the redemption trends? I think you cited in the release certain strategic shifts in programs and wanted to get a little more color on that. Then, maybe, how CalPERS decision, associated with their exposure, may or may not be affecting the conversations that you guys are having with clients in that segment?

T. James — I think our redemption trends are stable, I guess, for lack of a better word. We all—inevitably, when you have as many clients as we do and their strategies and needs change you have some redemptions, but at the same time new clients continue to be significantly greater than that.

In terms of CalPERS, we're seeing a lot of interest still in institutions for hedge funds because, frankly, it's a way to play the equity markets with lower risk. A lot of people are feeling like this is a risky time but if they still want some equity exposure and, frankly, the other alternatives out there aren't all that great, obviously, with near zero interest rates.

I think the CalPERS decision really was, I think, the right one, we feel for them because their program had not delivered the returns that it should have. I think it was 3%, 3.5% and the hedge fund index was 6% or 7%; it was well below. We've delivered returns above the hedge fund index, by the way.

I think they made the right decision; it was an expensive program to run for them. I think it was designed with some constraints that sort of doomed them to not have as good results as they would have liked. I think it was a courageous decision by the new CIO and the right one. I don't think it's indicative of an endemic mindset, if you will, on the institutional message in general.

D. Fannon	Great. Thank you.
Coordinator	Your next question will come from the line of Robert Lee from KBW. Please proceed.
R. Lee	Thanks, good morning, everyone. I had a question on the capital markets business. If I recall, that business is going to stay with you when the advisory business is being spun off. Can you, maybe, help size that for us and maybe update us and kind of what you're thinking about for that business and the plans there?
T. James	The capital markets business is a nice, profitable, little business for us and that's one advantage, admittedly, and it was down a little in '15 over '14, but still, I would say, both those years were pretty good years given the capital markets activity this firm has had.

One of the things it does is it gets better execution, better exit execution, and financing, and debt financing execution for our portfolio companies and therefore higher returns for LPs. I think absent that, I'm not sure we'd be in it. But because it checks both boxes, it's a nice little business. A very, very high percentage of the revenues from the capital markets business come from our portfolio company so it's not really a stand-alone business that should go off and be part of the new advisory business. Although, incidentally, I think Paul is planning on rebuilding that capability within the new company.

For us, also, those same people do a lot of pro-bono, if you will, or free work for our portfolio company constantly. It's a capability we need to have internally. I'm not sure—I guess I should say I don't see some other firms have decided they really want to explode that out, build a distribution system, do a lot of third party client business, and compete with the investment banks; we don't see that strategy at all right now.

R. Lee

Alright, great. This may be one follow-up, this is maybe a little bit more of a tactical modeling type question, but on the big global funds, I know BREP and the BCP, can you just remind us, I'm assuming your targets are pretty much the same as, I'm assuming, as the last funds, maybe a little larger. Is it fair to think that once you start raising that BREP 8 could turn on a bit faster just given that BREP 7's pretty substantially through its invested capital?

S. Schwarzman

Well, we can't really speculate on what's going to happen with any fundraising. What I would say is that BREP, in particular, because it's returning so much money, to its investors is that its individual LPs are going to end up well under allocated to Blackstone, and Blackstone has had pretty much the best returns of any asset manager in real estate. The turnaround for those investors, we anticipate, will be pretty quick.

That experience is also to some degree, though perhaps a little less, happening in the private equity space. It's not just Blackstone, it's the private equity industry has really ramped up distributions. As LPs try and keep things certain percentage of their aggregate portfolio, which is then continuing to increase their overall assets under management, then they need to reasonably rapidly redeploy those commitments. I think this benefits us in both of these areas, in fundraising as compared to the very lengthy periods that people experienced three, four years ago when there wasn't much money going back and portfolios weren't growing as rapidly.

R. Lee

Great. That was it. Thank you for taking my questions.

Coordinator

Your next question will come from the line of Luke Montgomery from Bernstein Research. Please proceed.

L. Montgomery

Thanks. Monitoring transaction and consulting fees, I think, continued to get a lot of attention in the press last quarter, I think you've already done away with the accelerated monitoring fees, but can you just remind me of how close you are to reimbursing 100% of these various fee types across the franchise? As you move through a full fund replacement cycle, maybe some sense of the amount of revenue or revenue offsets we're talking about in the context of management fees or overall revenue for the business, what's the materiality of this?

L. Tosi	It was really confined to private equity, first of all, and our new funds will have 100% offset against management fees of monitoring fees and deal fees. Although, the fund structures that we have do allow us to have up to some specific dollar cap, some of the portfolio monitoring spent is reimbursed by portfolio companies. It's a little bit of complex. I don't actually know the exact answer and pace at which funds run off. They are different funds, of course, have portfolios that are coming at different stages and different splits, so I haven't done that complex analysis. But it is a material move overall, if it goes from what we have to zero over the next several years. On the other hand, our businesses are growing. We're getting more assets under management and so on. Looked at it in isolation on that one business, that one line it's tens of millions of dollars; I don't have the exact number.
T. James	It's really just material to that area, not to the firm.
L. Tosi	Even though we expect, and we also expect that to be offset over time, as I say with higher management fees on greater AUM.
L. Montgomery	Great. Thank you very much.
Coordinator	Your next question will come from the line of Devin Ryan from JMP. Please proceed.
D. Ryan	Thank you, good afternoon. Just coming back to energy and with respect to timing around investing in the sector, obviously public market valuations dislocated quickly, but when we think about the private side, where you guys invest, has the potential pipeline picked up there meaningfully yet with mispriced assets or do you still think we're ways away? Tying in with the fundraising outlook, how is lower oil prices impacting flows from sovereign wealth at this point? Could that impact the fundraising outlook more broadly at the firm, or it's just the appetite's so strong across other channels that it's a nonfactor? Thank you.
T. James	The private side activity has spiked up. We're looking at an awful lot of things and how interesting they are, time will tell. I worry a little bit about people getting really excited for a fairly short window and then being disappointed because that window closes, but if prices stay down here for a while, then we'll have lots and lots of opportunity on the private side, but a lot of activity right now.

L. Tosi — With respect to the fundraising, it might defy—we haven't seen too much impact, yet, honestly. Steve's going to comment on that.

S. Schwarzman — Yes, we've seen more in sovereign wealth funds out of the many, many that there are that appears to be affected are flows from other sovereign funds, which is where you would see this, have not been affected so that actually surprises me.

At the moment, life goes on just as it has. It doesn't look to be significant at all. I'll just give that to you because we're all out visiting people and have a very, very good feel of what's going on and answers to that question.

Coordinator — Your next question will come from the line of Patrick Davitt from Autonomous. Please proceed.

P. Davitt — Hi. Good afternoon, guys. My question's on, I guess, the interplay between the likely improvement in your European base portfolio versus the change in investment opportunity around the QE. I know it's early days, just curious to what extent you're seeing changes in those two sides of your business since that's happened.

L. Tosi — I don't think that we've seen QE have any material effect on Europe, yet. I'm not even sure what Steve thinks, but he and I haven't really debated this; I'm of the belief that its effect will be significant on markets and limited on the fundamental economy, frankly.

S. Schwarzman — I think what most people think with QE is that maybe it's worth sort of a guesstimate of a half of a GDP point. There are bigger problems with Europe and if your projection was Europe flat to up a half, or something like that, maybe it gives you another 25 to 50 basis points, I think we would probably feel it's not a game changing type of thing the way, ultimately, the US economy rebounded.

Remember, European interest rates are like next to nothing right now. Their problems are budgetary, restructural reforms, variety of other types of issues, as well as the overall structure of the European Union which is a difficult thing to make work with as much effectiveness as a single country could do.

T. James — I might argue that the rise of the Nationalistic Party's and as most recently affecting Greece, obviously, is more of a negative for Europe than QE is a positive.

S. Schwarzman I would also say if we're just speculating on this stuff, which we do think about, that the Russian situation is probably worth, at least, as much in terms of GDP for Europe with sanctions as QE. That would be my personal estimate. At some point, of course, that will be resolved, these things don't last forever. No one knows the timing of that.

Coordinator Our last question will come from the line of Michael Carrier from Bank of America-Merrill Lynch. Please proceed.

M. Carrier Hi. Thanks a lot. Just a quick question on credit and GSO. We had some volatility in this past quarter, but the fundraising continued to be robust; just want to get your sense, in this rate backdrop globally, where you're seeing the demand in GSO, what products you're putting out there? In terms of returns, just given this backdrop, what can you see, particularly on the private side?

S. Schwarzman I'll just give you one quick one and then Tony can, perhaps, give you a more structural answer.

I'm sitting at my desk a few weeks ago when energy really broke and picked it up and somebody said, "Look, I've got $100 million, will you take it and invest in energy?" Then I got a second call like that and what's happening is investors around the world see this break, they're trying to figure out what it is, they're guessing that you're getting close to a bottom and some of this is supply and demand driven, some is more supply driven, depends on whether it's oil or gas. They want to play it and they don't know how to do it. It's a technical area. It's not easy to do this stuff.

I think the over the transom kind of demand by clients for much larger exposures in this area will be a big driver of things for GSO, as well as credit extension in Europe, just sort of generally with their near senior loan fund, and that will make a big difference and that fund can be expanded significantly with demand. What goes along with this kind of big demand, not just supply of money, but demand is that our rescue lending fund will, if I had to guess, would increase its investment rate very substantially which would get us into the markets, specifically in that.

I think we're—

T. James And so's our mezz fund because new issues are kind of backed up.

S. Schwarzman — Right. I think we're entering a virtual circle or cycle there. I think that's all good when you get less liquidity, spreads are flowing out, and we're major providers of capital, and also takers of capital.

T. James — The only other thing I would add is I think that, suddenly, there's a lot of opportunity on the private side, but the demand is for money to get put in the market quickly here so it tends to be more focused on the public side investments is where the new products are.

S. Schwarzman — But you're going to have real demand over time for private stuff. It'll take companies a year and a half or something like that, to really get into a lot of trouble. Some of these service companies it's just going to happen very, very quickly. I was with somebody the other day, a big factor there and said his prices are down like 2/3 on fixed assets. Boy, when stuff like that starts happening, the big players can survive it; the small ones, typically, can't. You're going to see all kinds of shakeouts over a period of a year to three years. There's going to be loads of opportunities in these different areas. It's both on the equity side and also on the credit side. The credit side may even be easier to put money out in the early parts of this cycle.

L. Tosi — Mike, LT. Just to follow on what Steve and Tony said, the beginning of your question you asked a little bit about where the flows are coming from and I think one of the things that's driving GSOs growth is they have this ability to raise capital quickly against some of the vehicles they already have in place. In the fourth quarter, they had $1.7 billion of inflows into their CLOs; they had a $1.7 billion into their BDCs; and $1 billion into their hedge fund. They have a nice balanced way to react to capital flows and when they see opportunities they can get the capital and close quickly.

M. Carrier — Okay. Thanks a lot.

Coordinator — I would now like to turn the conference back over to Joan Solotar for any closing remarks.

J. Solotar — Great. Thanks, everyone, we look forward to following up with you after the call. Have a great day.

Coordinator — Ladies and gentlemen that will conclude today's conference. Thank you for your participation. You may now disconnect. Have a great day.