THE BLACKSTONE GROUP

BX Q2 2013 Earning Conference Call
Media

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BX Q2 2013 Earnings Conference Call

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MODERATOR: Ladies and gentlemen, thank you for standing by. Welcome to the Blackstone Second Quarter 2013 Earning Results for the Media. At this time all participants are on a listen-only mode. Later we will conduct a question and answer session with instructions being given at that time. If you should require assistance during the call, please press star then zero and as a reminder this conference is being recorded. I'll now turn the conference over to Peter Rose, Senior Managing Director, please go ahead.

MR. PETER ROSE: Good morning everyone and welcome to our second Quarter 2013 Earnings Call. With me is Tony James, Blackstone's President; Joan Solotar, Senior Managing Director for External Relations and Strategy; and Laurence Tosi, our Chief Financial Officer. As we do always, Tony will give a brief overview of the highlights of the quarter and then he would be happy to take your questions. Before I hand it over to Tony, let me remind you that there will be a call for the analysts at 11:00 A.M. Eastern Standard Time today to which you are all welcome to listen. The dial-in numbers for that can be found in the press release on our website. Tony.

MR. TONY JAMES: Okay thanks Pete. Thank you all for tuning in. I'm happy to say in the midst of this oppressive hot spell I have a pretty cool quarter to talk about. Revenues increased 120% year over year while our economic net income, our earnings, more than tripled from $.19 per unit to $.52 per unit. Distributable earnings which we can pay out jumped 65% during the quarter from $.17 to $.28 per unit.

Strong investment returns in every one of our businesses were the primary driver of these results. Those same returns also drove assets under management growth by 21% year over year. We continue to be a growth company.

In private equity the portfolio appreciated 5.4% in the quarter and has appreciated 29% for the last 12 months. This appreciation was driven by a combination of rising stock market, some successful IPOs where we usually carry our marks less, much less, than the IPO price and growing offering momentum in sales and earnings in our portfolio companies.

As you know we track proprietary leading indicators and for this quarter those leading indicators are applying further improvement for portfolio operations and growing strength in the economy.

Taking advantage of favorable markets we harvested $1.6 billion in realization during the quarter bringing distributions to our LPs up to $3.6 billion for just the first 6 months of the year and nearly $8 billion over the last 18 months.

Key realization activities during the quarter included the secondary sales of Nielsen, of our refinery company PBF and of Travelport at an average multiple of original investment capital of 2.6 times. And we also had the IPO of Sea World, as you know, at a value of 3 times our costs as of the end of the quarter.

With credit markets hot and equities strong, this is a better quarter for selling assets than for buying in our opinion however we did find some interesting opportunities and new investment activity in private equity for the quarter was $1.6 billion of capital invested or committed.

We had limited fundraising activities during the quarter. The only product we were fundraising for was our tactical opportunities business. We added $325 million of new commitments to that business. This brings total commitment capital to tac ops, as we call it, so far to about $3 billion for this new product and makes it one of the biggest first-time fundraisers for a new product ever.

Tac ops has found many interesting opportunities and has already completed 11 transactions just in the last year. These are, in general, some of the most creative and interesting deals we are doing anywhere in any business.

Over the last year, AUM of our private equity segment grew 14% as institutional investors continue to shift allocations from public debt and public stock markets to private equity.

Finally we announced an agreement to acquire Strategic Partners (SP) from Credit Suisse during the quarter. SP manages dedicated capital to purchasing existing limited partnership interests in private equity, venture capital, and real estate funds. Strategic Partners has about $10 billion of AUM and is highly complementary to our existing businesses and will fit in this private equity segment.

We have known the Strategic Partner people well for years. It was one of the businesses that I started when I was back at DLJ and so we're confident it will be a flawless cultural fit once we finally do the merger in this quarter.

Turning to real estate, it continues on a roll. The real estate equity portfolio appreciated 5.7% for the quarter bringing the total for the last year to 19% appreciation. This resulted from continued strong momentum at the property level in terms of higher occupancies and increasing rents. As long as new building, new construction, stays at these historically low levels, we expect these trends of growing occupancies and rents to continue.

Realizations in real estate continue to ramp up and total $2.1 billion for the quarter. The average MOIC on these investments, that is multiple of original capital, was better than 2 times. The year to date total in terms of realizations has been brought down to $3 billion and just today we filed to take our third largest investment, Brixmor, which is the grocery anchored shopping center public.

Meanwhile investment activity continues on a tremendous pace as we've seen over the last 18 months. This quarter we invested or committed some $4.2 billion, bringing the total for this year to $5.6 billion already. In terms of new deals, activity levels seem to be shifting from the US which has been our focus over the last couple of years to Europe where there is more distress, and Asia and emerging markets where liquidity issues are arising.

On the fundraising front we had a first closing on $1.5 billion for our new Asia fund and we're targeting to end up that fund in the range of about $4 billion.

In the real estate debt business, we also had strong returns and they continue to drive AUM growth. Our real estate debt drawdown fund had a final closing this week hitting $3.5 billion which is the cap that we set.

We also completed an upside public offering of our first publicly traded mortgage REIT which we call Blackstone Mortgage Trust, raising $660 million. Overall AUM in our real estate segment jumped 27% from just a year ago.

Our hedge fund solutions business also notched excellent investment returns, strong financial results, and solid AUM growth. For the quarter our composite index was up at 1.9% as compared to the MSCI All Country World Index which dropped 1.2%. This 300 basis point outperformance for the quarter was delivered while we continued to offer our investors only about a third of the volatility of the overall stock market. Clearly challenging markets like we had in the latter part of the quarter are where we shine, where we can show investors that we can outperform the equity markets while delivering lower risk.

Virtually all of the capital we've managed in this segment is now above its high water mark and this of course is driving a surge in performance fees. AUM in this segment grew to $50 billion as of the end of the quarter, a 17% increase from a year ago.

Finally, in an exciting new initiative in this segment, we announced this week the launch of a multi-manager mutual fund with daily liquidity that will enable retail investors to gain access to some of the industry's leading hedge fund managers. I think this is a really exciting product for individual investors.

Turning to our credit business, again, results have been terrific. Revenues were up 69% year over year while AUM jumped 23%. Despite the significant backup in credit markets during the quarter, returns were strong ranging, depending on the product, from 5% to 6.5% for the quarter in our drawdown in hedge funds. For the latest 12 months the range of returns for those funds has been a low of 20% and a high of 40%. These are well above relevant benchmarks and are much more like equity returns than debt yields.

While deal flow for the industry was on the light side we still managed to put to work almost $600 million in the quarter out of our drawdown funds and another $200 million committed as of the end of the quarter but that has not yet been invested.

As with our Mezz fund last year, this month we had a final close--we will have a final closing on our rescue lending fund and it will reach its $5 billion cap also.

Meanwhile retail demand for our yield products that give premium yields continue strong. We launched the first actively managed senior loan ETF during the quarter and it has had the fastest launch of any ETF this year. We also initiated a new Treasury Liquidity Management product which is meeting with a lot of initial interest.

In our advisory businesses, we had a solid quarter also with revenues increasing 26% from a year ago. This growth was driven primarily by strong quarters for restructuring and Park Hill, which is our fund placement business, along with revenues from our newly-formed Blackstone Capital Markets Advisory Business, which acted as an advisor or underwriter on 13 deals during the quarter.

We are pleased with this initial performance of the Blackstone Capital Markets business and we expect this business to be a regular but a modest contributor to our P&L going forward.

Overall we are clearly firing on all cylinders. We have never had a better team, stronger leaders, or a deeper bench. I could not be prouder of our people and their continuing ability to deliver superior investment returns in good markets and bad, in all regions of the world, and across all different asset classes. Although we talk about our performance by line of business each quarter, truly we are one firm with one tremendous coherent team. The consistent outperformance of our investment results across businesses is really a reflection of the way our people work seamlessly together and share insights, intellectual capital, and relationships across the firm.

Meanwhile our clients are struggling to earn the returns they desire or need in traditional asset classes. Negative yields on government bonds in all of the major economies have pulled return expectations in public securities down to the low to mid single digits for investors the world over. To compensate, investors continue to shift higher percentages of assets into alternative investments and they've been rewarded for doing so with both, and I emphasis both, higher returns and lower overall portfolio risk.

As the leading alternative asset manager in the world and a top performer in virtually every asset class, we are a prime beneficiary of this trend and are enjoying strong growth in existing products and accelerating our growth by constantly creating new products. These forces have driven solid double digit growth for us for 25 years and we see no reason this can't continue for the foreseeable future.

With that I will stop and take questions.

MODERATOR: All right, we will take questions now. All right, ladies and gentlemen, if you wish to ask a question, please press star then one on your touchtone phone. You'll hear a tone indicating you've been placed in queue and you may remove yourself from queue at any time by pressing the pound key. If you're using a speaker phone, please pick up the handset before pressing the numbers. Once again, for a question, please press star then one at this time. And our fist question is going to come from the line of Sam Sutton with Private Debt Investor, your line is open.

MR. SAM SUTTON: Yeah, Tony, thank you very much. Just a quick question regarding tac ops. I know that you said that you guys had about $3 billion for that right now, are you continuing to seek new clients for that business or new investors?

MR. JAMES: Yes, we are, Sam, and you can expect added closings each quarter for a while. I think we have a cap on that technically of something like $5 billion. But what we needed really was a small team in a new business with a lot of deal flow; we really need to get our people focused on investing, so we're not going to keep fundraising too much longer but, yes, yes, we have more interest, more investors coming in.

MR. SUTTON: Okay, got it. One other quick follow up on that. You said you put to work about--pardon me, you said you worked on around 11 deals over the last year, any specific element of tac ops that you're looking at? I know that operates across a number of different platforms.

MR. JAMES: Yeah, this is what's so interesting about this business. It's a very, very diverse group of things. It's some hard assets. It’s Brazil. It’s ships. It's spectrum. It's leases. It's non-performing residential loans. It's minority, it's some equity interests in some low-risk, long-duration assets. It's all kinds of different things, and so far the results have been nothing short of spectacular. We're delivering to our investors mid double digit yields so mid-teens, current yield and IRRs on these new investments have been in the mid 20's.

MR. SUTTON: Okay, got it. Thanks, Tony, I appreciate it.

MODERATOR: And now we'll go to the lien of Devin Banerjee with Bloomberg News, your line is open.

DEVIN: Yes, hi Tony. Thanks for the time this morning. You know on the retail front, now with the mutual fund as well as the leverage loans, ETF, it seems like the channels are really opening up to the opportunity. I'm just curious what you think the next opportunity on the retail side is for both Blackstone and for the larger alternative asset industry?

MR. JAMES: Okay, well, honestly Devin, I think we're just beginning to crack open the retail market. So while it's ramped up a lot for us as you point out, we're still at the very early stages of that and I think we're ahead of the alternatives industry in general. And so that statement would be even more true for the industry as a whole. And let me just give some examples; we're just beginning to go into more and more systems. It takes a while to get into a system to educate the brokers or the private bankers or whatnot. It takes a while to get through all their diligence. It takes a while to trust the product that they want for their system that fits in the portfolios of their clients and all that.

So we're rolling it out, sort of, one big institution at a time. There's a number of retail systems. There's a number of private banks. There's a number of other things to roll through. So we're still in that process just in the United States. Then there's the geographic element as well where we're starting to roll that out from the United States, also into Europe and Asia and the Middle East. So there's a long way to go before we tap that out.

And then the third dimension of that would be the structure of the products. There's all kinds--we've just scratched the surface of embedding our products in other things. There's principal protected products, there's publicly tradable things in small bite sizes, there's all kinds of different things. So this has a long way to go if we do this right.

DEVIN: And the biggest challenges I assume are liquidity and valuation timing and stuff like that?

MR. JAMES: Yes and no. Certainly, the biggest psychological hurdle for retail investors is the lack of liquidity. I happen to believe that most investors overemphasize liquidity and I apply that to institutions as well. The cost of having a lot of liquidity is massive in this market--or put another way, by being willing to accept some illiquidity, you can get huge premium returns. And so if an investor makes a choice to be very, very liquid where they can sell everything they own in a matter of hours, it's extremely costly in their expected returns and no investor, as a practical matter, needs that kind of liquidity. But it is the psychological hurdle you got to get over.

On the other hand, the fact that our products--what defines the common element is that they don't offer immediate liquidity really. But by the same token, that's their biggest advantage because that's why they can take care of dislocations in the market. They have capital and the rest of the market is in retreat, and they can capture that illiquidity premium, and that's where the superior returns come from.

So the message that we've got to get through is, yes, it's illiquid, but you don't need all liquidity and that very illiquidity is what drives the excess returns. So it's a bit of a complicated story, but that's the biggest sort of general theme we've got to get over. But you know, some sophisticated retail investors act like institutions; they know all that. Then there's mom and pops that they'll never know it and they're going to want something that's instantly tradable. So our challenge is to segment the market and come up with products that apply to each segment.

DEVIN: Hmm, okay. Thanks.

MODERATOR: All right and now we'll go to the line of Henny Sender with Financial Times. Your line is open.

MS. HENNY SENDER: Thank you. I apologize, I joined in a few moments late, if you addressed this question. But I was wondering if you could talk about the impact of raising rates on your various businesses Tony? I mean, especially real estate and then also credit and Tac Ops.

MR. JAMES: Okay. Well, let's start with credit because it's the most directly connected to interest rates and you know, I expect people are concerned about that, particularly given the fact that with 20% to 40% returns to our credit products in the last year, people are saying gee, did you just ride through this bull market in credit.

MS. SENDER: Exactly.

MR. JAMES: I just say we have essentially zero interest rate risk in our credit business today. We have almost no long dated fixed rate securities in our credit business. Our guys have been anticipating this backup for a long time and they're short maturity, they're floating rate and they have a lot of cash. So those attributes means that they've actually been hoping for a backup and are well-poised to take advantage of it and they're actually thinking this is great. And so, that's the credit business.

In real estate, it’s a bit more of a mixed blessing I suppose. Obviously they're not in the direct credit business, but higher interest rates should be expected to move up cap rates or in other words, the universe of the multiple that properties trade for which could affect values. On the other hand, what's driving up interest rates is stronger fundamentals. It's a better economy and so on and so forth. And that of course, makes occupancies and rents go up faster.

So far, what's happening is actually our operating income from the properties driven by occupancies and rents are accelerating faster than the negative impact of higher cap rates. The other thing is when base rates go up, that is to say treasury rates, it’s not always fully reflected in the increase in cap rates because while treasuries have been very low, the spreads have not been particularly low. So there's cushion where the spreads could actually come down and all of the increase in treasuries not get passed through.

So again, on balance, we think this is good for our real estate business. We own, as you know, a boatload of real estate and frankly having stronger economies and stronger tenants and more demand for space and higher rents and higher occupancies, net, net, net, is just really good for our real estate business given the amount of real estate we have. So that's on real estate.

Tac Ops, geez, I don’t think there's any direct impact on the portfolio. I think if we had a sharp increase in rates and we got a lot of volatility and we had some panic, some distress, some turmoil and a lot of unhappy people, that would be great for Tac Ops. They feast on that. (Laughter)

MS. SENDER: And private equity?

MR. JAMES: Private equity, again, it's a lot like real estate. All of our portfolio companies a long time ago refi'd and took advantage of low rates, they have long maturities. There's no dependence. They're not in any way hurt by rising interest rates, I don't believe, and they are helped a lot by a stronger economy. So much like real estate, their primary driver there is the economy which will accompany higher rates.

And you know how the stock markets have been very accommodating. So I don't think they're going to be hurting much unless the stock markets really take a big hit. I don't see that. In general, you know, I think if you looked back, you'd see both private equity returns and real estate returns have been pretty high in rising interest rate environments for the reasons I'm talking about.

And back to real estate too because that was one of the ones you highlighted, it's really not--the important thing in real estate is much less interest rates than the amount of new building. The problem in real estate is excess supply and we're a long way from seeing that.

MS. SENDER: And what about buying new companies? Are you concerned that given the cheap cost of debt and the rising equity markets, you know, you will find it difficult to locate buyers who will pay more in five years' time than what you're paying to buy a company today?

MR. JAMES: Well, there's no two ways about the fact in general that hot credit markets with abundant low cost debt pushes up prices that leveraged buyers are willing to pay. And typically, the vintage year returns of the money put out in those environments, in hot credit environments have been poor vintage years for the industry. So prices are pretty high right now in that way and so our job is not to try to push a lot of money out to that environment.

Our job is to be disciplined and not be enticed into doing too much in this kind of environment because things change. You know, the beauty of private equity funds is you have six years to an investment period; you can extend it more often than not if you want to or need to. So the trick is to be disciplined and not try to do too much when you've got hot credit markets and prices are high. And then of course, when things back up and prices are more reasonable, then you get more active.

The investments we make in a time like this tend to be less leverage driven because we focused a lot on unlevered returns and that stops us from just looking at the leveraged returns which can be sort of over-inflated. I mean, it's seductive to look at leveraged returns with lots of leverage because you can look like you're getting a high equity return and what's really driving it is so much debt, such low cost debt that it's kind of disguising the added risk.

So by looking to unlever returns, it pushes us more towards investing in growth companies that need growth capital where your returns are coming from growth of the company, not leverage and deleveraging. And those companies, if you get the growth and you get the operating improvements, you'll definitely find buyers who'll pay you more in five years because its fundamental organic growth.

MS. SENDER: Thank you.

MODERATOR: Now we'll go to the line of Greg Roumeliotis with Reuters. Your line is open.

MR. GREG ROUMELIOTIS: Hi, good morning Tony. I had a couple of questions on the issues of exits you touched on earlier in private equity, but also investments. We have seen the rise of strategics in recent months in corporate M&A. And of course, Blackstone has been a beneficiary of that as well with a transaction involving Vanguard that is not going to come through this quarter. But it looks like a very nice outcome for you. And I wanted to ask how you think about this because obviously more strategic M&A means more opportunities to sell portfolio companies to them. But it also means competition with these guys on the buy side. So how do you think about this?

MR. JAMES: Okay, it's a good question. I think in general, more strategics out there is good for the buyout industry because often when there's a lot of strategic activity, they also then rationalize their mix of businesses. They have investors, they have a lot of stuff like that.

So general transaction volume tends to go up. And of course, as you point out, I mean, it's good to have the IPO market that we've had in the last year or so, but IPO windows open and shut and it takes a while to work through a stock position if you own almost all the company. So having a strategic excess is very good for the existing portfolio. Yeah sure, sometimes it makes the competition with strategic--you know from the buy side a little more.

But generally speaking, the things we're looking at--we occasionally get topped by a strategic. But other companies we're looking at don’t have obviously synergies with a big strategic buyer, we wouldn't probably be competitive anyway. And most corporations, when they buy things they don’t want to buy the kinds of companies that private equity focuses on. We like to get good, quality, stable companies. But they don’t generally have a lot of growth and most corporate buyers are trying to buy growth because the stock market is growth fixated. It's not to say there's no overlap, there is of course, but you know more often than not, the companies that private equity focuses on are not the same ones that corporations want to buy.

MR. ROUMELIOTIS: My second question is at the Blackstone level of a role, the distributable earnings year-to-date have basically doubled, but fee related earnings are close to the level, just a little bit over, what they were this time last year. Does this reflect, you think, should one read into this something about how Blackstone fundraises these days and the terms it offers investors or it has more to do with the average life cycle of the funds and where they are at the moment.

MR. JAMES: Well, there's a few factors. I mean, I think LT wants to take the first whack and then I might add. Go ahead LT.

MR. LAURENCE TOSI: I think what you're referring to Greg is that fee-related earnings were up about 4.5% year-over-year.

MR. ROUMELIOTIS: Yeah.

MR. TOSI: And the actual base management fee earnings are actually up more like 7.5%, correct?

So that means there has been steady growth. There is an impact of realizations over time and we actually have some funds that we raised the capital and it hasn’t started paying fees. We actually have a $16 billion that hasn’t started paying fees. But I mean, I'll turn it back to Tony, but it's not reflective of change in any fee relations with [inaudible].

MR. ROUMELIOTIS: Right, so it's more to do where the funds are basically in terms of realizations and also investment period and commitment and all that because otherwise in terms of the ration in the AUM (phonetic), maybe would expect to see, you know, a bigger ration, you know, in fee-related earnings.

MR. TOSI: And that's more related to the business mix of where those increases are.

MS. SOLOTAR: It’s also the Asia fund, so we closed on about a billion dollars in the Asia fund, but those fees don’t start kicking in until the fourth quarter.

MR. TOSI: Yeah, there's about--

FEMALE VOICE: And I thought actually one of the great things about the quarter was that it showed we could have increased realizations and at the same time still grow at them.

MR. JAMES: So let me just comment because you know, we've kind of created a bit of a monster here where when we categorize our own business into performance fees and fee-related earnings. And what we do is we take sort of the normal management fees and then we throw all of the costs against that to create this sort of metric, which is kind of not an accounting metric, it's an artificial metric we created called fee-related earnings.

And that leaves the performance fees unburdened by all the costs except for the direct incentives our people have in the carries. Well that’s kind of an artificial way to look at business in a way. So when the performance fees go up, you know our general compensation around the firm is going to go up for a lot of reasons.

And when we have a lot of activity, you know our staffing and so on levels go up. So the cost of that which are in some ways driven by higher performance fees will actually, ironically hit fee-related earnings in the short-term. So I'm just saying the two buckets aren’t as separate as people think. They're really not separate at all. So I just want to make that distinction.

The other thing is as we roll this forward, as we get into more of a realization cycle, notwithstanding raising new AUM, we're going to obviously be selling old AUM so to speak. And old AUM that's fully invested is accruing management fees. Some of the new AUM depends on the mix of business, doesn't start accruing management fees until it's actually put to work and put in the ground. So there's a little bit of a lag effect there as well. So it will ebb and flow a little bit from quarter to quarter.

And then finally, you know, the cost of running our business is going up. The regulatory burdens and all the things that are affecting the banks are affecting us too, make no mistakes about it. I wish I could grow my cost basis slower than my management fee basis, but I'm not sure we really can.

MR. ROUMELIOTIS: Okay, thank you.

MODERATOR: All right, now we'll go back to the line of Ryan Dezember for the Wall Street Journal. Your line is open.

MR. RYAN DEZEMBER: Hi guys, sorry about that. I had some technical difficulties and excuse me if this question's been asked. But I'm just kind of curious what your take on the dividend recap market or the market for dividend deals? We saw it really hot in the fall and then it really picked back up again in May with leveraged loans. I'm just kind of curious, are you guys done with that? Have you kind of done all the deals you can? What's the market looking like?

MR. JAMES: Okay. So you know there's a couple of drivers of that and the interplay of those forces is going to determine how much of that activity you'll see. So after a long period of time of closed credit markets, when credit markets open up again and are robust and rates are much lower and the amount of leverage that the lenders are suddenly willing to put on a company, you know the same company, the same results and before they were balking at four and a half times and now they're six and a half times. When the credit market shifts, you'll see a burst of activity of dividend recaps and that's credit market-driven. So that's one factor.

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MR. TONY JAMES: A second factor that drives it, frankly, is companies that, it's companies that are results-driven, so if a company's been actually suffering through a recession with not very robust results, now all of a sudden it comes out.

And EBITDA's up substantially, and debt's been paid down, because of the cash flow, and one thing and another. And the outlook's better. All of a sudden that company, even in the same credit market, can borrow more. So you'll see a burst of activity driven by the cycle in portfolio company's results. And so the interplay of those things will cause, you'll see these kind of sudden lots of activity for the industry, and for us too. Although we don't tend to do as many dividend recaps as some other firms. But you'll see a bunch of activity, and then it'll sort of taper off, as you hit equilibrium again. And then you see another bunch of activity as one of those other forces come to play.

The third one is of course equity markets. And dividend recaps are just one of the ways you exit an investment. Another way is IPOs. When the IPO market opens up again and gets hot, you'll see lower dividend recaps ‘cause some of those companies that would have recapped go public. And similarly when the strategic market comes back, some of those companies that would've recapped get sold. And if you anticipate even that the IPO market will be opening up or will stay open, or you're going to take a company public, or that you're going to be selling, you don't do a recap because the recap has costs. There's a lot of transaction cost. You got to pay investment bankers; you got to pay call premiums on the debt. And then you lock into non-callable debt and so on. So if you're anticipating a bigger exit, so to speak, either as an IPO or as a strategic sale, then you hold off on the recaps.

So the interplay of those three forces will have recaps ebb and flow. In general, and I'm sorry if this is kind of more detail than you want, but in general, you can expect, most of the recaps are behind us because you've had company results coming up, and you've had very low interest rates for a while. And most of private equity, and certainly we have taken advantage of all the opportunities to refinance our companies and lower their cost of capital that made good sense. And we have a pretty robust equity market, and hopefully a recovering corporate acquisition market. And so I don't expect a lot of recaps near-term for us.

MR. DEZEMBER: Okay, thank you.

MODERATOR: All right. And now we'll go the line of Dan Primack with Fortune magazine. Your line is open.

MR. DAN PRIMACK: Hey Tony, thanks for doing this this morning. Tony, question for you about the change, or coming change in general solicitation. And curious your thoughts on what, if anything, that means both for Blackstone in marketing its own funds, and also what it means for Park Hill.

MR. JAMES: As you know, all the rules aren't yet written. So a lot will depend on that. I actually don't think it makes much difference for Blackstone for two reasons. A, we're really focused on bigger investors. Even small institutions today, we don't focus that much on. We've got a limited amount of bandwidth, a limited amount of marketing people. Our systems aren't set up to serve thousands of masters. And so we could increase our operating costs a lot, without increasing our available capital a lot, if we tried to go direct. So our approach to the smaller investors has been through other systems. And I made those comments about retail before. But it's to work through the Merrill Lynches or the J.P. Morgans, or the (inaudible), or someone--

MR. PRIMACK: [Interposing] Sure.

MR. JAMES: --like that. And so for us, the direct impact I don't think will be too huge. Although we'll see. Over time, it may evolve. But it's not going to be like night and day. And similarly, Park Hill is very focused again on institutional investors. And I don't think, it might affect some of other distribution partners. It might affect sort of the Merrill Lynches of the world. It might affect, we’re sub-advisor in our credit business to Franklin Square, things like that. But I don't think it's going to have a dramatic effect to our business in the short term.

MR. PRIMACK: So we shouldn't expect, for example, a Blackstone ad to appear in the Journal or Barron's when this rule comes up for whatever fund it is you're raising at the time.

MR. JAMES: No.

MR. PRIMACK: Thanks, appreciate it.

MODERATOR: All right. And again for questions, it's star, then one. If your question has already been answered and you wish to take yourself out of queue, please press the pound key. And we now will go to the line of Shasha Dai with Dow Jones. Your line is open.

MS. SHASHA DAI: Yes, hi. Good morning, everyone. Tony, I had questions about Blackstone Capital Markets. Steve spoke at our conference. This was in 2008, actually a couple of days after Lehman. When he was asked specifically the question of whether Blackstone planned to get into capital markets business, and Steve said at the time that Blackstone does not, or did not have immediate plans to get into that business, the reason, he said, was that business required a lot of capital. Now fast forward five years to today, and that business is now a reality. My question is what happened over the last few years which made this even possible?

MR. JAMES: Yeah, okay. That's a good question. Steve was absolutely right, of course, as he always is, what he said five years ago. And I would make that same statement again today. And I think, let me just make a distinction on that. We have no interest in getting into the capital markets business as sort of it's generally, that term is generally used in as the Wall Street firms and the banks think of it. Sales, trading, market making, all that stuff. No interest whatsoever. And I use the term capital markets advisory, and I use that for a reason. It's a light touch; it's a small group. It's giving advice to clients on access in capital markets. It's participating in a small way in some of the underwritings.

But we're not trying to build up a full-fledged capital markets business, in any way, shape, or form. And I was careful in my comments to say that we didn't expect this to be a big business. And so one of our competitors has put a lot of effort in the capital markets business, and they've done a very good job with it, and it's been a very important contributor to their profits. And I admire what they've done. But that's not our strategy. We're not going to go as big or as aggressively in that direction as they are. And it's not that that's not right. It's worked very well for them. As I say, I admire what they've done. But it's just not where we want to take our business.

MS. DAI: I just have to (inaudible) too that that being said, Tony, the capital markets business had done 13 deals for the past quarter, including participation in SeaWorld IPO. That was a pretty high-profile mandate, if you would. And thirteen deals is a pretty robust pace for a startup business, if you would. What is sort of the scope of business for the capital markets advisory? Is it primarily serving your own portfolio companies, or but down the road, it might look at a third party business as well?

MR. JAMES: Well we are now serving both our own and third parties already. And we did that in the last quarter. And so the group is set up to do both, just like our say advisory business. All of them are. Sometimes they'll serve third parties; sometimes they'll serve some of our own portfolio companies. That's true--

MS. DAI: [Interposing] Okay.

MR. JAMES: --of all of our advisory, M&A, restructuring, even Park Hill. And capital markets advisory. So I'd say both, and it's focused on helping companies to access basically public equity and public debt markets.

MS. DAI: Okay. And the last question in regards to capital markets, I did notice that it's been lumped into the numbers that have been lumped into the advisory business. And historically, the advisory business would have ebbs and flows subject to the M&A and the restructuring cycles. Now with this new added piece to it, do you think that overall, advisory numbers would somehow smooth out a little bit, with some of that cyclicality being taken out?

MR. JAMES: Shasha, you kind of faded in and out a little bit there, but I think I got it. So I think it'll smooth that out somewhat. But you know, it's quite interesting that the M&A business and the restructuring advisory business have tended to be almost perfectly counter-cyclical. And so if you look at just those two, that line is much, much steadier than most investment banking businesses because of that offset, and because we're still large and restructuring relative to M&A. This will add another leg to the stool that's not driven really by either of the M&A cycle or the restructuring cycle. So it should smooth things out somewhat more.

And of course Park Hill has its own cycle. And it's a pretty lumpy business. So that probably, no matter how you do it, that probably adds volatility to the business. Although it's quite a good business. It's a consistently profitable business, and I think we're the global leader in that business now. But it's not a smooth business. So this will have some smoothing effect. But I wouldn't, the 13 deals that we did in the last quarter, that was a good quarter. I wouldn't think that, you can't count on that happening every quarter because this obviously was a very good quarter for IPOs and things like that so, and equity financings. And then when the equity markets are shut, the capital markets business will be slower. So I don't want everyone counting on the fact that that's kind of a base level. It was a good, active quarter. We'll have more active quarters, but we'll certainly have less active quarters.

MS. DAI: Right. Now last question from me, that when you look at that Blackstone Capital Markets business and you look at the Credit Suisse secondary acquisitions, is there anything else coming down the pike in terms of new lines of the businesses?

MR. JAMES: Well, we have our ideas; we have our plans. And we have some interesting opportunities. But I'm really not, at this point, able to discuss them.

MS. DAI: Okay. Thank you so much, Tony.

MR. JAMES: Okay.

MODERATOR: All right. And now we'll go to the line of Ilaina Jonas, from Reuters. Your line is open.

MS. ILAINA JONAS: Yeah, hi. It's Ilaina Jonas. Thank you for taking my call. These questions are going to be related to your real estate. For the past several quarters, your realization activity was about a billion dollars, and this one is double that. Is there anything you can particularly attribute that to?

MR. JAMES: Well Ilaina, I think we've been saying for the last couple of quarters that we expected to be having real estate realizations ramp up over time. And I think we think that trend will continue, continue to flow. We've got a big real estate portfolio. I think it was bought generally at the right time. And we've had a lot of increase in occupancies. We've had a lot of increase in rent, as I've talked about. So the properties are becoming, what we do is in real estate, is we buy it, we fix the properties, and we sell them. And once the properties are fixed, they go to market. So…

MS. JONAS: [Interposing] But this quarter's been like double.

MR. JAMES: So, I think they'll continue to be a growing series of real estate realizations, as we go forth over the next 12 to 18 months.

MS. JONAS: Will we see something like this, like doubling from a prior quarter, I mean you won't double every time. But was there something--

MR. JAMES: [Interposing] No. What this is, Ilaina, this is lumpiness--

MS. JONAS: [Interposing] Lumpiness, okay.

MR. JAMES: So we filed Brixmor today, as I mentioned. That comes next quarter. That could be a big one. But we have a lot of activity, a lot of discussions, a lot of appetite. And in terms of distribution too, some of our properties are held in bigger portfolios where we have our credit facilities against the entire portfolio of properties. So when we sell one property, when we sell one office building out of one of our office management companies, the proceeds of that office might go to pay down the debt and not get directly to investors. So some of this is not only a function of the sale activity, of the underlying asset. It's also a function of the capital structures in which those assets are held. So the timing of the actual cash distributions vary somewhat. But I think in general, it'll be lumpy. We have some variability. But you can expect it to ramp up over the next year.

MS. JONAS: Okay, thank you. And on the next question, the appreciation of real estate, of the assets under management. How much of that is coming from the single family housing? Are you seeing more? Is it appreciating faster than the commercial?

MR. JAMES: So in the mark that we gave, very little of it was driven by single family. 'Cause it's such a small portion of the total assets. And I actually don't even think we've marked that up much 'cause we're still in the acquisition mode.

MS. JONAS: Okay.

MR. JAMES: So it's just a little bit. So the technical answer to your question is of the 5.9%, very little.

MS. JONAS: Okay.

MR. JAMES: However, my sort of more real world answer is what we are seeing in single family is significant appreciation. So it's probably up, in our markets, many of them, prices are probably up near 20% since we started buying homes. Now that doesn't mean that the average thing we bought is up 20%, right? That was just where markets were when we made our first purchase, and of course, so we don't have near that kind of appreciation. In some markets, the appreciation is sufficiently high that we stopped buying, and we've moved to other markets. But in general we're seeing home prices around the country appreciating at more than a percent a month at this point.

MS. JONAS: Last question is just clarification. You said Brixmor was your third-largest investment. Do you mean in real estate, or…

MR. JAMES: Yes.

MS. JONAS: Overall? Okay, thank you. Thank you very much.

MODERATOR: All right. Now we'll go to the line of Evelyn Lee, private investor. Your line is open.

MS. EVELYN LEE: Hi, good morning, Tony. I just had a question. My question was also related to real estate. You mentioned--

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EVELYN: Hi, good morning Tony. I just had a question, my question was also related to real estate. You mentioned that you see real estate activities seem to be shifting from the U.S. to Europe, Asia and the emerging markets. And I want to see if you can provide any more color on that, maybe within, like, all those three of those areas where you're seeing the most opportunity or maybe some of the most interesting opportunities.

MR. TONY JAMES: Okay Evelyn, well, so I don't want to overplay this. In the last 18 months, real estate's been extremely active and it's been very, very heavily U.S. focused because that market--first of all, the U.S. is a big market. So U.S. will always be big for us. Just start with that, no matter what, it'll always be big.

And then Europe… for a while we thought Europe would be really interesting but frankly, there just wasn't that much coming on the market. That started to change and now there's a lot more transactional volume in Europe. So Europe has ramped up a lot. You know, we thought Europe would break open, but it sort of broke open sort a year or two after we thought and a year or two after the United States. That is now open, a lot of stuff happening. So a lot of the new flow is coming to Europe.

You won't see that in our closings right now, some investments for a while. I'm kind of talking about sort of what's coming in the top of the funnel. And so the balance is shifting more towards Europe and the U.S. I'm not saying the U.S. isn’t--there's still interesting stuff happening in the U.S. for sure and it's such a big market.

And then Asia was quite quiet for a while because--and more generally emerging markets. But with some of the backup, some of the tight credit in China, some of the political turmoil in India and the access to capital and shutting the markets declining there, some of the currency declines elsewhere and the outflows of capital out of the emerging markets--all of a sudden, owners of real estate, developers of real estate in emerging markets don’t have the access to capital that they did a couple years ago.

So again, the incomings there are much higher than they were as a percentage of our total incoming. So I'm just saying that, you know, the activity, instead of being almost all the U.S., those other areas are coming up a little. While in the U.S. there's still plenty of interesting things, prices are getting high, values are getting nearer replacement cost, the credit market's been hot enough that the people who need capital have been able to finance out of their problems. So we anticipate a shift of activity more--not away from the U.S., but it won't be as high a percentage of activity, let's just put it that way.

EVELYN: Would you say though that the majority of your real estate activities still will be in the U.S. though based on your comments?

MR. JAMES: I would say the answer to that is yes for the next… yes, right now just given the scale of the market, I think that's true.

EVELYN: Okay and any thoughts on Latin America? I was thinking particularly about the acquisition of the majority stake in Alphaville. I don’t know if, in terms of emerging markets, if you provided any thoughts on that, that region?

MR. JAMES: Yeah, I mean, we think that's actually a very interesting region and that's a sort of significant growth area for our real estate business. We did the Alphaville transaction real estate fund, and then we did a very interesting Brazilian mall transaction in the Tac Ops fund. And then real estate also did a very interesting real estate trade when they bought a bunch of real estate from one of the big banks in Brazil.

So we've done a bunch of things there and its working out very well and we think that's a growth opportunity for us. We also have though, you know, our country affiliate has a Brazilian real estate fund and they've done extremely well and that business is ramping up as well. So yeah, yeah, the simple answer is that's a good target of opportunity for us and an area where we've had good success.

EVELYN: Okay. Tony, thanks so much for taking my questions and answering them.

MODERATOR: Okay, now we'll now go to the line with Chris Witkowsky with PEI Media. Your line is open.

MR. CHRIS WITKOWSKY: Hi Tony, thanks again for doing this today. I just wanted to clarify. Did you say that the GSO Rescue Fund is going to hit its $5 billion cap?

MR. JAMES: Yes.

MR. WITKOWSKY: Okay and what's the time frame on that? Would that be this summer do you think?

MR. JAMES: Yes.

MR. WITKOWSKY: Okay and just a follow-up on the Tac Ops. I'm just curious sort of how to look at that business. Is that an actual fund that's being raised or is it sort of a collection of separate accounts with big clients? What is the sort of proper way to look at that?

MR. JAMES: Both. It's both. But it vests like a fund. So when we do an investment all the investors participated. Some investors come in in the form of a commingled fund, either because under their mandate they have to do that or because they're small and they're not big enough to have their own separate account. Others come in the form of a separate account for different reasons. And some of the accounts have different areas they want to focus on and some different things like that. But generally speaking, all the money acts as sort of one pool of capital in funding investments.

MR. WITKOWSKY: Okay and so with sort of the fund side of that business, there is a cap on that fund?

MR. JAMES: There is a cap on the cumulative amount of money that we can raise in this right now, for this series of investments.

MR. WITKOWSKY: Got it. Okay, thank you for your time.

MR. ROSE: Thank you everyone for listening in. If you've got any further questions, please just call the media relations office and we'll get you an answer. And just to remind you again at 11:00 is the call for analysts. You're all welcome to listen. Thank you.

MODERATOR: And ladies and gentlemen, that does conclude your conference for today. Thank you for your participation and for using AT&T Executive Teleconference. You may now disconnect.

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