Final Transcript

THE BLACKSTONE GROUP: Blackstone Group Third Quarter 2012 Earnings Call

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SPEAKERS

Stephen A. Schwarzman, Chairman, CEO, and Co-Founder

Tony James, President and Chief Operating Officer

Laurence Tosi, Chief Financial Officer

Joan Solotar, Senior Managing Director, Head of External Relations and Strategy

ANALYSTS

Howard Chen – Credit Suisse

Michael Kim – Sandler O'Neill & Partners, L.P.

Roger Freeman – Barclays Capital

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Robert Lee - KBW

PRESENTATION

Coordinator Welcome to the Blackstone Third Quarter 2012 Earnings Conference Call. Our speakers today are Stephen A. Schwarzman, Chairman, CEO, and Co-Founder; Tony James, President and Chief Operating Officer; Laurence Tosi, Chief Financial Officer; and Joan Solotar, Senior Managing Director, Head of External Relations and Strategy.

And now I'd like to turn the call over to Joan Solotar. Please proceed.

J. Solotar Great. Thank you. Good morning, everyone, and welcome to our Third Quarter 2012 Conference Call. I'm here today with Steve Schwarzman, Chairman and CEO; Tony James, President and Chief Operating Officer; and Laurence Tosi, our

CFO. Earlier this morning, hopefully you've seen, we issued a press release and slide presentation illustrating our results, and that's all available on the Website. We expect to file the 10-Q in a few weeks.

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

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

So recap of our results, we reported Economic Net Income, or ENI, or $0.55 per unit for the third quarter; that's up sharply from $0.19 in the second quarter of this year and up from a negative $0.34 in the third quarter of last year. Improvement was mainly driven by greater appreciation in the underlying portfolio assets across the board on every one of our investing businesses.

For the third quarter 2012 distributable earnings were $190 million, or $0.15 per common unit; that's up 50% from the same period a year ago. We'll be paying the $0.10 per unit distribution related to the third quarter to common holders of record November 15th. As you know, we'll have a catch up following the fourth quarter.

As always, if you have any questions on anything in the earnings materials please follow-up with either me or Weston Tucker after the call.

With that, I'm going to turn it over to Steve.

S. Schwarzman Thanks a lot, Joan. Good morning and thank you all for joining the call.

Today I'll briefly discuss the state of the global markets and I'll highlight our third quarter results in the context of what really matters in our business over the long term, LT will then briefly review financial results, and then we'll focus most of the time today on taking your questions, which we think is perhaps a little better approach than we've had in the past.

As you all know, we saw sharp increases in global equities in credit markets in the third quarter, driven by massive liquidity from Central Banks around the world, and in spite of very mixed economic data and pretty much slowing economic data around the world. What does that mean for our business? There are three things that matter that I'll focus on today; first, our LPs', Limited Partners, willingness to entrust Blackstone with the managing of their investments; second, our ability to deploy our investors' capital into attractive investments; third, our ability to improve upon the assets we invest in and create value, which is eventually realized. These measurements are more meaningful over time versus any one quarter. I'll show you what's happening now.

In the first point, investors are continually seeking those managers who can deliver good returns. Today investors around the world are seeking returns in illiquid investments, because returns from government, riskless securities supposedly, or high-grade bonds are very, very low, as you all know. Beyond on that, the pension funds are experiencing funding shortfalls, which has been a long running secular development. We are in the midst of a mega cycle where Blackstone stands out in having significant experience across the illiquid asset classes where the returns are substantially greater historically.

We've been the recipient of greater inflows from these institutional investors, in fact more than any of our peers. I'll run through those numbers, but importantly the reason we're raising so much money is because we are delivering good returns for our Limited Partners.

In the third quarter, for example, we had gross inflows across our businesses of $10 billion, that's in one quarter, and $38 billion over the last twelve months, excluding acquisitions. Those are really big numbers. Combined with limited outflows, our ongoing success in fundraising resulted in record total assets under management of $205 billion, and that is up 30% year-over-year, which is actually a pretty stunning number in terms of growth, 30% growth year-over-year.

We completed our fundraising, for example, for our seventh global real estate fund, which hit its $13.3 billion cap and was over subscribed in addition. We believe this is multiples the size of what any of our competitors will be able to raise, and is a testament to our Limited Partners' confidence in our business and our strategy and our ability to protect and grow their capital through virtually any market environment.

Also in real estate, our debt strategies platform, which is nearly $4 billion in aggregate size, has launched fundraising for its next draw down fund. We grew this business organically from zero in 2008 and it now complements our opportunistic business nicely. A few weeks ago we announced the acquisition of Capital Trust Real Estate debt business, which will add $2.4 billion in AUM to the platform when it closes.

In private equity we had our final close on our energy fund with $2.4 billion of commitments, and we've already deployed or committed 40% of this capital, which really goes a long way to addressing any kind of J-curve type issues.

Our tactical opportunities platform, which I think we've talked to you about before, which invests in attractive opportunities we see around the firm that do not fit neatly within the investment mandates of our existing funds, is now $1.4 billion in size. We're just starting to expand the marketing effort to a broader list of our largest LPs.

BAAM, our hedge fund solutions business, saw another $1.7 billion in net inflows in the third quarter and an additional $500 million on October 1. On a year-to-date basis we generated $3.7 billion in net inflows. This continues our strong performance from last year when the traditional hedge fund-of-funds industry reported net outflows while Blackstone, with its differentiated hedge funds solutions approach, captured 10% of the entire hedge fund industry's net inflows. In fact, we were just again rated the largest allocator to hedge funds globally. We've differentiated ourselves from the competition, and today we couldn't be more different from the traditional fund-of-funds model as we provide a superior level of customization and innovation to our institutional LPs.

In credit there are a whole variety of things that we're doing, such as new CLOs, business development companies, Exchange Traded Funds, and large mezzanine and rescue lending funds. It's a very busy time for our GSO group. We're seeing good inflows and strong LP demand for our products, and we continue to launch new products and diversify, and they're all working. At $55 billion in total assets our credit platform grew 62% from last year, or 32% excluding acquisition, a huge expansion of this business large part because we're selling high returns in a world where investors are having trouble, in some cases, making money at all.

A few weeks ago we successfully launched our third closed-end fund, which trades under the ticker BGB, and raised nearly $1 billion. Following a successful performance by our first rescue lending fund, which we call Capital Solutions, we're in the process of raising our second fund, which is likely to start investing early next year.

In total, across the firm we've amassed the largest global pool of dry power to capitalize on market opportunities across strategies and across regions, at $36 billion. That's money that ultimately we'll be investing on your behalf. We will remain prudent in how we deploy this, diversifying by region, sector and vintage. But the potential earnings power of this capital running through the firm is quite substantial, as you might imagine.

Moving into the second critical driver of value for our public market investors is our ability to source great investments, and this is actually the most fun. In the third quarter we maintained a very active investment base, deploying or committing $6 billion across the firm, bringing us to over $13 billion on a year-to-date basis. Roughly half of this amount was deployed in our real estate business, where we remain uniquely positioned as the largest capital pool in the world and are, in many cases, the sole bidder for properties. Our strategy remains, as Jon Gray would say it, buy it, fix it, sell it, where we acquire good assets that need improvement, often in distressed or over leveraged situations.

Since the fourth quarter of 2009 when markets bottomed we've invested $17.6 billion across our real estate funds, which we believe makes us the largest purchaser of real estate in the world. We have high expectations for the ultimate returns we expect to generate on the capital we've deployed in this extremely favorable environment.

In private equity, while investors' risk appetite has increased recently, driving up multiples across most sectors and regions, valuations still look generally attractive relative to historical levels. The environment remains fragile, as I think you heard from Tony in the earlier call, and there is substantial uncertainty and hesitation in the markets. While it is the highest price, of course, that wins a competitive auction, we continue to focus on investments where we have some advantage or bring some unique value that we believe others can't. We rely on proprietary sourcing of transactions, and the majority of our new deals in private equity are exclusive. We leverage the Blackstone brand name to be the partner of choice for entrepreneurs around the world seeking growth capital, and for corporate partnership investments.

During the third quarter we closed on the first two tranches of our investment in Cheniere, a $1.5 billion equity investment to fund the construction of a natural gas liquefaction export facility, with equity coming from our BCP VI fund, our Blackstone Energy Partners fund, and some LPs who are co-investing in this investment. Our financing of this construction consists of the convertible PIK security, which is convertible at a price well below today's stock price and has attractive PIK and cash yield features in the interim.

As you probably read, we also provided rescue financing to Knight Capital, which is a company we were already looking at prior to the technology error that occurred in early August. We had already conducted diligence and were positioned to swiftly react and invest as part of a broader capital infusion funded by Blackstone and other strategic investors. Our equity investment is immediately convertible into common shares at a level well below today's price, implying a substantial mark-to-market gain.

A third notable private equity investment was Vivint, a large residential security monitoring and home automation company, which also has a rapidly growing residential solar business. This should close by the end of the year.

Lastly, post the end of the quarter, BCP VI and Blackstone Energy Partners, our energy fund, signed a commitment to fund a minimum of $650 million into a privately owned oil and gas company, which we expect will close before year-end. Like Cheniere, this is a unique opportunity. It was negotiated on a propriety basis.

The financing environment for new deals remains highly attractive, and we're seeing record levels of new issuances of U.S. high yield and leveraged loans. No one could have predicted that one four or five years ago. New issuance is a mix of funding for new LBOs, dividend recaps and re-pricing, some of which reflects re-pricing for May to July 2012 issuance, where borrowers are paying to lock in even more attractive terms than what they negotiated just a few months ago.

In our credit business, GSO, with one of the largest and fastest growing platforms in the world, we are well positioned to provide financing to good companies in the current vacuum of traditional bank lending and junk lending for smaller sized companies as a rule. We deployed $720 million from our credit platform in the quarter and have another $5 billion in dry powder to put to work, again, in a very favorable investing climate.

The final critical area for public market investors that I'd like to focus on today is our ability to create value and generate outstanding realized returns. This remains an area of misunderstanding about our business that we are solely financial engineers generating returns by a manipulation of capital structures, and this couldn't be farther from reality.

We are true operators of assets. We develop a bottoms-up strategy transformation before investing; we carefully select the very best management teams; we breathe new life into broken assets where we propel great assets and management teams to the next level by providing much needed capital and advice that they could not access otherwise; and then we exit these investments when we've completed our work.

Our business model is structured so that we can be patient about this process and take a very long-term view. As long-term investors with patient capital, we make decisions based on the best outcome over the life of the fund, which can be ten years or longer, and it takes time to truly effect change and correct issues. Because our business is largely immune from investor redemptions, much different than a regular money management firm, we are never forced to sell assets into weak markets. Through market cycles, and over our 27-year history, we've generated net annualized returns on realized investments of 23% in private equity and 28% in our global real estate business, which dwarfs performance of virtually any other investment class.

We had $1.8 billion of realizations in the third quarter across the firm, bringing us to total realizations of nearly $6 billion on a year-to-date basis. The third quarter included another follow-on sale of a portion of our interest in TeamHealth, which generated a multiple of invested capital of 3.7 times and $35 million of distributable earnings from just this one medium-sized investment.

In real estate you may have seen the recent announcement, I believe it was yesterday, the sale of Sunwest Senior Living, which BCP VI acquired the majority control of out of bankruptcy in 2010. The assets had fallen into disrepair, and we invested substantial capital, along with our partner, Emeritus, to improve them, increasing occupancy in two years by 900 basis points, or 9%. Two years later we are selling the $225 million investment at 2.4 times multiple of investment capital, which is roughly 40%

above the current quarter's mark. I'll just repeat that for you—40% above the quarterly mark.

And I know all of you in the analyst community look at our financials as to where marks are, and we've had a historical experience of significantly higher exits than those marks. Our legal team would say we can't promise that in the future, but that has been our experience typically in the 25% to 30% area over our marks historically.

We expect the sale of Sun West Senior Living to be completed in the fourth quarter.

If you can make 2.4 times your money in two years where the stock market performance is probably average--I didn't do this math and we'll get it for you--probably average somewhere around 6% or 7% over a two-year period, this is a massive outperformance because this investment, and it's just a for example, was compounding at 45%. So what we do for a living is do things like this, and it's really what justifies people giving us these very large amounts of money because we think we can replicate very favorable investment outcomes.

This is a prime example of how our buy it, fix it, sell it strategy works. As we look at the maturity profile of our real estate assets we'd expect 2013 and '14 to be substantial years for realizations out of funds that are fully in carry.

In summary, our third quarter results demonstrate more of the same, but with really substantially strong fundamentals to the firm in terms of positive trends as we continue to see strong capital formation and share gains across all of our businesses. We continue to invest and build value across our investment portfolio, positioning ourselves to generate great returns for our investors. Can't do that without the support of our Limited Partners and the absolutely terrific people who work at the firm, which is really our biggest asset and where I think we're in terrific shape.

With that I'll ask Laurence Tosi to take over with a brief review of our financial results, and then we'll open it for questions.

L. Tosi Thank you, Steve. Good morning, and thank you very much for joining our call.

Third quarter ENI of $622 million brings Blackstone's year-to-date earnings to $1.3 billion, or $1.18 a unit, up 23% over last year and a record first nine months for Blackstone.

The firm generated $190 million in distributable earnings in the quarter, up 51% from the prior year, bringing the year-to-date total to $540 million.

Revenues were up 20% to $2.8 billion for the first nine months of the year, driven primarily by a sharp increase in values across all of our investment businesses, generating performance fee revenues of $1.1 billion year-to-date, up 38% from the same period last year. Blackstone now has over $2 billion in accrued net performance fees, including $160 million, or $0.14 per unit, in accrued net incentives fees. Incentive fees are typically realized on an annual basis.

Over the last year alone the net performance fee receivable grew 75% as a result of strong fund performance. Blackstone reached a record $66 billion of performance fee earning assets in the third quarter, doubling from the prior year period despite the fact that we had realization events, which generated $8 billion in proceeds.

Following on Steve's thoughts on core drivers of value I'd like to offer a few thoughts on the core growth drivers at Blackstone. The central characteristic of Blackstone's culture is innovation. That instinct is perhaps nowhere more evident than in the $82 billion of organic inflows we have experienced over just the last two years. Even more telling is the fact that $32 billion of the $82 billion of organic inflows comes from strategies that did not even exist four years ago and are spread across our four investing business, with each contributing materially.

Blackstone's unmatched business breadth allows us to always look for ways to leverage our expertise in asset classes and markets to create new strategies adjacent to existing ones where we believe we can deliver consistent outperformance for our LPs across our distinctively wide range of industry-leading businesses. Importantly, all of these new strategies are built on our existing platform, people and expertise, which allow us to create lasting LP synergies by offering a deeper set of high-quality funds. More than half of the investors in these organically grown funds came from other Blackstone funds, a reflection of the sustaining relationship building impact of our organic growth.

Now turning to a few observations about Blackstone's balance sheet and assets. At the end of the quarter Blackstone had $6.4 billion of total net asset value on the balance sheet, up 30% over the past year to $5.66 per unit, including $2.01 per unit in cash and liquids. We retain our best in class A, A+ ratings.

During the quarter Blackstone took advantage of favorable credit markets and launched a $650 million bond offering. While marketing our issuance to institutional investors, we were afforded the opportunity to highlight the fundamentals of our competitive positioning and our ability to create value.

Cash Flow: long-term contracts generate largely redemption free and consistent 30% cash margin across cycles; Asset Returns: realized cash revenues on assets is 2.5 times that of traditional asset managers; Operating Leverage: normalized ENI margins are 10 percentage points higher than traditional managers; Organic Growth: Blackstone has grown three times faster than the leading traditional asset managers since 2009 and twenty times faster since 2006; and finally, Yield: Blackstone's results currently to date pay two times the dividend yield of a traditional asset manager.

Fund investors enthusiastically embraced the message and the Blackstone operating fundamentals with $4 billion of orders in one of the most successful offerings of the year driving the spreads at the offering and through to today 100 basis points tighter on our debt, largely wiping out the pricing differential between Blackstone and the highest rated traditional asset managers. Perhaps more importantly, the overwhelming interest allowed us to issue the first ever 30-year debt for an alternative manager, and allowed us to lock in favorable rates on funding that gives us strategic flexibility to continue to grow our business organically and inorganically and create long-term unit holder value.

On behalf of everyone at Blackstone we thank you for your time in joining the call, and we welcome any questions you may have.

Coordinator Thank you. (Operator's Instructions) Your first question comes from the line of Howard Chen with Credit Suisse. Please proceed.

H. Chen Hello. Good morning, everyone.

All Good morning, Howard.

H. Chen Steve or Tony, there have been moments in the firm's history where your thinking has lead the market; you early identified the real estate crisis, you spoke about the tapering of growth in your private equity portfolio the last couple years. But what about now; U.S. housing seems like one opportunity where you're early to kind of be around the opportunity, but what are some of the others?

S. Schwarzman I'd say just to amplify on the housing thing you mentioned then we can go on to some others. But in terms of housing we made a judgment about six months, over a year ago really.

Nine months ago, probably, although we can refine that for you, that we saw the bottom happening in U.S. housing, and because we're in so many different areas throughout the firm virtually every one of these areas has decided on a strategy to play that.

So, for example, the real estate group has thus far bought approximately $1 billion of houses. We didn't buy a company, we're buying individual houses; this is hard to do at somewhere around $150,000 a house. What we're doing is we're renting those houses to people who are either in them or we're taking foreclosed homes and we're renting them to people. It's only taking 26 days from when we put a house on the market until somebody goes into it.

Now this is a very difficult strategy for almost anyone else to do, because there is no housing market there are just individual cities. So you have to set up an infrastructure to make sure that when you take control of the house the house is fixed up, you have to find rental. And this requires experts all over the country, and what we're doing is we're moving across the country setting up first-rate operations everywhere.

It's not a secondary market where you want to buy size; you're buying individual houses. And we're buying there, just for example, over $100 million a week of houses. This is a lot of houses. We have our GSO group, for example, doing financing structures for homebuilders, we have our Tac Ops group buying non-performing loans, and not only that, we're looking at investing in mortgage related securities, which we think have a very significant upside, our BAAM group has its own strategy for taking advantage of this kind of play.

So this is the kind of thing that happens every once in a while where you see something that's a market turning trend, and we are loading the boat, as they say I guess colloquially, on this type of play, which is turning out to be sort of a very wise thing.

I think another trend we're seeing is for smaller types of companies that are looking for capital where the banking system, although it's strong in the United States it's not strong through medium sized to smaller banks, more in the large banks that have really done a good job with their capital, and so we're taking an approach with our Capital Solutions fund of putting a top to bottom type of lending operation. We're looking in Europe; in real estate we've been the largest purchaser in Europe of distressed real estate bank loans, which we use to basically get control of individual properties or a group of properties and take advantage of this selling trend that's happening there.

Another thing we're doing that's really quite interesting, because on the call with Tony earlier we were talking about sort of our success in energy, and as a trend energy is one of the really interesting areas in which to make investments. And the reason is there is way more demand for capital than the world has to give, and so the opportunity set is really very large, the return, if you actually know what you're doing, know how to structure transactions to protect your downside from commodity risk and let the upside run, is very substantial.

Our performance just on the energy fund, which has been investing for like seven months and it's invested 40% of its capital, is our mark in that fund--can I say this, Joan, with the market--is like 1.6 times investors' money. 1.6 times in seven months, this is like really neat. Okay. So we're seeing that as a very interesting trend.

And I think we can take you around the world, both geographically and also by theme, and when we make investments it really has to fit into what we see as a compelling opportunity. That's the way, as Tony said when asked a question, how do we look at return, aren't returns really coming down in a world that isn't as interesting from an overall growth perspective, I may be giving it too long an answer, but we're seeing in a way more opportunity around the world that's working for us. I don't know how it works for everybody else, but it's working for us.

H. Chen — Thank you, Steve; that's all really interesting and comprehensive. Thank you.

Just switching gears, you focused some of your LP commentary on the larger institutions, but I was hoping you just could update us on your effort to get deeper into retail on the high net worth arena.

S. Schwarzman — Yes. We're very interested in that general area. We've always raised money at retail here at the firm. Taking you back to the middle ages when we started a company that's now called BlackRock with Larry Fink, the first two capital raises for what was then called Blackstone Financial, we changed the name when the business was sold, were big closed end funds at retail, and they were very successful offerings with terrific performance.

So we like that channel and we have a variety of potential fundraises through different areas. That's a market where people need return as well. If you're like sort of a normal type of retail investor and you have surplus money, and you're looking at junk bonds getting down to the yields where they are, sort of a general 6% yield, you're looking at treasuries, and I don't know where they are today, whether a 10-year is 1.6% or 1.7%, your opportunity to like have a return, if you're a retired person or almost any normal person who needs some yield and you look at what's going on with our products that historically, and what we think we're doing now is certainly mid-teens returns after fees, it can vary a little bit based on the type of product or sometimes higher, that if that's what you're looking at as an alternative to a world where Central Banks are driving rates down to the floor the desire for our types of products is very, very high.

And we're pursuing that, because they become new, hopefully loyal sorts of customers of Blackstone and we can sell other things to them. As long as our performance is as it has been historically, very strong, we'll do more and more in that sector as well.

H. Chen Thank you, Steve.

And just finally for me, we have a few policy events here in the country ahead of us over the coming months. I realize your model is built to weather near term volatility, but just curious how are those events potentially shaping your thinking about being tactical or positioning the firm over the near term? Thank you.

S. Schwarzman I think that's a good question. Tony and I think about that a lot, because you have some real built-in volatility, and as you get closer towards year-end and you have this issue of a fiscal cliff what happens if you drive over the cliff. There are some people who want to do that for tactical reasons to create a panic so that it can be resolved by bringing all the parties together, and we don't view that as a zero probability.

So in terms of fashioning what the firm does, I think we think there could be some risk, some markets in terms of volatility as a result of that. I think our overall view, if we had to articulate it, is that there will be a solution to a global budget deal at some point next year. I think we don't look for that in the lame duck; it's just too complex and too many pieces and too little time.

But I think in that sense we believe that some rationality, regardless of who is president, will return and will start basically addressing our country's problems, which our country is capable of doing. If we do that then I think we believe that growth rates should go up for GDP if there's visible element of getting our house in order as a country. And that will also affect the global economy if we start paying attention to and resolving our problems.

So, at least for myself, I'm actually somewhat optimistic on this, although I think we look at the prospect of genuine volatility, either around year-end or accelerated earlier as people declare where they come out, whether they're going to kick the can down the road or just drive off a cliff and see if they can wreck the car when it gets on the rocks at the bottom of the ravine. So that's sort of how we more or less look at things. Tony may have his own view on this one.

T. James No, I don't think we're betting on a strong upswing. We think, as Steve mentioned, we think we caught the bottom of housing just about right, and we're able to get conviction about that and then sort of find ways to play that conviction.

But other than that, I think we're cautious. This is an environment with slow growth and risk around that growth, because external shocks could knock, whether that be the fiscal cliff or a problem in the Middle East or one thing or another, could knock it askew …. We don't have the kind of momentum that it can ride through much in the way of added headwinds. So we're cautious. We're cautious about markets; the equity market's been on a tear, interest rates are really low, i.e. bond prices are really high, and we're cautious about the economy. So what we buy needs to be resilient under all those different scenarios that we test, and a number of things we're actually looking at play on continued malaise, I would say, are premised on that and benefit from that ….

S. Schwarzman We can make really good money like that. For example, if you're buying a real estate asset in Europe, where our expectation is for either a very low rate or growth or a potential recession, when we look at buying something there we're not expecting, as a rule, for those markets to help real estate improve.

You have to make your money on the buy, because there's a lack of liquidity there, and you have to price it so when you put some leverage on it you have a successful deal close to when you create it because growth it not going to take care of that problem. Where in the U.S. we look at it, because of different fundamentals, even if the growth rate is low we look at it incorporating growth. So each part of the world we have a different model where we feel it's safe, first of all, and also high return to make those investments.

H. Chen Great. Thanks for all the thoughts.

Coordinator Your next question comes from the line of Michael Kim with Sandler O'Neill. Please proceed.

M. Kim Hey, guys, good afternoon. First, so, Tony, on the media call you talked about being able to generate double-digit organic growth for the foreseeable future. So was just wondering if you could give us some color in terms of the drivers behind that growth, so how much is related to continuing to gain market share across your existing businesses versus maybe further building out your capabilities beyond what you already have, similar to what LT just talked about.

T. James Well I think both those play in. So, as I mentioned in the press call, we're seeing the big institutions that we serve I think there's a necessity for them to shift more of their assets to alternatives. So you get the growth of AUM in general that goes to the economy, and then you get alternatives getting a bigger share, because they must shift assets to alternatives in order to earn the returns to meet their obligations, and then on top of that we have been, and continue to expect to, pick up market share. So you have the compounding effects of that driving organic growth.

In addition, you have, as Steve mentioned, or Howard asked, we have retail products. In general our industry is underrepresented in retail. Most institutions have 10% to 20% of their assets in alternatives. Retail has typically less than 1%, and frankly the return sacrifice that retail investors are making by not having what I consider to be an appropriate allocation to higher returning products that aren't correlated to public markets, so they actually reduce risk at the same time they increase returns, that's a high cost to the retail investor. We'd like to help them solve that problem and drive more retail assets. And so I think that will be another source of growth for us because, as I say, it's underrepresented.

Within our different product categories we have lots of growth opportunities that are adjacent to what we do now that utilize the same skill set, utilize in many cases the same information, sources of information, and market knowledge. In real estate, for example, moving from real estate equity to real estate debt was sort of less than investment grade debt, so to speak, to investment grade real estate debt; It's all a continuum. Moving from—we had a global real estate fund and we had a European real estate fund or an international real estate fund so they're regional plays.

Each of our business areas has the ability to create adjacent products, and do so with a high-degree of success because it's already building on a platform that's been built. The team has been placed. The information is in place. The discipline and really the experience and track record is in place. We continue to see that, and then, as I say, we will continue to tuck in acquisitions.

Our investment in Patria in Brazil has been a dramatic success. I think they almost doubled their AUM in like 18 months to a year since we invested in them. There are regional plays, and then there are industry plays like, for example, in private equity adding an energy fund to our existing multi-industry global fund.

We see no shortage of growth opportunities. Our challenge is to make sure that everything we do we do really well and are best-in-class at it. We never want to grow for growth sake. We pride ourselves, we get our fund, and only by being the best at what we do and the best is measured by return to our investors, and what limits our ability to do that, of course, is talent. We're going to grow within the limits that are comfortable for us where we can put the best talent in the right seats and achieve the best results.

M. Kim Okay. That's helpful. And then just maybe moving on to the realization side, I understand each individual investment is unique and they all carry their own timeline, but can you talk a little bit about maybe the dynamic of rising real estate realizations more broadly versus just the amount of dry powder that you now have available with BREP7, and the fact that it sounds like you've already committed a good chunk of that capital for new investments? Just maybe how that plays out and how you're thinking about for the different subsectors within real estate so office versus retail versus hotels, et cetera? Thanks.

S. Schwarzman Let me take that one second. This is an interesting question because just to set a scene for you other than apartments where we're not a particularly important player, one way to think about real estate is pick a simplistic view where there's virtually no construction going on in the commercial real estate world, and take a position where you have 2% growth in the economy; nothing heroic, and just take a model office building, which just assume it's 10% vacant. In two years that will be 6% vacant, and what happens when you get down to a 6% vacant building, or in 2.5 years 5%, the pricing of the rents in that building tend to go up assentotically.

And if you know that's coming by doing nothing and you assume, just for the moment, that central bankers are true to their word that they're going to keep rates very low because most countries don't have the ability to stimulate fiscally, that you're going to have real estate values that continue to go up, and that's doing nothing special to that piece of real estate. It's just like rate fundamentals. Every day, in fact, when we go to work our properties should be worth more, and they're virtually all on significant leverage, which means that value accrues disproportionately to the value of those properties.

Now, at some point you decide to get off of that train, and stop at the station, and the train moves on and you're not on the train anymore. That's a decision that we make for a variety of reasons, and sometimes it's because we've improved the thing as much as we can. Other times there may be something going on in that market, but at the moment we're on a winning play whether it's in hotels or virtually around the world except in Europe there's very good and strong rev par growth in the shopping center business where we're experiencing about as well in the industrial area where we're also seeing that because there's very little construction there.

And just to take real estate where you asked the question, and so we'll reach a point where we think the growth won't be good. Where we completed our mission like in the assisted living center that we talked about where in two years 2.4 times your money that was fine, and we'll do our best to monitor each of those trends where we think we're winners virtually across the board in the kind of current market in the U.S. And then, we'll get off and we'll earn very substantial amounts of money for our investors both as LPs and as partners and for our public shareholders, and that time's closer than it was two years ago.

As we're sitting here contemplating what we should do we're making more money almost every day but it's not like a bad situation because the flows to our investors will—most of our assets in that area will be very strong. There are very big realizations in that sector. I'm not trying to talk around it. I'm trying to give you the dynamics for decision making.

T. James So, Michael, let me just comment a little bit in sort of more aggregate. As you know, we've put a lot of money out in the last few years, and we haven't harvested much, and we're still in BREP6, we're in to BREP7, and at some point I think, as Steve mentioned, we don't move our whole real estate portfolio in and out based on cyclical, you know, now's the time to sell real estate, now's the time to buy real estate.

It's property-by-property. We buy it. We fix it. Once it's fixed and optimized we sell it. There's actually a pretty good bid today for real estate because cap rates are so low, and so once something is fixed we'll start to peel it off. It takes a few years to fix the properties, and so with the money we've put out in the last few years a number of those investments will start to mature and I think you'll start to see a ramp up from here over the next couple of years in the real estate disposition.

What does that mean for AUM, which I think was your underlying question there? Yes we'll continue to draw down some BREP7 but most of that money is already in AUM, and we'll peel off some investments and carve out some investments, as Steve mentioned, that have done very well. I would expect real estate AUM not to grow very much in the short-term as we go through the disposition process in our core equity products.

Now there are some other—our international fund is coming in at its life so we have fundraising there. There are some other opportunities, and then in real estate too when we do a really big deal and we bring in investors to co-invest because of the economic arrangements on those deals that adds to AUM in real estate where it doesn't in private equity. I do think you've got some growth engines in AUM, but it will be a bit against the tide of dispositions, so to speak, so I wouldn't expect a lot of AUM growth in real estate equity. I hope that's clear.

M. Kim — Yes. That's very helpful. Thanks for taking my questions.

Coordinator — Your next question comes from the line of Matt Kelley with Morgan Stanley.

M. Kelley — I was hoping to touch base on the energy platform. Obviously, you've put a small amount of money to work in a dedicated fund with a pretty strong return. Just curious if this is something you see longer term based on the performance of this fund and past investments in your other private equity funds as a standalone platform and how big it could potentially be.

T. James I think this could be huge. There are dedicated funds in the industry that have as much as $10 billion in an energy fund, and they don't have the record that we have. Energy is our single best industry sector in private equity. As I mentioned in the press call, we've never had a loss in Energy. Our average realization is six times our money. The returns are very high, and so we really like this sector a lot, but it's not a separate business; I just want to be clear about that. It's a way for some of our LPs that want to be over weighted in energy to get added exposure but yet let us maintain the diversification for risk management and other purposes that many of our LPs expect in a given multi-industry global fund.

The Energy Fund that we've raised $2.4 billion is essentially going to be invested 50/50 in any energy deal. The other half of that will come out of the main global fund. To invest that $2.4 billion, which by the way is about half invested today even though we had the final closing in August, we have to put out $5 billion, about half of which goes to the Energy Fund, half of which goes to the main fund. When the Energy Fund is fully invested it's absolutely out intention to go out and raise another hopefully larger energy fund.

S. Schwarzman But just so you understand our model, which you probably to so maybe this is just redundant, but the way we grow the firm is by doing a great job for our limited partners. If you look at the Energy Fund it was actually agony to raise this $2.4 billion given our record. The marketplace regarded us as like a first time fund where we just saw complete continuity in what we were doing, as Tony mentioned.

Next time we come to market, assuming our performance is as impressive as it's been in this sector over the last ten years, I would venture to say that the acceptance of this fund, Blackstone Energy Partners II, will be much greater, and marketing that would be infinitely easier than the original thing. What number that gets you to is not our job to predict right now, and what we think is comfortable given the opportunity, but just the ability to go to market with this type of product again what one would think would be just an example of drivers of the firm growth and delivering also great performance, which is our number one focus for our limited partners and new ones.

M. Kelley Great. Thanks. That's helpful, and then if I can ask on the European real estate side I know you mentioned distressed European bank loans being more available, just curious stepping back to a little bit of a higher level are you seeing pretty substantial increased deal flow out of European banks or is that something you're more waiting for down the road?

S. Schwarzman I'd say that's still a little … on balance up but not nearly what it should be, and the reason for that is Basel III because the banking system in Europe has been asked to double its equity capital, and it's got a lot of loans that are probably not marked accurately on its balance sheet. And if they want to clear out at market clearing prices they'll be taking losses not gains against their net worth mark so it's very difficult to double your net worth at the same time you're losing money on the sales of these assets.

Now different parts of Europe will face up to these issues at different times, and there are a variety of things that we're very actively buying. If you turned on all the troubled loans in Europe that the banks could take the hit you would dwarf what's coming out in the market; as it is we're seeing a lot of opportunities. We've had a lot of success in terms of buying this compared actually pretty much to the asset allocation we would have globally of how much we would want in Europe.

It's actually pretty good for us, I would say, right now, but for people other than one or two or three buyers through the whole European system it doesn't provide as much opportunity, and we happen to be one of those as one might think.

T. James And, Matt, let me also—even if the banks aren't directly selling troubled loans, which I think was the form of your question, in many cases they're not making much in the way of new loans. Some of our investing in Europe is in actually pretty good countries where there's a lot of growth, particularly Eastern Europe and places like that, in some instances, where they just can't get financing that they once did anymore, and that's opening up some nice opportunities for us as well in Europe.

S. Schwarzman Tony's point is really—I'm almost embarrassed to have forgotten it because it's such a good point but man, somebody just like turned the spicket off in Europe. Trying to get real estate loans in Europe is exceptionally difficult and that's sort of understating it, and so there's an enormous opportunity for us because of our size and scale to provide that function of advancing capital to people who can't refinance. It's like big time opportunity for us, big time.

M. Kelley Okay. And one just quick housekeeping item I guess for LT. On the GSO business, the credit business, the other operating expenses I see you have a $20 million one-time cost associated with a fund launch so is it fair for us to assume $13 million to $14 million run rate or is there any other noise in that number?

L. Tosi No that's it. That's exactly the right number, Matt.

M. Kelley Okay. Thanks.

Coordinator Your next question comes from the line of Marc Irizarry with Goldman Sachs.

M. Irizarry Steve, you definitely have a large array of what institutions clearly are looking to invest in these days. Question on the business of distribution for you; where are you in terms of sort of cross selling firm, if you will, and are we sort of looking ahead at you maybe adding a more robust global distribution sort of footprint and adding some headcount there or how should be think about how you sort of cross sell the firm and cross sell some new product?

S. Schwarzman Well, you know, Marc, we were just talking about this at an executive meeting yesterday. Based on what I've seen is our cost for running our distribution operation globally we've got a big distribution, and the firm's coming together really in a terrific way. The way it works out is that certain accounts—we've got roughly 1,200 LPs throughout the firm—on different accounts one of our businesses pumps the first product in, and assuming we do a really great job, which we have been, then there's a natural move to other products since they are also performing at a world scale level.

There's a very high level of cooperation between the different parts of the firm. We have a lot of white space still to go. I think Joan has the statistics, and if she doesn't I'm shocking her, to answer your question in terms of how penetrated we are across our four major groups against a model LP.

J. Solotar Two-thirds of our clients are in more than one product, but still less than 20% are in all four, and so I would say we've absolutely been focused on it but it's still early days. I mean we just think it's a huge opportunity and if you think about how new the credit platform is to us or tactical opportunities and energy and we add new LPs to the firm in energy, for example, it's just a long runway from here.

L. Tosi I would just add, Marc—and Tony and I touched on this just about a year ago—that one of the key investments we made during the downturn and one of the flexibilities of our not only growing asset base but the way our fees are structured was that one of the key investments was marketing. We've been making investments over the last 24 to 36 months that you see us bearing some of the fruit, but I wouldn't expect a big uptick in expense because we've been planning those fees for some time. It's been a key initiative for us for year.

M. Irizarry And then just to get back on the real estate realization topic can you talk a little bit about your preferred means of exit from some of your real estate portfolios? It looks like stuff that's coming out is clearly coming out at a higher value where you have it marked currently, but how do you think about sort of the portfolio in terms of public exits versus private sales?

T. James I think it would be mostly private sales but we will definitely have some public exits as well. A company like Hilton is a multi-asset company. It's an operating company. It's more apt to have a public exit, but an office building here or there is more apt to have a private exit. In addition, when it comes to homes and things like that we've got the opportunity to do some securitizations and some third dedicated REIT-type vehicles and things like that. It will be a mix of all those things, but mostly we buy large scale commercial assets that will go private, through the private market. I don't mean they'll—they'll be sold privately in the private market.

J. Solotar We have a fairly long sheet of questions so I’m just going to ask if everyone could just ask one or two and then get back in the queue if you still have follow ups just so we can get to everyone.

S. Schwarzman This is fun for us. We like talking about our business.

Coordinator Your next question comes from the line of Robert Lee with KBW.

R. Lee The question I have is actually on private equity business and maybe just an update on BCP5. I know there’s still some way to go to get to carry but I’m kind of curious when you have conversations with LPs in that fund what are you communicating to them about your own ultimate return expectations for that fund at this point?

T. James Well, we tell them and we believe that it will be between 1.8 and two times their money.

R. Lee I mean besides that are we thinking of—because obviously if it's over ten years or so you know—

T. James Well, you know that's the fund that was a '06 vintage fund so we're 2012. As you know, we haven't harvested a lot of it so the average life of that fund is going to be fairly long. I expect we'll have a bunch of dispositions in the next few years, but given the cycle that they were in when they put that money up I think they're happy with the performance. It doesn't necessarily lead to a lot of carry, and how much carry will be a function of the timing of the realizations that the functional economies and markets and the IPOs or can we do IPOs at reasonable prices and all that sort of stuff.

S. Schwarzman But what we've been doing is that Tony and I have been meeting with each of the large companies. In fact, we have a meeting with a CEO of another one today at 2:30. We want to hear what everybody's growth plans are, whether they need more capital, and what we're doing is we're building these businesses rapidly. It's something like we sort of find we're a little bit of hostage to the economy. Hey if we have an increased growth in U.S. GDP, which will then lead to higher stock prices, higher earnings growth, does this firm have a lot of U.S. exposure? Then you'll see some very nice acceleration of trend.

If you stay in a 1.7% GDP growth that's not a particularly hospitable environment for companies generally, so I think a little bit of when are we going to be over that hurdle, you know, we're doing all this stuff that we can do to maximize the growth. We actually could use a little bit of cooperation from the U.S. government and the U.S. economy. What we've seen in our experience managing these funds over 27 years is that at some point things look like they're slowing down and it's not as much fun, and then something happens to the world in a favorable way then you have this rapid ... of networks, and if you keep your companies in great shape investing in them and so forth then that change in the growth curve gives us an opportunity for big gains.

I can't predict exactly when that will happen. From watching these presidential debates I'm not sure that they can really predict that either and it's something that is part of the real world today but it's not going to stay like that forever. The public won't tolerate it, and we have the ability as a society to address those issues and change them, and that will be for the benefit of our private equity funds that were done more towards the top of the market than where we are since that time with very high returns.

T. James As Steve points out, when this thing swings it's going to swing really big, and I think one of our funds BCP3, I think, swung from bottom to top I think by a factor of four times in terms of value.

S. Schwarzman Some of these are really funny. It's hard for you to have sort of a real feel for this but we had a company called Graham Packaging that was like hanging around for years doing next to nothing. It was gaining market share. It was growing but it was consuming a lot of capital to grow, and we had this thing marked at cost for like eight years or something, and we ended up exiting because we bought a company, we got a lot of synergies, became much more interesting. Somebody came and approached us at a very high price. Somebody else liked it even more so they wanted to pay more. We ended up in a bidding war for this thing and we made four times, 4.2 something like that, our money out of something that had been hanging around as an investment for years.

We have a lot of experience with things like this, and we keep investing and there's a moment and then that moment happens, and everybody looks back and says, "Wow! How did that happen?" Well, it happens. We're in one of those more funky periods generally because of low GDP growth, but that won't last forever.

R. Lee I appreciate the color and maybe just one quick follow up question on the capital management. As you happily pointed out you have a lot of growth potential through acquisitions and bring on new products, who you make your own commitments to, and you obviously have a focus on distribution, but at the same time I'm assuming you're somewhat frustrated with how the stock has performed over time. And so any thoughts or how should we be thinking about maybe some of the recent … that you've raised, you know, some of that being put towards buying back some of the common particularly as there is some creep through share issuance over time to employees?

S. Schwarzman That's one thing we could do. I think LT—you know, you all on the receiving end of a call like this get this blizzard of numbers and data that we throw at you. We go over this really careful because we think each number is meaningful, but it's impossible to absorb.

If you have the time to go back over what LT was saying and look at the firm's growth and compare us to asset classes and financial services that grow infinitely slower where your money can be redeemed like on a daily basis, and you look at the business model that we have growing at many, many times the rate of almost everyone in financial services with the kind of multiple we have I think you used the word—did you say frustrated? Frustrated really doesn't adequately express how I feel.

T. James I really wish you hadn't asked this Robert.

S. Schwarzman I wouldn't give us an A for sort of getting our point across to a market and having them truly understand the earning power of the firm, the growth of the firm, the position of where we are. We're going to really focus on this in a more wholesome way. I think we've done a really good job being pioneers in this industry, describing it and that has not been an easy task for either Joan or for LT, particularly with some of the financial policies we've been given by sort of the government.

But the reality is that the firm, in my view, is significantly undervalued. Everybody you talk to says that but actually this is one of the cases where it's true, and we're going to demonstrate that to people. And I think we have to take a more active role at senior levels in the firm. Tony and I spend only very limited time on this part of our business. We just haven't done it because we're busy growing our business, and we're going to have to like chop off a little piece of us to spend more time with that along with the other members of our management committee, Jon Gray, Bennett Goodman, Tom Hill.

I think over the next six months people are going to be seeing more of us, and whether that's a good use of your time I leave to you, but I agree with your characterization. We actually, in terms of stuff like share buy backs or whatever, we're more interested in terms of building liquidity on our balance sheet for a variety of reasons. It's something we can—

T. James Let me just comment on the buyback. Organic growth is great but our LPs expect us to have some skin in the game and the kind of organic growth we've had on the scale of business we have requires capital, and so we've been financing really in support of growth. It's not like it's excess cash we don't have a use for that creates a lot of value for shareholders. I do not think you should expect any buybacks.

L. Tosi You started the question with asking us about different shareholder dilution over time. Since the IPO, to be clear, we've issued only 3% more shares for a company that's grown going on 2.5 times. We've more than outgrown the issuance of the shares so that's not an issue for us, and we don't anticipate it will be, and then following what Tony just said, it's good use of capital. At the timing of the bond deal we were bumping up against AA. There are not a lot of AA companies out there that grow anywhere near our level so it made sense for us to effectively fund that, and then put it back in to the business.

R. Lee — Great. Well, I appreciate all the color and for taking all the time and taking my questions. Thank you.

Coordinator — Your next question comes from the line of Roger Freeman with Barclays.

R. Freeman — Actually firstly one of my two questions, the interest on that debt rate that you get you've got what $2.3 billion of cash and liquid investments. I think the June Q had $1.3 billion of commitments. As you look at that was this kind of part of the longer term sort of capitalization strategy or to kind of fund the co-investments that you anticipate making as opposed to kind of the ramp over the intermediate term?

L. Tosi Actually, Roger, it's much less than that. If you look at the $1.3 billion at the close of the second quarter, that's the gross commitment. If you net out the commitments that are for the insiders that are not the responsibility of BX itself, it's only about $850 million and that number has actually come down over the last couple of years.

As Tony said, we're growing but it's not that we think our commitments as a percentage of the size of the firm will grow, and the primary use of the capital will be—I know it's a general term—general corporate usage, but some of the initiatives that you've heard us talk about as far as investing in the business for its growth over time. But there has not been an increase in the overall commitment of the firm to the funds.

R. Freeman Okay. So you took advantage of receptive markets for the longer term?

L. Tosi It was the right point in time we thought, and we also thought, frankly—and I mentioned this in my comments—that the market had mispriced Blackstone's credit much like we've been working on the equity side of the story that Steve just mentioned. And we were trading more like a BBB traditional asset manager rather than single A, and this gave Joan and I the chance to go out and meet with a lot of people and the proof is in the fact that we saw the spreads come into where we should be trading and so partially that as well.

R. Freeman Absolutely. Okay and then just the other question is Tony on that earlier media call you made an interesting comment about BCP6 potentially being off to the best start of any fund in history. I just wondered if you could kind of expand on that a bit. I mean if you look at the IRR that you report I think it's like 8%, which probably in … is about all the un-invested capital. What is sort of the multiple from the … standpoint that you invested already or are you really saying that from the perspective of what you expect the returns eventually to be on what you've done?

T. James I guess really it's a combination of both, Roger. You had some deals like Cheniere which have an immediate markup. We made an investment in an India company that went public with an immediate double I think or close to it. We invested in Knight Capital where we had close to an immediate double. Some of the investments we put up have immediate public market marks so it's not our own marking.

Our general policy when it's the private investment is not to change the mark in the first year, but when there is an actual transaction or a public market we do mark it to the public market; that's required under accounting. We try to carry new investments at cost … our cost is the best indicator of value, and we also do try to be conservative in our marks, which is why you see virtually all of our dispositions at significant bumps over our marks.

But with a new fund you're lugging the management fee on the entire fund, $16 billion. Maybe it's 20% invested. Maybe it's 10%. On average over the last year it's probably been less than 10% invested. Trying to carry the management fees on the whole thing and it's very hard to get IRRs on a fund. The fact that we're over the hurdle at all is unusual.

R. Freeman Okay. The money was in BCP6 not in a tactical fund?

T. James Yes.

R. Freeman Okay. All right. Thanks a lot.

Coordinator Your next question comes from the line of Jeff Hopson of Stifel Nicolaus.

J. Hopson Two questions, one on the hedge funds business maybe I guess good flows on more customized products, can you remind us maybe one or two of these as far as where the growth and/or the interest is? And then, a follow up on PE Fund 5 so that is a bigger fund so if we assume decent returns but still lower than the previous and subsequent funds what would the investor come out of that thinking that this is just the down cycle and over multiple funds he's done well or how would you characterize that?

T. James Okay. Well, I'll do both I guess. On BAAM I'm not quite sure I understand your question, but why do investors invest in BAAM? Is that what you're asking?

J. Hopson No. I meant the—

J. Solotar Which strategies because you called it fund-of-funds, but really it's a hedge fund strategy.

T. James Customized means customized so a lot of LPs will come to us and they'll want a specific product to meet specific return and correlation objectives so you really can't generalize on that. But in addition to creating those things we do have some comingled funds where people can come in and there are 20 or something of them and there might be some with emerging markets and some that are high beta, some that are low beta, some that are based on commodities, some that are based on different things like that.

Then we have several other products that are comingled products but are specialty products in that business. We have sort of a strategic opportunities kind of fund taking advantage of market anomalies. We have a fund that seeds new hedge fund managers, and by doing that owns a piece of the GP, and we have a new product that we're working on, which we'll be announcing shortly but haven't announced yet.

All of these businesses are big businesses with diverse products and diverse business groups within them, and the BAAM product is no exception to that. And then on Fund 5 our LPs are happy. I mean, frankly, none of them have made 1.8 times their money on any of their other 2007 investments so there is no issue there.

J. Hopson	Okay. Great. Thank you.

Coordinator Your next question comes from the line of Chris Kotowski with Oppenheimer.

C. Kotowski The realizations or the realized carry in the … in your real estate fund were the best in many years, probably going back to 2007. It was about what 2010 and ’11 was combined so that strikes me as something new, and I’m wondering is that reflective of a whole bunch of little transactions or just one big opportunistic sale? You’ve been talking about the fact that realizations in real estate were likely to increase, is this kind of an opening … of that?

L. Tosi I’ll start and maybe Tony will finish it. The answer is yes to the small transactions, and I noted in your research you were looking at being publically announced deals. That’s actually not necessarily the nature of how we exit our real estate investments. While we may have done deals in different packages when we did them, sometimes we break them up and sale pieces. Year-to-date there’s been 55 separate realization events inside of real estate and there has been a strengthening of that trend as the year has progressed on.

T. James And absolutely, Chris. I mean we've been talking now for a better part of year that real estate would start to build in to a fairly heavy realization part of the cycle, and you're seeing the beginnings of that, and the big chunky ones are still ahead of us.

C. Kotowski Okay. And then just as a follow up you announced a Capital Trust acquisition and it looked like you were just buying a real estate management company, and I would have thought you had that or did that come with property attached to it?

T. James No. That was not a fund investment. That was a Blackstone investment so we did in fact buy the management company and we wanted a management company. A very good team there and it opens up a few opportunities for us. The opportunities are first of all it gets us in to the high-grade real estate debt business. We've been in the short of less than investment grade real estate debt business and so this extends the product line that we have in real estate, number one.

Number two, it gets us some new LPs that we didn't have before, and, of course, we think they'll benefit from some of the LPs we have that they weren't before. Number three, it gives us a special servicer where we can feed some business through and we can also get a lot of information and we make some deal flow from having a special services.

It's got a lot of synergies and we think it will open up some nice opportunities for future growth.

C. Kotowski — Great. That's it for me. Thank you.

Coordinator — Ladies and gentlemen, that's all the time we have for questions. I would like to turn the call—

J. Solotar — Actually, we have one more. We'll take it. It's Bill Katz.

Coordinator — Bill Katz is no longer in the queue.

J. Solotar — Okay. Well, thanks, everybody. If you have any follow up just give us a call.

Coordinator — Thank you for joining today's conference. That concludes the presentation. You may now disconnect, and have a great day.