Final Transcript

THE BLACKSTONE GROUP: The Blackstone Group 2013 Third Quarter Earnings Call

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SPEAKERS

Stephen A. Schwarzman - Chairman, CEO, Cofounder

Tony James - President and Chief Operating Officer

Laurence Tosi - Chief Financial Officer

Joan Solotar - Senior Managing Director, External Relations and Strategy

Weston Tucker - Head of Investor Relations

ANALYSTS

Glen Schorr - ISI

Bill Katz - Citi

Howard Chen - Credit Suisse

Michael Kim - Sandler O'Neill

Matt Kelley - Morgan Stanley

Dan Fannon – Jefferies

Marc Irizarry – Goldman Sachs

Michael Carrier – Bank of America/Merrill Lynch

Robert Lee – KBW

Patrick Davitt – Autonomous Research

Christopher Kotowski – Oppenheimer

David Chiaverini – BMO Capital Markets

PRESENTATION

Coordinator: Welcome to the Blackstone Third Quarter 2013 Investor call. Our speakers today are Stephen A. Schwarzman, Chairman, CEO and Cofounder; Tony James, President and Chief Operating Officer; Laurence Tosi, Chief Financial Officer; Joan Solotar, Senior Managing Director, External Relations and Strategies. And now, I would like to turn the call over to Joan Solotar. Please proceed.

J. Solotar: Great. Thank you very much, Janada. Good morning, everyone. Welcome to Blackstone's Third Quarter 2013 Conference call. As mentioned, I'm joined today by Steve Schwarzman, Chairman and CEO; Tony James, President and Chief Operating Officer; Laurence Tosi, CFO, and Weston Tucker, Head of Investor Relations.

Earlier this morning, we issued a press release and a slide presentation illustrating our results. Hopefully you have that. It's also available on our Web site and we'll be filing 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 and actual results may differ materially. For a discussion of some of the risks that could affect the firm's results, please refer to the Risk Factor 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, and you can find the reconciliations in the press release.

I'd also 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 a Blackstone fund. This audio cast is copyrighted material and my not be duplicated, reproduced or rebroadcasted without consent.

So, just a quick recap of our results: We reported economic net income, or ENI, of $0.56 per unit for the third quarter. That's up slightly versus the prior year, and a sharp increase in fee-related earnings driven by continued strong asset growth offset by lower performance fees. For the year-to-date period, ENI was up 46% to $1.72.

Distributable earnings were $313 million, or $0.26 per common unit for the third quarter. That's up 63% from last year and year-to-date, it was $0.88 per common unit, and that's actually up 83% versus the prior year period. That's due to sharply higher realization activity. We'll be paying a distribution of $0.23 per common unit to shareholders of record as of October 28th.

As always, please feel free to follow-up with me or Weston after the call and with that, I'm going to turn it over to Steve Schwarzman.

S. Schwarzman Thanks for joining our call and thanks, Joan. In the third quarter, Blackstone continued to deliver attractive investment performance to our limited partner investors across all of our businesses - private equity, real estate, hedge fund solutions, and credit. Our advisory business reported, as you may have heard when Tony was on the earlier call, a solid year-over-year increase in revenues and profitability despite several industry headwinds as our clients looked to us for creative solutions to their issues.

Producing good returns, which we've done consistently throughout market cycles for 28 years, is the key to our business. This is why our investors are entrusting us with more and more of their capital.

In the third quarter, our private equity portfolio appreciated 4.2%, and it achieved a gross return over the last 12 months of 28%, which is really terrific. Our companies continue to perform well with solid revenue growth and some acceleration in EBITDA growth.

Our real estate portfolio, a similarly strong performance, appreciated 5.8% in the quarter, reporting a gross return of 24% over the last 12 months, which is also terrific, due to continued positive operating fundamentals across all sectors of the real estate portfolio. Our hedge fund solutions business, BAAM, reported a 2% gross return in the third quarter and 11%

in the past 12 months with significantly less volatility than the stock market. Over time, BAAM has actually outperformed market indices with less volatility, which is unusual, and the lower risk is theoretically supposed to support only lower returns.

In credit, our mezzanine rescue lending and hedge fund strategies, as Tony mentioned, were up 1.5% to 6% gross for the quarter and for the past 12 months, 20% to 35% depending on the strategy. Hopefully this performance eases some of the concerns we've heard around the impact of rising rates on our credit business, which is insulated from almost all the impact of rate rises given our concentration on floating rate investments.

Our investment returns largely reflect our focus on creating value in our underlying portfolio assets, as well as our position as the solutions provider in the credit and BAAM business. Given the maturity profile of many of our assets and the constructive market environment, we're increasingly taking opportunities to exit investments and realize gains, as I told you, the last quarter.

Great realization activity is driving a shift in our earnings mix towards greater cash generation, and the momentum here is clear and it's part of the cycle of our business. Over the last 12 months, total realizations were $26 billion, which is more than three times the $8 billion reported for the same period in 2012. That's $26 billion versus $8 billion.

In the third quarter, real estate completed a sale of most of our EDT Retail portfolio at a multiple of our $350 million investment, for example, of approximately two times, which is really always a pretty good return typically. But, this two times profit was after only one year of investment, and we're talking real estate, not breakthrough technology. This capital is fully recyclable by BREP VII, our fund that we're currently investing globally, effectively increasing the firm's size. So, we can put that money to work again, which is good for our investors both in the real estate fund, as well as our unit holders in the public stock.

In private equity, our largest realization was in the sale of our remaining stake in TRW Automotive at a multiple of invested capital of over seven times. In total, the deal produced a gross IRI of 28% despite the long holding period, which I think was around ten years. Now, at one point, in 2009, after the collapse of Lehman and the potential bankruptcy of most of the auto manufacturers, this investment was actually marked at $0.15 on the dollar. We just sold it for seven times our money.

So, when you look at marks generally as an indication of what we'll ultimately earn, that's one way to look at our business. But in fact, our experience over many, many years, many cycles is that the chance for much improved outcomes from some theoretically low marks tends to be what happens in the vast majority of cases. It forces investors to stay invested rather than panic at the bottom, which is usually what happens with a normal public portfolio.

Earlier this month, we closed the sale of our investment in Vanguard to Tenet Healthcare at a multiple investment capital of 2.2 times including prior dividends. Looking forward, the pipeline for realizations is really growing.

We have several IPOs on file, which collectively represent nearly $20 billion of our current assets under management. We have another $10 billion in AUM that already currently publicly traded, and we have $25 billion in AUM, representing now seasoned investments made in 2009 or earlier, which are not public but will exit in some form over the next several years. In our more liquid funds, we have $31 billion in incentive fee eligible AUM, which should meaningfully contribute to distributable earnings in the fourth quarter.

So, we're moving into a cycle now as we've described to you previously and as Tony has indicated with a potential, although nothing's guaranteed obviously, seems very high for a large amounts of realizations with consequent gains. Importantly, greater realization activity is not indicative of a view that markets have peaked, which some people always think we're just smart sellers. It's not the case. We're long-term investors. We're always on both sides of investment, both buying and selling.

We invest with a view to improve assets instead of our buy it, sell it, fix it game in real estate and once our job is done and we exit the investment and return capital to our investors, leaving behind a company with strong operations, growing cash flows, and solid long-term outlets. For example, we filed to take Hilton public, but will likely be a substantial shareholder for many years to come. At the same time, we continue to invest in hospitality, and we acquired $4 billion in lodging assets in the past year. If we didn't like lodging assets, trust me, we wouldn't be buying them and we think that Hilton itself, which has shown dramatic improvement along with our type of business plan, is just indicative of the kind of exit that we'll make over time.

In the third quarter specifically, we continue to leverage our global scale and size to find attractive investment opportunities, and deployed or committed $5 billion in the quarter primarily in real estate because the cycle is right for that type of business right now. In private equity, activity was a bit more muted in the third quarter. We put out over $4 billion each in the past few years in private equity, and this year, we've seen a bit of a slowdown from that pace. We continue to see good opportunities in areas like energy and consumer finance, and are leveraging the portfolio companies to access strategic acquirers.

For example, during the quarter, Pinnacle Foods acquired Wish-Bone, which actually used to be on our table at home when I was growing up every night with a salad, a leading branded food manufacturer. That transaction will drive significant synergies and value for Pinnacle and for the investors in our BCP V fund.

The question was asked of Tony in terms of sort of a bit of a slowdown in private equity, and it really just mirrors the slowdown in the M&A market, which was down about 30% in the latest quarter. It's tough to fight that trend. We're under no compulsion to reach for things that, frankly, aren't there, but things always come back in our world.

In credit, robust capital markets have required us to be more creative in how we deployed capital recently, although deal flow remains strong and the pipeline is promising. We invested or committed nearly $500 million in the third quarter, which is a pretty active pace. Across our businesses, we remain disciplined in our approach to pricing investments, and we're always mindful of the impact of vintage years, and the result is better returns for our investors in the long-term. And if we do the right thing in the long-term, people give us more and more money, we expand in more and more areas, and it's a virtuous circle.

We're being rewarded for better returns with more capital from our investors. In the third quarter we raised $12 billion, it's a lot of money, or $41 billion over the past 12 months. No one in the alternative area in history has ever done anything like that. That's excluding acquisitions that sometimes people dump in there as if they've raised the money.

In fact, over the past few years, we've raised more capital than our four closest competitors combined. It's almost really hard to imagine. However, it's important to note that we're asset aggregators, and our growth is despite capping the size of many of our invested funds. We never raise more money than we feel we can invest in good opportunities and risk diluting returns. So, we're completely aligned with our fund investors.

In real estate, we have two major funds currently in the market, our first dedicated pool of capital in Asia and our fourth European fund, to take advantage of what we believe are very attractive investment opportunity sets in these regions. Our new European fund had a first close of nearly $2 billion in the quarter, or 1.4 billion euros. We're targeting 5 billion euros for the size of this fund.

Our Asian fund had a second close, bringing us to nearly $2 billion there too, and we're targeting $4 billion for that fund. Both of these fund raises, we expect, should be completed in the first half of next year, which is really a pretty quick fund raising cycle for alternative asset provides.

In credit, we continue to see strong inflows into our retail focused business development companies, which raised $1.3 billion in the quarter. We priced two CLOs, one in the United States and one in Europe totally $1.1 billion as that market continues to recover. You'll remember that market was dead as a door nail two to three years ago.

Our next actively managed Exchange Traded Funds is progressing well with $530 million in capital raised since its commencement six months ago, which is really a strong out of the box, out of the gate type of sales raised because what tends to happen in these ETFs is they poke along for a while at a relatively small level and they find their marketplace and then you have a rapid scale up.

I'm sure our lawyers would say I can't say that, but I can't predict what will happen in this particular fund, but floating rate bank debt, leveraged loans; we're the largest manager in the world of leveraged loans. It's an area that's an enormous competitive advantage to us. And so, I could see this product potentially being very substantial for our GSO group and the firm, particularly as many investors are moving some longer duration assets into floating rate profit to drive the growth because if a taper starts happening at some point, most people expect higher interest rates, which results in losses if you're not floating products.

The Tactical Opportunities business raised $700 million during the quarter, and an additional closing in October, which as Tony mentioned, brought the strategy to $4.4 billion in size, which is really good for a start-up type of business, but doesn't fit any particular vertical silo in the institutional community, it invests across all of those silos, has done really terrifically well. We've raised the type of scale/money that we were looking for in that business. Strategic Partners, our new secondary business, which became part of Blackstone in August, is wasting no time and has started raising their sixth fund, which is targeted for at least $3 billion.

Lastly, BAAM reported $2.2 billion in net inflows, one of our strongest quarters ever, bringing us to $5 billion year-to-date, including October 1. Our third quarter results include a one billion dollar allocation to Fidelity for a new mutual fund vehicle which invests in hedge funds, but still provides daily liquidity to investors. This is a real breakthrough product because as the world slowly moves from defined benefit to defined contribution plans and you move more of your products into the retail market to give retail investors the opportunity to have higher return-type of products, which we specifically produce, having sort of cracked the code of how to take some of our products and manufacture them for consumption in the retail market, opens a very big potential market for us here at the firm with basically a pretty much unique product.

This investment vehicle is a great example of an innovative new product we developed to serve the retail segment. We're increasingly accessing this market segment in two ways - developing new investment products geared specifically towards retail investors as I just said, these two products, products, BAAM's mutual fund and our credit ETF, and by providing capacity in our drawdown funds, which are traditionally focused on institutional investors, to the high net worth channels of the major financial institutions.

We interface directly with the most productive financial advisor teams who can have $10 billion or more in client assets.

Actually, individual FA teams can be larger than many foundations or endowments. Our experience has shown us that these clients are sticky and that they're brand breadth and track record provide a scale competitive advantage to distribution.

We've raised nearly $7 billion in the retail channel over the past 12 months, up more than ten times from the $600 million a few years ago in 2009. People probably weren't buying too much stuff in 2009, which shows their lack of wisdom because it was a market bottom and people tend not to buy value. But, the idea that we've increased ten times shows the diversified products, that we're really doing a very good job in that market delivering our capability to a different set of investors, which is a very, very large market for us to address here at Blackstone.

In summary, I believe that the firm is really firing on all cylinders today. Long-term secular trends are very favorable, and we remain extremely well positioned competitively with leading businesses across all of the alternative categories which no one else has replicated.

Strong investment performance is driving record levels of capital inflows and supporting continued double-digit AUM growth. Our realization activity is up sharply, and we are increasingly harvesting gains built over several years, driving significant growth in cash distributions to our investors.

Despite our good stock market performance this year, I forget, we were up something like 75% or whatever, our valuation multiples have barely moved. That's actually unbelievable that they barely moved as we keep doing better and better. You'd think somebody would get the joke on this one.

We continue to trade at a sharp discount to traditional asset managers, probably about two-thirds the valuation as we grow at multiples of the growth of these other money managers. I actually don't understand it. What I find when I don't understand something, that means it probably doesn't make sense. And so, we'll see what happens over time, but I think the firm itself is in great shape and I think we're going to do quite well. We've got great people at the firm and great processes, and a unique positioning in our industry.

And so, I'm very positive on the future for Blackstone. It's not because I'm on this call and trying to make you feel something that I really don't believe. I really believe this. So, I'll turn things over to Laurence Tosi, affectionately LT at the firm.

L. Tosi Okay, Steve. Thank you. Needless to say I agree and that's not just because I work for you.

Thank you, everyone and thank you for joining our call. For Blackstone, the first nine months of 2013 has brought record revenues, earnings, assets and growth in contrast to the low global growth environment. AUM reached a record $248 billion, a record for any alternative manager, up 21% year-over-year, reflecting the combination of consistently high fund returns and investor demand across all of Blackstone's businesses.

This unprecedented demand generated $53 billion of inflows over the last 12 months and eclipsed more than $26 billion of capital return, largely from realizations, over the same period. Similarly, the strong inflows easily outpaced the $50 billion of invested capital over the last 12 months, and drove our dry powder or available capital to invest up $6 billion to a record $41 billion as of the end of the third quarter.

When deal activity in some markets slowed, Blackstone's advantages of breadth and global reach came into play. A full 42% of capital deployed year-to-date was outside of the United States with 28% concentrated in Europe where we've seen the recovery as providing unique opportunities for all of our businesses. The unique global mandates of our core funds and consistent investment process allow us the flexibility to find returns for our investors wherever the best risk-adjusted opportunities appear.

Total revenues reached $3.9 billion to date, year-to-date, up 38%, generating $2 billion in earnings for the first nine months of the year, just shy of last year's full year total. This expansion reflected the growing impact of both value creation and realizations on our operating results. Firm-wide strong fund performance drove $1.9 billion of performance fee revenue year-to-date, up 66%.

As Steve pointed out, valuations in private equity continued to be very strong, up 17.4% year-to-date, despite the fact that some public holdings were down slightly in the third quarter, which impacted performance fee accruals in BCP VI and Blackstone Energy Partners. Private equity still, however, generated $229 million in realized performance fees year-to-date, up more than 250% from last year.

BCP V has continued to make progress towards its hurdle and the generation of performance fees. BCP V is up 27% over the last 12 months, during which time the gap to earning performance fees was cut in half to $3.1 billion, representing a 7% change in total enterprise value needed to generate performance fees.

Real estate continued to have strong performance, up 17.9% year-to-date across funds, with operating fundamentals and supply demand and balances driving values. Real estate generated $344 million of realized and $1.2 billion in total performance fees year-to-date. These results in private equity and real estate have helped push our net performance fee receivable for the whole firm to a record $2.8 billion, or $2.44 per unit.

This balance includes another $165 million, or $0.15 per unit of incentive fees across our hedge funds that will largely be realized in the fourth quarter if values remain flat or better. Blackstone now has $31 billion across hedge fund solutions, credit and real estate hedge funds earning performance fees, representing nearly 100% of the eligible assets in those funds.

The performance fee receivable is up $240 million, or 10% versus the prior year despite $768 million of net realized performance fees. This, coupled with an increase in value for illiquid investments, has driven the firm's balance sheet to $7.4 billion in net value, or $6.51 a unit.

Importantly, as more asset reach maturity and markets remain favorable, Blackstone has taken advantage of past realization opportunities, generating $790 million in firm-wide realized performance fees year-to-date, up four fold from the same period last year. The breadth and depth of those realizations is evidenced by the fact that 143 different transactions across all of Blackstone’s businesses generated those fees while returning $19 billion to investors, all multiples of last year’s activity year-to-date. Blackstone generated more than one billion dollars of distributable cash earnings year-to-date, or $0.88 a unit, up 86% year-over-year, reflecting the continued momentum in realization activity at a solid and growing base of record fee-related earnings.

The public markets also played a role in realizations from our current $10 billion of public holdings as Steve pointed out. The pipeline for these realizations continue to build with six IPOs on file, representing a potential additional $20 billion of public equity. While those companies are in the quiet period and we are limited in our ability to comment, here are a few overall points that we hope are helpful in understanding the future impact of these filings.

For example, at the end of the third quarter, 31% of private equity and only one-percent of real estate drawdown fund assets were public. If the companies currently on file go public at their current private marks, the percentage of equity value that is public will change dramatically. At that point, private equity will be nearly 50% public and real estate will be 40% public, again, at the current carrying values for those assets. At that point, in total, the firm will have more than a billion dollars of net accrued performance fees, or $0.89 per unit relating to public companies, split almost evenly between private equity and real estate.

Three years ago, on our third quarter 2010 earnings call, Steve pointed out how the timing and number of realizations will depend on conditions in the public markets, as well as the activity levels of strategic buyers. He emphasized that we are under no pressure to sell assets and that we can be patient investors as we continue to create operating value over time. He made similar comments this morning.

That patience is playing out in our results. The sharp increase to $1.2 billion in realized performance fee cash earnings over the last 12 months is a record, exceeding the prior peak for Blackstone of a billion dollars in 2007. But this time is different and more importantly, Blackstone is different.

Since 2007, the firm's performance fee paying assets have doubled to $104 billion today. Further, 37% of the $1.2 billion in realizations comes from businesses and strategies that did not even exist in 2007, reflecting the constant innovation that is at the center of our culture of growth.

By these measures, our results today are more of a beginning than an end. Putting our LPs first by focusing on our core strengths, of careful investing patient capital, building value, and always with no rush to exit, that ultimately translates to superior cash returns and continued value creation for our shareholders over an extended period of time. On behalf of everybody at Blackstone, we thank you for joining the call and are more than happy to take your questions.

J. Solotar Great. Just a reminder, everyone; we have a lot of questions in the queue, so if you could limit it to one on the first go around. You can always come back in. Thanks.

Coordinator Your first question comes from the line of Glenn Schorr with ISI Financial.

G. Schorr Hello. Thanks very much. So, the credit business is doing very well. I noticed that CLO issuance is at like ’05-’06 levels right now. I’m just curious if you could comment on the structuring of those products relative to the peak. Is it a much cleaner credit? How should we view that as this business continues to grow?

T. James I’ll take that, Glenn. It’s Tony. Frankly, the structuring is similar, although it varies some now by Europe and the U.S. because there’s some regulatory changes that require more equity to be held in Europe. The leverage levels aren’t as great and frankly, the cap structures are less complex in terms of the slicing and the dicing. Fundamentally, it's the same. It's the same business.

L. Tosi — I'd only add one thing to that, Glen, which is if you look at the performance of the GSO/CLOs through the downturn, they had to fall to less than 2%. So, it performed like a Aaa bond. So, I think the assumption that there was problems with that product set, we actually think that product set, not just for GSO, actually for the CLO markets in general, performed very well during the downturn and you're starting to see some of that come back in some of the demand that we're seeing both here in the U.S. and in Europe.

G. Schorr — Okay. I appreciate that. Just one other quickie is in the new BAAM fund, the multimanager fund that's for retail, can you talk to anything about pricing and where the distribution is most prevalent right now?

T. James — Yes, sure. Right now, this is a Fidelity only product. They have an exclusive with Fidelity for a period of time and they are allocating money from accounts that they control into this product. So, it's not being offered directly.

G. Schorr	Got it. Okay. Thanks. Appreciate it.

J. Solotar	Okay. Thanks, Glenn.

Coordinator	Your next question comes from the line of Bill Katz with Citi. Pease proceed.

B. Katz	Okay. Thanks very much. Actually, I want to follow-up on the retail. He talked a little bit about growth from here, and I guess the question really comes down to is it other products? Is it other distribution opportunity set, and what might be the timing of some of that growth?

S. Schwarzman	Okay. Yes, I mean the firm has a lot of interesting opportunities in virtually every one of our areas. Those things break into geographic diversification, product segmentation, and in effect, innovating new products. Those products can be up and down the capital structure.

So, every one of our businesses has a strategic plan to significantly grow their business. And so, if you can imagine us sort of spreading around the world, going up and down capital structures, inventing new products within each of those categories over time, if you're looking for a long-term vision, that's what we'll be doing in areas where we think we can generate really, really good risk return. So, we won't go certain places just because it seems logical. It's because we don't think we can do that well for our limited partners.

But, the world's a big place. One of the interesting things is that the amount of money being allocated for alternatives keeps going up. Investors are concentrating their relationships in fewer and fewer managers. The size of these pools of capital overall are going up.

So, we are in a really virtuous circle here. This is like a really good thing for us, all these trends. We can take you through every one of them in terms of every one of our areas, but that would give away our secret sauce. You'll be happier, but our competitors will be informed and so, I'm not as anxious to help our competitors as I am to help you.

So, Tony will give you a more informed answer and a more measured answer, but there's really very big wide space as you would sort of call it for us to grow our business.

T. James So, let me start this by saying that most institutions today have something like 25% of their assets in alternatives. Most retail investors, even high net worth investors have less than 2%. So, the institutions are smart to have the 25%, and anyone who can deliver the returns needs to have that 25%. So, I think that shows you the—there's as much retail money out there as there is institutional money. So, that shows you the massive potential that retail has.

So as Steve said, we're [unintelligible] across all of our businesses. Each business is embedding its products in vehicles that are appropriate to different retail channels. Those vehicles take lots of forms. It could be closed-end funds. It could be BDCs. It could be ETFs. It could be mortgage REITs. It could be mutual funds and so on and so forth. Not only "could be," "is" on all those instances and others.

So, you've got multiple products, multiple vehicles to multiple slices of retail, all of which are underrepresented in alternatives. Our original approach has been to focus on distribution in the United States because it's the biggest market. And so, in the United States, we work through other channels to access retail. We don't access retail directly. We've got growth as the number of systems through which we're working is growing.

We're also expanding from the United States and now have staff in both Europe and Asia to do this. So, we're also expanding geographically and number of systems. So, we have multiple products, multiple vehicles, multiple regions, and multiple systems, all of which are growing. That's the effort to basically take retail investors from where they are to where, frankly, for their own welfare they need to be.

But, we've just begun. The potential is huge, and we're not near where it could be.

B. Katz Thank you very much.

Coordinator Your next question comes from the line of Howard Chen with Credit Suisse. Please proceed.

H. Chen Hello. Good morning, everyone.

J. Solotar Good morning.

H. Chen If we look at some of your competitors, heavy realization periods often coincide or precede heavy fundraising periods, but that really hasn't been the case for Blackstone. You've been very active fundraising in your flagship products, with it improving, but just like okay realization backdrop. So, I'm just thinking, how do you think about intermediate-term fundraising after you more actively – you keep ramping up the harvesting activity?

S. Schwarzman I think that's a little harsh, Howard. But nonetheless, what—the advantage we have is that we keep quite close with our limited partners and what LT was saying in terms of realizations and so forth is actually what we mean. You'll end up surprised in seeing what we get for a lot of assets. You'll write some very positive things in all probability. We won't be surprised.

And so, what we've learned is that there's certain types of assets that I wish I could talk about them, but I've got these legal handcuffs or something. I mean for example, we just had a meeting yesterday on one of our companies where, given the plans they've got, this particular company, which could have just been sort of like a double, 3.5 to four times your money was a realistic case. So, we've got a lot of stuff that's cooking and there's no reason to prematurely do something.

Now, fortunately for us, our limited partners understand the nature of the portfolio and what's happening with all the companies. We're very transparent. We've got great reporting systems. We're going to be supported in a very large way.

I mean there's nobody in the world I guess almost because we're in so many different businesses, so it's tough to compare it on one global statement, but we're not having any difficulty despite what you pointed out. So, for example, I mean if we're expanding at a rate that's four times, is more than the amount of money raised by our next four competitors combined, then something, and maybe I'm misunderstanding your question. The marketplace doesn't seem to think we're at much of a disadvantage.

H. Chen — I actually didn't mean it to be a harsh statement. Maybe I can take another crack at it. I just meant sometimes—

J. Solotar — Howard, you just meant that we were in an extended period of fundraising and the realizations had to be done. We will be entering a period of realizations and so, how does that play through?

I think the one thing that investors, when I think about what they've missed the most, or what analysts have missed the most is what LT talked to, that a lot of the assets that we've raised have not been because we're raising larger funds in the same product. It's because there's been a ton of product creation and new fund creation.

So, it's hard to think about, yes, you're realizing a particular fund isn't going to be immediately replaced. We do think we're going to continue to have asset growth and a large part of our asset growth is coming from contiguous product.

T. James Yes, the other thing too if you remember is I think the inference I drew from the question a bit was people go in these states of dispositions to help the fundraise. Actually, we don't do that. I don't really think a lot of our competitors do either. I think there's a natural lifecycle to these investments.

We kind of hold our investments an average of about four years. You've got a five-year investment period. So, by the time you finished the investment period of a fund, are ready to go raise a new one. Naturally, those investments have matured and start being exited.

So, there's a certain concurrence of time, but it's less driven by the fundraising imperative, at least for an established manager like us, than it is by just the natural lifecycle of an investment. For first time managers or young managers that don't have established track records, investors do like to see realizations. It's validation for the value, and the value that's been created.

H. Chen Great. Thanks. Yes, I didn't mean it to be harsh. It was more, could we actually see an even further acceleration in fundraising as you get a little deeper into the realization cycle for you all, but I think Tony just answered that. Thanks.

S. Schwarzman One final thing on that, Howard, not to spend too much time on it. If I overreacted I apologize. I was at a terrific conference, a small conference that the Hamel Lane people put on. They're the leading consultants. This happened to just be the private equity vertical.

Fifty-three percent of the institutions there say that they were going to be increasing their percentage of allocation to, in that case, it's private equity. Only 10% were going to be reducing their allocations and the other we'd keep their percentage the same.

Now, when the stock market goes up like 15% to 20% in a year and we'll see where it settles out, and 53% of the major institutions because they have the largest market share I believe in that business are increasing their allocations. The other one is going up anyhow because it's indexed to the size of the fund.

So, if you have 90% marching up, and they are concentrating big time. A lot of these pools of capital are eliminating 20%-25% of their managers. And so, as the dollars keep or whatever, the euros or whatever, keep going up in the sector and they keep reducing other people, as long as we have good performance, which is the key to our business, we'll do very, very well in that kind of situation.

H. Chen — Thanks, Steve. From Wish-Bone guy to another, I think we're on the same page now.

S. Schwarzman — We used to have the Italian dressing actually.

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

M. Kim — Hello, guys. Good afternoon. I just wanted to follow-up on fundraising. So, more broadly, I'm just wondering if you're seeing any change, meaningful change in demand trends more recently. I know you're not in the market raising a dedicated private equity fund, but it does sound like demand is picking up in that part of the industry. So, I'm just curious if you sensed maybe greater appetites from LPs as you look across the strategies that you are currently out in the market with right now and how you might be sort of thinking about capitalizing on that down the road.

S. Schwarzman What I'd say on this, and Tony, you can reign me in. John Finley, our counsel, will definitely reign me in, but we're seeing really sort of very powerful demand on the real estate side. There are very few real estate managers that made it through the cycle. With real estate turning and values going up significantly, certainly in the U.S. and a lot of the availability in product in Europe and Asia, that people are looking for ways to play that. And so, we're a very well positioned, fortunate and in some cases, almost unique player in that market niche.

In private equity, large funds, which were sort of more or less in the dog house right after the Lehman collapse for reasons where people incorrectly got it wrong as to what the performance would be, that trend is really changing. In fact, at the same conference where large funds were viewed quite negatively in years lately, they do these surveys among the people sitting around the room, large funds were now equal in popularity with mid-size funds. That's a huge change in sentiment, which is basically good for our firm.

On the credit side, there's a desire continued for more return in what still remains a very low return world. I don't know where short-term Treasuries are today. They got up to like 35 basis points. I'm sure they're down, LT, what? Do you have any idea?

L. Tosi No.

S. Schwarzman So, if you're got cash money sort of yielding you 20 basis points or 15 basis points or something like that, and we have floating rate product throughout the firm that can get you sort of six, seven, eight—six, seven, eight, it's not complicated math. It's a lot higher. We tend to have almost no defaults throughout our credit system and our higher torque products, whether it's a little lower today because there's some pressure, but the relative value is so far over the required actuarial returns that institutions are looking for that we're getting very large flows there.

Our BAAM products are doing similarly well. I think we've pointed out that that was one of the best quarters in our history.

People are looking at ways to play different things in the liquid world and we're inventing new products that work there. We get very, very strong responses whenever we come out with something new because people have had very good historic success with us.

The simple matter is that the alternative businesses over almost every measure in a period, maybe one exception or whatever, have yielded 1,000-1,500 basis points in our world more than other normal stuff. And so, it's so compelling that those flows continue to remain strong. I tried to give you an idea of where they've changed, but they've changed pretty much in a positive direction for us.

T. James So, Michael, let me chime in on that. On private equity, which I think was the focus of your question, I don't think we're going to accelerate fundraising to take advantage of our condition. We're kind of driven by the fund, the investment cycle of our fund, not by market conditions, for better or for worse. So, the big fund, BCP VI is relative uninvested. We have probably two-thirds of the money still to be invested. So that'll be a few years off and there's no rush on that.

We do in private equity though because the segment includes more than private equity. It also include our new Strategic Partners acquisition and it includes Tactical Opportunities, and within core private equities we call it, we have the energy fund. Tactical Opportunities is just finishing its fundraising. So, that'll go a little quieter. Strategic Partners is just starting its fundraising, so that will pick up. We expect to be raising another energy fund in the coming year. So, that'll be a little pick up there.

I don't know if that addresses your questions, but that's the picture.

M. Kim	That's very helpful. Thanks for taking my question.

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

M. Kelley Good morning. Thanks for taking the question. So, I wanted to go back to what LT said on the percent public and the amount that it could be pro forma for some of the deals that you have in the pipeline. So, if I'm doing the math correctly, the 50% in private equity and 40% in real estate pro forma would be another $19 billion public.

L. Tosi That's right.

M. Kelley Okay. So, I wanted to make sure I understood that. Is there any—I think you gave the detail of kind of the old portfolio level. I assume there's nothing more you can give in terms of specific funds, which is fine, but I just wanted to see if there's anything within this that we should be thinking about different versus your historical guidance that typical public versus private investments are at 25% to 30% valuation difference initially.

L. Tosi I was thinking about that. I think the bulk number that we gave you—first of all, your math is exactly right on the $19 billion, which is the total equity value of it. I gave you that there's a billion dollars of net performance fees at that point split between the two.

It is true over time that there has been—when we go from private marks to public marks, we tend to be conservative in our private marks simply because there's certain elements you can't take into factor like control premiums, etc. And thus, we also have a conservative posture just with the way we look at the values of assets if you look at them on a long-term basis.

But other than that, I can't comment. Let's wait and see how it plays out, but your assumption that our recent history and for long history, that our public marks, at the time we go public, relative to our private marks, there tends to be a premium and it can be substantial.

M. Kelley — Okay, great and then my follow-up is on Strategic Partners. The color there was very helpful. So, thank you for that. Tony, I was wondering if you could give us the kind of tenure or when the $6 billion that is unrealized was kind of invested so we could think about kind of the harvesting stage on that and when you'd expect the fundraising process—I know you said you're at the very beginning of a $3 billion fund, or they are, but how long that typically could take them as well.

T. James Okay. Well, they tend to be—so, for the audience that's not familiar with Strategic Partners, what they do is they buy secondary limited partnership interest; so, existing limited partnership interest and typically in funds that are about 80% invested. The beauty of that business is that you therefore know what you're buying. It takes the tails away from the distribution outcomes because the investments are seasoned. You know exactly what value. You can analyze them.

That eliminates the downside, but you're not going to pay for something that doesn't have any value, but it also eliminates the upside because you will pay the price for the value that's reflected in there. So, they have a very narrow dispersion of returns, i.e. lower risk.

At the same time, because they're buying funds that are invested, the lifecycle of the funds are shorter. So, basically from the time they put money out, they start getting distributions the very next quarter. So, it's almost bond-like in the sense that it's predictable and you put money out and you start getting returns and start realizations back right away. It doesn't have the same sort of feel that real estate or private equity does where you put money out, there's a hiatus period, then there's a lot that comes in.

The other thing is they buy—when they buy, they don't buy one fund. They typically buy collections of funds, or portfolios of multiple funds. So again, in a real estate or private equity fund, the fund might make—we get the money. We invest it. We might have 20 to 30 names in it.

They put money out. They might buy a portfolio of funds from a bank that's got 20 or 30 different funds each with 20 or 30 different names. So, there's 600 to 900 underlying portfolio companies. So again, what that says is there's always something being realized out of these things. So, it's a much smoother, more bond-like if you will, realization pattern.

When I say "bond-like," I don't want you to conclude that the returns are bond-like because the returns are 20% gross just like any other private equity, and 17%, high-teens net historically. But just to make sure because this is the first time we've had Strategic Partners part of our business mix, for all of the people on the phone so they understand some of the different rhythms and the feel of that business.

So, to directly answer your question, the $6 billion is always being realized every quarter and it's coming in smoothly. I think you should almost think of it more of a yield instrument than just sort of lag, then the tidal wave of realizations.

S. Schwarzman Yes, but the difference is the yields its had historically has sort of ranged, I guess, as opposed to the bond historically. Some were in a really bad market, like 12%, 13%; in a really good market, probably 20%. So, this kind of bond—

T. James That's what I said. It was 17%, 17% net is what they've had. By the way, when we bought those old funds, we did not buy the carry on the old funds. That still is owned by Credit Suisse.

So, you'll see the carry on these funds from the new money they're putting out of the new funds and they're still just about at the end of their old funds. They'll start investing in the new funds sort of around the first of this coming year. So, it'll take a while and so, you'll start to see carries come in next year, but it'll be small and then it'll gradually grow.

We do have a legacy management fees on all the legacy funds. So, when you're looking at the fee structure, it's a one in 12 structure and you should look at the fee paying capital for the indication of where the management fees are.

M. Kelley Thanks, guys. Very helpful.

Coordinator Your next question comes from the line Dan Fannon with Jefferies. Please proceed.

D. Fannon Thanks. I guess I wanted to see how you guys would characterize the realization opportunity beyond the public markets, the filings that you have out there. Obviously, M&A has been down, but historically you've highlighted Sovereign Wealth fund as being a potential buyer of real estate. I just wanted to get an update on that opportunity.

S. Schwarzman What I'd say is that the sovereigns are starting, depends which ones, to look at real estate as a more active class. I guess the Norway fund, which is the biggest in the world, which has just been in common stocks, is sort of like mutual fund with certain exclusions, like defense or industries or whatever. They said they're going to start going in and buying real estate.

We're seeing that from—some of those funds have done that historically, but we are seeing more interest from those groups in terms of buying real estate, which when we bought it, for example, was an opportunity. Real estate product, something needed to be done, stabilized, released, fixed, and they're buying it as core [unintelligible] that conversion. That's one of the potential logical places to exit.

T. James — Sovereign Wealth funds have been long-standing owners of massive amounts of real estate and we don't see that changing.

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

M. Irizarry — So just in terms of going back to the economics of building out a bigger retail presence for the firm, you know, if you think about the fee related earnings and the margin associated with the fee related earnings, are we likely to see incremental spending from here or did you already make a lot of the investments in terms of people and sort of maybe absorbing some upfront costs? As you look sort of ahead are you maybe going to leverage some of those costs that are already sort of embedded in the P&L?

T. James We're constantly making future investments to try to build a great firm and try new products, and the reason you see the statistics you have about how much of our assets are from products that didn't exist five years ago is because of that investment spending. Similarly, on the retail we've done a lot of investment spend for three years. However, just like every financial institution out there it's a constant struggle here to keep our costs from eating up the revenue growth, and I don't think we see any significant margin shifts coming that you need to worry about.

S. Schwarzman What I'd say on this one is we made this decision about three years ago. LT, was that about right?

L. Tosi Yes.

S. Schwarzman And we decided how much money we were prepared to lose or you call it investment spending, whatever you like, and we made that decision at that point. We didn't tell you because we were doing something that we thought other competitors were not doing, and we didn't want to announce what we were doing. We've got a reasonably decent sized number of people working this problem, and it's not a problem; it's an opportunity. I don't foresee—in the sense that you asked the question in a very limited way—that we're going to have a big add on to cost. I don't think we will because we've been doing this for years. You just haven't seen it.

J. Solotar I also think some of the products are not yet at scale, so interestingly when you think about the ETF or the products that we have currently with Fidelity, etcetera, you know those all had embedded startup costs over the last couple of years. We're just starting the fundraising of those now, and LT can run through the margins of the overall firm, but they remain quite healthy.

L. Tosi Marc, I think Tony put it best, which is that we're always investing in something or, as Joan put it, there's always some business that pays for it at maturity. We actually used the fee in the earnings number. It's hyper conservative. It's almost self-inflicted conservatism because we're the only ones that actually put all of our expenses in it. When we look at it over time it's in and around—this quarter it's at 30%. I looked at your report this morning, Marc, and we had a slightly different number, and we should probably talk about that offline. You had 28 but the actual number is 30 for the quarter. That's up year-over-year.

The one thing that tends to be inconsistent in that number is the actual marketing expenses associated with closing, so we try to break that out. Just to give you an idea of how vigilant I think we are on both, on cost so we can clear capacity to invest. Our other operating or non-comp expenses are up 2% year-over-year and we try and do that as a small fraction of the growth rate of our overall fee related revenues, but really fee earnings is really just an internal measure that we use to just make sure that we're being disciplined about the kind of investment. I wouldn't say that there's anything on the horizon we think that will dilute that, and we think that the marks will be consistent with their recent history.

M. Irizarry Okay. Great. Thanks.

Coordinator Your next question comes from the line of Mike Carrier with Bank of America/Merrill Lynch. Please proceed.

M. Carrier On the realization side, you know the pipeline was helpful. When I think about, particularly on the real estate side of the business, you know, once you get past those investments is there any granularity on the mix in the portfolio in terms of company versus say property, current returns versus target, and then the different exit strategies that you'll be looking at over the next couple years in that division?

S. Schwarzman I think that's a tough one because we have really a huge portfolio in real estate, and we look at exits with realizations in that world as a function of the fix-up cycle. You know the buy it, fix it, and sell it cycle. The great thing about real estate, unlike people who were raised in the corporate world, is that real estate give you an enormous number of exit opportunities. For example, if you bought a company and you fixed up a lot of their properties, and, for whatever the reason either the investment is too big or nobody wants to strategically stand in real estate, you can cut that company up in to discrete sized things called building. And unless you're in a capital credit crunch the opportunity for people to buy buildings in an environment where they think the values are going up is like huge.

And so what we do is we size our exits and our type of exits based on assessing those— I mean the real estate businesses—as to whether if you bought a real estate company whether you keep it together, whether you'd take it apart, whether you sell one property, whether you sell a city or a regional area. It fits someone else perfectly, and it's one of the wonderful things about that business. Other than a complete lockup in the credit area in the country, which comes from typically some kind of huge well-known problem, there's always somebody that wants to buy this stuff, and we just decide which the best way is for us at the right time to exit. I think Tony mentioned that we're both buyers and sellers at some of the same times, and we can see ways once we fix the properties to feed the market because the market is net buyers in this.

T. James Mike, I would say—and there's no guarantee on this but—the returns look like they'll be above our targets. It's been a great cycle. I think our guys are fantastic at putting money to work at the right time, and they've done very well, and the properties are appreciating in value, the vacancies are down, NOI is up, the rents are up. I think this will be a very good vintage relative to long-term targets for what's out there.

In terms of businesses versus properties, you'll see lots of both. If it's a hotel chain, it's going to be a business. If it's a question of offices, it's probably more apt to be either individual properties or properties lumped regionally or locally or by type. You'll see both. Not necessarily individual properties because they might be group property sales, and so you'll see the full panoply of things happening, bottom line. It's actually a lot of fun, you know that part of the business because there's so many different ways to do things.

M. Carrier Okay. That's helpful. Thanks a lot.

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

R. Lee I appreciate you guys taking the time to answer all the questions. Since we live kind of in, I guess, an environment globally where it seems like regulators kind of have a field day trying to go after different successful financial firms, I'm just kind of curious where do you see anything on the regulatory front where it could upset some of your plans whether it's investment opportunities or new business opportunities? And maybe I'm thinking specifically of some increased noise out of the EU lately about taking a closer look at shadow banking activities, things like that. I'm just curious where you see any potential headwind that could be pricing or … from just the regulatory environment we live in.

S. Schwarzman I think that's a really informed, very insightful question. There's clearly generally a real ramp up in the regulatory focus just starting with the U.S. You can read this stuff in the newspaper. It's FCPA stuff. It's the announcement that the SEC made that they're going to have much more robust enforcement proceedings, and everyone who is in the financial business is potentially subject to. That's just two random factors but there's a longer list of those. One would not want to run afoul of any of that stuff just because it becomes very time intensive, expensive, and it's clear that the government has accelerated their focus on a whole variety of areas from different regulators. We've seen that with some of the financial companies that have been on the receiving end of that.

Now, most of those companies are depositories, and they take money from the public. In some cases the regulators are worried about mismatches between firms that have longer term assets and like a deposit base or some other base where the money can be taken out and you can't do that, and that introduces a variety of things. Our business is really constructed much differently. We don't take deposits. We don't have access to the Fed. We're really independent in that case, and don't rely on government support, and we manage ourselves very, very carefully. We have a very rigorous compliance infrastructure at the firm in each of our businesses with shepherds between different groups of what you can say, what you can't say. And we have a very heightened approach to knowing in effect that the government is abnormally focused on them as well, and our job is to just run our business in a normal way without reliance on anybody or violating anything.

Those concerns are directed to everyone almost in the financial community with increased reporting from hedge funds that used to have none and now have some, and it's the world of modern finance that can't …. I think that it is a different world. What it's done for us besides make sure we have very robust systems is it's created very substantial opportunities for the firm because the regulatory environment is directed at some of these large depositories and that's around the world. That is not just a U.S. issue. They can't stay in certain businesses. They have to offload certain assets. It gives us opportunities to not just buy those assets and businesses but it increases our ability to recruit people because some of those other environments have been created in really sort of a much changed environment and a harsher one for other companies around the world.

And so we in response to this one of the things we always look at is were we to expand in any particular area what the regulatory impact of that is because we just sensibly don't want to be involved with businesses that trigger the kind of regulatory approaches that affect some of the other companies. And so the question is a terrific one because we think about it all the time because if you don't you're not being a responsible fiduciary for your public shareholders for your limited partners. You have to run a squeaky clean, transparent, open business, and make sure all of the people at your firm understand that and have procedures in place to make sure that you don't have sort of independent actors. And that's part of our job to do that, and we spend a lot of time doing that.

T. James — And let me just summarize by saying we're not complacent about this but so far it's been much more of a source of opportunity than problem.

R. Lee — Great. I appreciate you taking my question. Thank you.

Coordinator — Your next question comes from the line of Patrick Davitt with Autonomous Research. Please proceed.

P. Davitt Tony's comments on Invitation Homes on the Media Call I thought were incredibly competent just in terms of how successful you could be with that, which when I talk to investors it tends to be a lot of skepticism about that because of the experience of your competitors. Can you help us better understand given the size of the investment what you guys are doing that's so much different than those guys that have been struggling and why you're so confident that it will be successful.

S. Schwarzman Yes. I'll take that for moment, and then they can … me out. Tony will give you a better answer, but basically we started buying properties when the markets were down, individual markets between 35% and 40%. What we tried to do was not buy assets all over the country in some kind of scattered shot way. What we tried to do was limit our purchases to certain markets where we thought that the recovery would be quite good. We took a strategy of wanting to be as patient as possible for what will be a very long cycle investment.

So, we sort of got some of it wrong that recovery in price was much stronger than we thought, but our theory is that we didn't want to buy and flip anything. We wanted to take advantage of the fact that for a five year period the number of houses that were built was like half of what was needed so there's a structural shortage of houses. And we thought that given the lack of mortgage money available because of the GSEs and the structure of the industry and all these suits that keep going on that there's an interim period where there's a real shortage of money that can help that recovery. And if we can buy those homes and fix them up because nobody wants just sort of a used home that's been foreclosed, and so we had to build a company across, I guess it's like, 14 cities or regions and rent those houses to people who need shelter. We were doing a good thing for them providing housing, which often is in sort of good school districts. Then as the cycle recovers ultimately there'll be some exit from that investment, which can be done in a variety of different ways.

Housing last year was up nationwide. I guess it got a Nobel Prize from Bob Schiller who is a very nice guy. Even though he and the other guys who got a Nobel Prize disagreed on the fundamental tenant of sort of markets. But the average house was up somewhere around 11% to 12% and our markets did appreciate better. We were better at picking them, and so we saw that as an opportunity for really quite a good play because if you look at the country, say that housing was down somewhere between 35% and 40% and you're up 11% that's like up 4% so that leaves you down 31%. This is not going to be something that just sort of stalls out and so forth because the difference between the value of an old house and the value of a new one is now about 35%. It's usually somewhere around 15, so these existing houses have to go up more over time, because there's a shortage, before you can really have the building cycle be as robust as it will end up being going back to historic levels. There's a real dislocation, and we think that this is a very sensible long-term way to develop our business.

We're the first people who actually could borrow money against these because people said, "What's going on here? What is this?" And now we rent the houses very quickly, almost all of them are done within 30 days, something like that, and so this is like a good thing. The idea that some other people haven't approached this in the way we have don't have access to capital the way we do, are not used to building a business like we do in private equity across multiple cities. There's real start up issues here that some people might not have executed on as well as we do.

I'm not trying to give you my whole life story with this answer, but it's a big thing. We've to $7 billion but that's not in equity, and by the way, we bought these houses almost always onesies. We're not like buying big package. There's like 40,000 individual—you know how hard it is for you to buy a house. I mean you've got to negotiate with somebody, all kind of stuff, you've got the title. At least we did it; 40,000 houses. It's like really something and so what we think we have is a very unique situation. If the cycle works the way we think this should be a good thing for everybody involved.

T. James So let me put a little color on that.

S. Schwarzman As if it didn't have enough color.

T. James Well, first of all we had the first mover advantage. We got in first. We got in with real operating scale. We concentrated on the right markets first that moved up the most. We're actually out of those markets now. Other people are still trying to push in to those markets at much higher prices, so big, big advantage of first mover advantage in this market.

Secondly, we're by far the largest. This is a business with economies of scale. One of the problems the other guys have is they've got a little bit of money to get started. They got started but they didn't have enough capital to get to profitable scale. They needed more assets to equity capital to get to profits, and, of course, business models around that. If your access to capital dries up, your business model falls apart. We don't have that problem. We're in significantly profitable scale even without the access to debt capital that Steven mentioned, and, again, we've pioneered in that so we're able to securitize these things and get access to very attractive debt financing that no one else can both because they haven't done it and because they don't have the scale.

Steve mentioned that the lease up was 95% of our homes, 95% are rented in 60 days. We almost can't keep them on the shelf long enough, and so there is no issue of piling up like unrented homes or anything else. These are cash flowing assets, and so I think when you look at a lot of those things we feel really, really good about this investment, and we feel good about the fact that it's got more to run because, as Steve mentioned, it still costs a lot more to build a home than what we're paying for one of those homes. So we've got that price umbrella that comes from that.

We have multiple ways we can get out of this business or these assets if we want to ranging from one offering company approach like an IPO or REIT all the way to selling individual homes. While it's a lot of homes, it's a very small percentage of the homes that are sold each year in the markets in which we're in so we could easily sell them one at a time and everything in between. So, yes, I feel very confident about it.

P. Davitt — Thanks a lot.

Coordinator Your next question comes from the line of Chris Kotowski with Oppenheimer & Company. Please proceed.

C. Kotowski I wanted to go back to LT's comments on the IPOs and the 31 and 50 and 1 and 40 and leading to an incremental billion dollars of net performance fees, and just by my math, and I'm not exactly sure, I'm trying to reverse engineer it, but it just seems to me that must still assume that even with those IPOs BCP V does not cross in to carry. Is that right?

L. Tosi That's right Chris and let me just make clear. The number I gave you the $1 billion, which is the net performance fees associated with the IPOs that are in the pipeline, as well as the ones that are already public, so the total that will be public is $1 billion. That's at today's marks for the private assets, okay, so at today's mark BCP V, as I said before, is not in carry; therefore, there is no accrual for the BCP V portion of those assets.

Now, there is a BCP IV asset that is part of the mix, part of the IPO pipeline, but primarily as part of the Hilton portion that is in BCP V would be the portion that would not be accruing performance fees at this point at the private marks at the end of the third quarter.

J. Solotar Right. LT was not giving you like a projected if we priced in the middle of the range.

L. Tosi It's all priced as of September 30th.

J. Solotar This is as of current mark so you can see where BCP V is.

C. Kotowski Okay. So and that it going public—well, at the mark that does not close the $3.2 billion gap. Is there a way for us to calculate or can you tell us if these IPOs did price at the middle of the range how much of that $3.2 billion gap would be closed?

T. James No. Because some of them are on file with no range so it's not doable right now. We can't be obviously doing that given it's in registration.

L. Tosi All we can do is give you the accrual as of the 3rd quarter mark, which, as I said, was BCP V. We went through in great detail your recent analysis of the whole thing and wish we could give you more data. We thought by giving you the performance fee number that would be helpful.

C. Kotowski Okay. Great. Thank you.

Coordinator Your next question comes from the line of Bulent Ozcan with Royal Bank of Canada. Please proceed.

B. Ozcan Just a quick question on the discussion that you had regarding valuation of alternate asset managers … traditional asset managers. Could you speak about your strategies for maybe acquiring long-term assets through traditionally long only, essentially improving the fee related earnings and doing that maybe on a boutique strategy basis where you don't dilute the effective management fees overall?

S. Schwarzman Okay. Well, I'm not totally sure I got the question, but we're focusing on—first of all, we have no intention to buy the traditional long only asset managers. We do what we do. We do that well, and we don't think all asset manager businesses are created equal or require the same skillset. Don't expect to see us go acquire much traditional asset managers.

In terms of rolling up a bunch of small boutique alternative managers, we don't see doing that either. We don't like owning a lot of little popcorn stands around. You get a lot of mediocrity, frankly, and you get a lot of management headaches, and you get a lot of overlapping conflicts. We concentrate on doing a few things really, really well. Being best-in-class and having each of them get to scale where we have the benefits and industry leadership which are many in the alternative business.

Maybe in some other asset management businesses scale is the enemy of return; that's not the case in alternatives. We want to concentrate on being the best and by bring the best the highest performance fees. We get to be the leader in terms of scale, and so you'll see our acquisition strategy driven by filling in some of the product areas which our customers want where we don't now offer and really high-quality products. But it's a selective fill-in strategy, and, by the way, the actions are never done for financial engineering reasons. That is to say maybe we can multiple arbitrage or maybe we can just diversify for the sake of diversification.

We need acquisitions that we bring significant synergies to or the acquired company brings significant synergies to some of our other businesses. We're really very rigorous about that, and I think you've seen the massive value that's been created from something like a GSO. When we bought GSO it was $7 billion of AUM. It's up to $65 billion now, and we could go on and on. All our acquisitions have been significantly accretive to shareholder value, and we're going to be much disciplined about that.

B. Ozcan — Okay. So traditional mutual funds will not be part of your retail strategy?

S. Schwarzman — No.

B. Ozcan — Okay. Thank you.

Coordinator — And your final question comes from the line of David Chiaverini with BMO Capital Markets. Please proceed.

D. Chiaverini — I'm curious to get your thought on how mature you think this investment cycle is with the backdrop of moderate revenue and EBITDA growth in the portfolio contrasted with the very strong returns the funds are delivering. How sustainable are these returns given the multiple expansion that has already occurred in recent periods?

S. Schwarzman — I'd say at the moment we've had certainly in the U.S. a subpar economic recovery. We appear to be doing our best politically to extend that. That will not last forever, and Asia has been slowing down and Europe's improvement in the aggregate leaves them pretty much flat. We're doing what we're doing in the face of adverse overall global GDP growth situation. I think you have to look at this and when you ask the question of how do we keep this game going? One, you can do it with individual investments but ultimately almost all businesses are—whether it's ours or other operating businesses the real world makes a difference, and so part of this the debt on the global economy. Europe is in this sort of can't get much worse category.

The U.S. has upside still. We're just getting in our own way, and if you look at our energy area where we are with autos, housing recovering, technological innovation, we have so much going for us in the United States. It's really sort of amazing that we've sort of knocked ourselves down a bit. Asia, I think, has also sort of come down to a point where I don't see much more decline; (It's just my own personal view) and there will be new governments in a variety of countries, which will bring what I think may be better growth prospects in certain of the major markets.

Our portfolio is outperforming—this is just in the private equity area—is outperforming on revenues and EBITDA growth compared to most companies. If you give us a little better world it gets amplified through our returns and goes down through the monies that make it to the public shareholders. The way we do it is we find new areas, but you also have to be mindful of the benefits of giant market turns. I think we may have some benefits there when looked at over the intermediate term.

D. Chiaverini Okay. Thanks.

J. Solotar I think that wraps the call. Thanks, everyone, for sticking with us, and hopefully we answered your questions, but again, if you have follow ups just give us a call after. Thanks again.

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