Welcome to the Blackstone Fourth Quarter and Full-Year 2013 Investor Call. I would like to turn the call over to Joan Solotar, Senior Managing Director, Head of External Relations and Strategy.

J. Solotar: Great. Thank you, Sheena. Welcome, everyone, to Blackstone’s Fourth Quarter 2013 Conference Call. I'm joined
today by Steve Schwarzman, Chairman and CEO; Tony James, President and Chief Operating Officer; Laurence Tosi, CFO; and Weston Tucker, Head of IR. Earlier this morning, we issued our press release and slide presentation illustrating our results, and that’s available on our website and we will file our 10-K report the end of next month.

So, I’d like to remind you today’s call may include forward-looking statements, which 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 see the risk factors section of the 10-K. We don’t undertake any duty to update forward-looking statements. We will refer to non-GAAP measures on the call and for reconciliations you should refer to our press release.

I’d like to also 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. The audio-cast is copyrighted material of Blackstone and may not be duplicated, reproduced or rebroadcast without our consent.
So, just a very quick recap—we reported economic net income, or ENI, for the quarter and full year. ENI per unit was $1.35 for the fourth quarter and $3.07 for the full year. That’s up 73% from 2012, which was also then a full-year record. The improvement was primarily driven by sharply higher performance fees.

Distributable earnings were $821 million for the fourth quarter. That’s $0.68 per common unit, up 51% from last year’s fourth quarter. For the full year, we had distributable earnings of $1.56 per common unit. That’s up 68% from 2012, really driven by considerably higher realization activity.

We will be paying a distribution of $0.58 per common unit to shareholders of record February 10th, and just one final comment, hopefully you’ve all received the invitation to next Thursday’s webinar that we’re hosting with Joe Baratta who runs our global private equity business where he’s going to run through his outlook for PE in 2014.
With that, I'm going to turn it over to Steve Schwarzman.

S. Schwarzman

Good morning, and thank you for joining our call. The fourth quarter, as Joan indicated, capped a record year for Blackstone. Strong growth and investment performance in all of our businesses resulted in record year-end and full-year revenues of $6.6 billion, up 60% from the prior year. Earnings of $3.5 billion, also record, were up 76%, and distributable cash continued to show strong upward momentum, rising 66% to $1.9 billion.

Our limited partner investors continue to entrust us with more and more of their capital, over $50 billion in 2013, and we ended the year with record AUM of $266 billion. That’s up 26% year-over-year. We now manage nearly three times more assets than when we went public in 2007, which is very atypical for almost any money manager.
Very strong returns in most asset classes have led to a dramatic increase in the investable assets of our limited partners, and in effect, they have a much larger pie than they had the year before. If nothing else changed but these gains getting reinvested, we would expect to see greater inflows here at Blackstone. However, limited partners in addition are increasing their allocations to alternative managers generally.

They also want to do more business as they’ve articulated with fewer managers with a bias towards the largest and best-performing firms. Blackstone, consequently, is perfectly positioned to take advantage of this trend. The Blackstone brand name is one of the most trusted in asset management due to our singular focus on both protecting our investors’ capital and generating strong returns over our 28-year period.

In 2013, our private equity and real estate portfolios appreciated 29% and 31%, respectively. In credit, our drawdown funds, namely our mezzanine and rescue lending portfolios, as Tony mentioned in the earlier call, had gross returns of 26% and 33%, respectively, for the full year.
Our now public holdings dramatically outperformed the equity markets and were up nearly 50% last year helped by 6 highly successful IPOs during the year. In the fourth quarter alone, we completed four IPOs including Hilton, Brixmor, Extended Stay and Merlin, which ended the year valued 35% above just their third quarter mark and 70% higher than the year end 2012 mark on a combined basis. The significant increases in realization over our historic marks are consistent with the trends we've experienced, as we've explained to you, over the last 6.5 years since we went public.

Hilton, which is the largest investment Blackstone has ever made at $6.5 billion in equity capital, illustrates how our model can drive outperformance over the long run. With Hilton, we chose a great business and put in place an outstanding management team lead by Chris Nassetta focused on accelerating the company's global growth.
Through the depths of the financial crisis, we were able to stick to our plan without the pressures of quarterly earnings targets or investors asking us for their money back at the worst possible time. Last month, six years after our initial investment, we brought Hilton back to the public market with 40% more hotels than when we acquired it. In effect, we really fix and improve these companies and drive growth.

The year-end stock price equated to a value of 2.6 times profit for a total gain from our cost of over $10 billion. This is a record for the private equity industry for any investment that’s been made, and we’re very confident in the company’s outlook going forward. This is very often how private equity investments work. We have found that interim marks do not necessarily predict future performance as we continue to add value.

I also want to highlight our IPO of Merlin. This is a company that we basically built from scratch when we bought the London Dungeon in 2005, I don’t know whether any of you have ever been there, it’s a lot of fun. It’s small people that jump out and scare you, but it was a modest start to the business, and we
turned it into what it is today, which is the second-largest theme
park operator in the world behind Disney. It's a great illustration
of how the flexible mandate of our private equity funds work
with the ability to do the large deals but we also create
companies through platform buildups depending on where we
are in the cycle. Merlin's year-end stock price equated to a
multiple of original cost for our remaining unrealized investment
of 10.5 times profit in local currency.

Returns for our liquid funds were also strong in 2013. Our
Credit Hedge Fund, as Tony mentioned, had a gross return of
24%, well above benchmarks, which hopefully eases some of
the concerns we've heard around the impact of rising rates.

Our Hedge Fund Solutions business, BAAM, had composite
gross return of 12.8% for the year. BAAM's focus is on
generating attractive long-term risk-adjusted returns and over
time has actually outperformed market indices with much less
volatility this year at about a third.
Overall, our strong investment performance is reflective of our focus on creating value in our underlying portfolio assets as well as our position of being a solutions provider in credit and BAAM. We invest to improve assets, and once our job is done, we start to exit and return capital to our fund investors. Having endured a protracted down cycle to which there was no incentive or pressure to sell assets, we have a greater amount of seasoned assets which we're increasingly looking to exit. That is certainly not expressing the view that markets have peaked. In fact, we remain extremely active in terms of new investments in 2013, deploying or committing nearly $20 billion, a record for the firm.

One of Blackstone's key competitive advantages is the extent of our global scale with leading platforms in each of the alternative categories where we can identify relative value and move capital where it makes sense. Importantly, we don't operate franchises, and all decision making is centralized with real sharing of intellectual capital across businesses subject to compliance. This helps us make better investment decisions
and avoid mistakes and the results are better returns for our investors and greater capital inflows for Blackstone.

Turning to fundraising, we raised $17 billion in the fourth quarter alone and over $50 billion in 2013, excluding acquisitions. Much of this was in brand new products such as Tactical Opportunities or strategies adjacent to our global funds such as Real Estate Asia and Real Estate Europe. During the fourth quarter, our Tac Opps business raised an additional $1.5 billion bringing us to over $5 billion where we will likely pause to focus on deploying capital although we could raise a lot more money. Strategic Partners, our new secondaries business, held their first close to their new fund of almost $700 million, on their way to a targeted $3-plus billion.

In Credit, we continue to see strong inflows across the platform including several separate account mandates from large investors built around some of our highest conviction ideas. BAAM reported $440 million in net fee-earning inflows for the fourth quarter despite the fourth quarter of each year being seasonally higher for redemptions. BAAM has achieved $5.8
billion in net inflows for the year including January 1st
subscriptions, which was one of our strongest years ever. In
fact, nearly $1 out of every $10 that went into hedge funds
globally last year went to BAAM.

Lastly, our real estate platform had additional closings for our
new Asia and Europe funds, helping drive the $8 billion in
additional real estate inflows in the fourth quarter. This
business has reached nearly $80 billion in AUM. I just want to
report that again. Our real estate business has reached nearly
$80 billion in assets under management, which is almost double
where we were 2 years ago as we’ve broadened the platform
globally and tripled the size of our debt strategies business.

In response to increasing interest from our limited partners,
we’ve made our first two investments in Core Real Estate,
which are more stabilized assets designed for longer-term
holding periods. While it's too early to detail our approach to
this market, it's a very large asset class that we’re well
positioned to address.
Our culture of innovation continues to drive market share gains for the firm as we launch new products to take advantage of market dislocations and opportunities as they arise. In the past 3 years alone, we’ve raised $132 billion of capital. This is a blizzard of numbers, but I want you to get that one. We’ve raised $132 billion in capital in the last 3 years excluding the impact of acquisitions, which is comparable to the combined inflows of the next four largest publically-listed alternative managers.

In closing, 2013 was a record year by any measure. At $3.5 billion in earnings, Blackstone now exceeds the earnings levels of any other publically-listed asset manager in the world and possibly any other asset manager in the world. We just don’t have access to one company’s numbers. I believe this is proof of concept of what we’ve been speaking about for years, that as we grow assets at substantial rates, invest and obtain historical levels of returns, which are substantially in excess of what most other managers can do, then our overall earnings levels, as a
firm, as a result will continue to increase over time with of course some variation year-to-year.

Last May, at our Investor Day in New York, when the stock was $20, we presented a scenario where if we grow our key earning assets at a 13% rate, which is much lower than our historical growth rate of 28%, and if we exceed levels of returns in our various businesses, which was slightly lower than our historical performance, then our model implied an $80 stock price 9 years from now based on a 5% dividend yield and a number of other assumptions detailed in that presentation. In addition, our model implied $25 more in cash earnings during the period for a $105 per unit value in 9 years from now.

The assumptions underlying our model based on the world today seem reasonable to me. As you can see in our results, we're working hard to execute on them. Despite all this, for some reason that’s absolutely inexplicable to me, our stock continues to trade at a sharp discount to traditional asset managers. While we’ve made some small progress over the past year, moving from a 9 times earnings to 10 times earnings,
traditional asset managers are on average still trading at a 50% premium to Blackstone. This is despite the fact that we've grown assets under management over the past 3 years at a 28% rate versus the traditional managers growing at 7%. In other words, we're growing four times faster. We have more stable assets with 70% of our AUM locked up for 7 to 10-year terms, and our distribution yield of almost 6% is more than double the 2.8% that traditional managers pay.

If we compare ourselves directly to the publically-listed alternative managers only, our shareholders benefit from a much greater degree in terms of the liquidity in our stock. Our free float of roughly $17 billion is well above the free float of our 4 nearest listed alternative peers combined.

In addition, our average daily trading volume of $125 million is well above the combined trading volume of this same group. Why the discount? Frankly, it's a mystery to me. In my experience, these types of discontinuities, in terms of public market valuations correct themselves over time. We hope you all will be part of our shareholder base that will benefit from a
normalization of our price-to-earnings multiple, which I believe should be at least equal or higher than an average publically-listed traditional asset manager that’s growing at one-quarter of our rate. Were we to see this discount eliminated, our shareholders, of course, would receive a very substantial benefit.

Thank you very much. Now, I'd like to turn this over to Laurence Tosi, LT, to take over with a review of our financial results.

L. Tosi

Thank you, Steve, and thank you, everyone, for joining our call. As I begin my comments, I'd like to point out the latest iterations of our disclosures, all of which reflect the thoughtful feedback from analysts and investors, and we thank you all for that.

On pages 12 and 13 of the release, you'll see enhanced detail on AUM drivers, and on page 18, you'll see some additional financial disclosures primarily on BCP 5 and our investment in Hilton. Finally, as I begin my remarks, I would like to draw your
attention to page 4 of the release, which shows several trends I will address in my remarks.

Blackstone’s strategy and business model centers on generating sustained outperformance by our funds relative to their asset classes across cycles. When we achieve that result, as we have over many years, it drives the firm's growth and financial performance not just in the current year but also creates sustainable momentum for future years. We believe this attribute of our financial performance is often misunderstood, if not, frankly underestimated.

As Steve pointed out, strong fund performance is often positively correlated to asset inflows and growth particularly for Blackstone, given our leading fund performance brand and our unmatched diversity scale and depth across alternative asset classes. Looking at 2013, record levels of fund performance drove market appreciation in the funds of $33 billion and, at least in part, contributed to gross inflows of $60 billion. The combined effect of these two forces, appreciation and inflows, translated to $181 billion of performance fee eligible assets at
the end of the year, up 35% over the course of the year. That’s a multiple of the underlying fund appreciation and asset growth. Those totals are after $30 billion in realizations, which reduce asset levels as capital is returned.

Appreciation and inflows also combined to drive up assets in our incentive-fee earning funds, which generate both increased management fees and incentive fees. That is why both BAAM and Credit’s hedge funds generated their highest realized incentive fees ever at a combined $474 million, a 57% increase from 2012.

Similarly, our draw down funds in private equity, real estate and credit generated $1.1 billion in realized carried interest and investment income, a 164% increase from 2012. You can see on the distributable earnings charts on page 4 that net realizations have grown at a 91% compound rate over the past few years and even accelerated in 2013. You can also see the compounding effect at play on the firm’s performance fee receivable. As more performance fee earning assets are essentially created by appreciation or raised through inflows,
that receivable jumped 50% year-over-year to $3.4 billion even after a period of record realizations. Without those realizations, it would have doubled.

It is critical to note that the compounding effect should allow us to meet or exceed these revenue levels with lower appreciation than we experienced in 2013 simply because the fee-generating asset base is much larger. You can also see the compounding effect in the annual earnings, up 76% to $3.5 billion, far more than fund appreciation or asset growth. Further, as the mix of performance fees and investment income increases along with flat non-compensation expenses, Blackstone’s margin increased to an industry-leading 53% in 2013.

We think sometimes when investors just look at growth by measuring how big they predict a successor fund can be, they often miss the growth that comes from new strategies and businesses, what we refer to as Blackstone’s innovation advantage. Across Blackstone, we are now on our sixth and seventh generation of ideas and fund offerings within the
segments marked by constant innovation of adjacent and synergistic strategies, regions, products and client bases where we can extend our track record and investing expertise. This is a higher-growth, lower-risk approach than rolling up subscale managers and isolating units. In the last year, $45 billion or nearly 75% of our inflows related to businesses or funds that did not even exist in 2007 at the time of the IPO. Those innovations now account for $111 billion of our total assets. Many of those new businesses are funds that are always in the market - $105 billion or 40% of AUM consists of funds that are positioned for perpetual fundraising, rather than episodic fundraising. The focus on our episodic funds often overlooks this consistent growth driver.

Looking forward, there are several leading indicators of Blackstone's future financial performance that investors should note as we enter 2014. Record ENI is the most direct indicator of value created and future earnings power. Realizations and distributable earnings accelerated in the fourth quarter, a trend that has been gaining momentum over the last few years.
Our investment pace remains at a record level, which is made possible by our investment in a global footprint for origination. Last year, 40% of the firm’s investments were made outside the U.S., a record percentage for Blackstone. Portfolio operating fundamentals are at some of the best levels we have seen including 11% EBITDA growth in private equity in the fourth quarter and strong momentum in key real estate indicators such as REVPAR, occupancy and home price appreciation. Further and finally, Blackstone now has $36 billion in diversified public equity holdings held in performance fee eligible funds.

I’ll close with a comment on the strength of the balance sheet. The firm now has $7.29 per unit in cash and investments on the balance sheet, up 23% over the last 12 months. The strength of our balance sheet and the consistency of earnings prompted S&P to upgrade the firm to A+ in the fourth quarter making Blackstone one of the highest-rated financial services companies in the world.

With our full-year 2013 announcement this morning, Blackstone is the world’s most profitable public asset manager with a
record $3.5 billion in earnings. A key takeaway should be that Blackstone’s sustainable momentum with 26% annual growth to record asset levels, strong fund returns, record accrued performance fees and a favorable operating environment all indicate that earnings and performance should not only continue but creates the compounding effect that leads to accelerated distributions.

With that, we’re happy to take any questions.

J. Solotar

If I could just remind you to please limit first round to one question each so we can get to everyone. Sheena, if you can please open it up to questions now.

Coordinator

Please stand by for your first question. This comes from Dan Fannon, Jefferies.

D. Fannon

I guess maybe we could just talk about the investment environment and kind of where you guys are seeing some of
the best places to deploy capital, what you're most excited about, thinking about, in 2014.

T. James Dan, it's Tony. Well, I would say that in real estate, as I mentioned before, we're focused on both Europe and Asia. We think there's a lot of great opportunities that have emerged in Asia lately, and Europe—we had a very strong year last year and we think that will continue.

In private equity, energy continues to be front and center for us, which counts for a huge portion of what we do. It's been remarkably successful for us. I think the energy fund has an IRR in the 50% range, which is stunning. So, as I say, energy is front and center. I talked a little bit earlier about specialty finance, and it think the other thing that we're very focused on is backing great management in companies that consolidate industries and giving them growth capital to do that.

Credit is a challenge right now, frankly, to put money out in long-term debt because of rising interest rates. I think we're
poised but combination of it's a deals-driven business but also a rate-impacted business and neither is all that favorable right now. However, on our hedge fund which is where we deal with more liquid stuff, they've been focused on event-driven kind of investing and acting as a catalyst in that has been really, really successful notwithstanding the low rates.

Then, in BAAM, our hedge funds solutions business, we're moving much more to manufacturing our own business instead of trying to pick hedge fund managers, we're coming up with themes, combing through the hedge fund universe to find out whether it's defined expertise, bringing someone onboard to play roles and more of an implementation role than an investment strategy role in terms of exercising some of the strategies. That's been really successful for us, and there are various themes that we've looked at, but one, for example, we just took a major stake in—well, lots of themes. There's no one that I think comes to mind there. So, that's kind of how we see the landscape.

D. Fannon  
Great. Thank you.
Coordinator: Our next question is Bill Katz, Citigroup.

B. Katz: You've talked in the past about the ability to leverage up into the retail channel. You've had some good success early on. One of the themes that seems to be building across the asset management reporting fourth quarter results to date is a great interest by a number of traditional managers into the alternative space as well. So, I wondered if you could comment a little bit about how you see the evolution of the retail business. Is this a market share opportunity relative to mutual funds or is it a market share opportunity for Blackstone within that?

T. James: We don't see getting into mutual funds, not traditional mutual funds. Now, our hedge fund solutions guys have been very creative about creating a daily liquidity hedge fund product, which is appropriate for 401(k) plans and other retail kinds of products. So, to the extent—you'll see some of our products embedded in products like that. Our GSO guys have created an ETF for example, so there's some stuff that we're creating...
where you're embedding our traditional alternative product into more long-only formats, I suppose, but basically, that’s small potatoes.

What we’re really focused on is bringing alternatives to retail investors and let me just give you some statistics. The average pension fund has about 25% of their assets in alternatives. The average endowment and foundation is up close to 50% and the average retail investor is at 2%. And I’m talking about high net worth retail, I’m not talking about all retail.

Well, guess what happens? A funny thing happened. The best investors with the best long-term investment returns are the endowments and the foundations, with 50% in alternatives. The next best is pension funds at 25%, and the worst is retail with 2%. It’s not surprising. What we bring are consistently higher return in products than any other traditional long-only asset class that are not totally correlated with the market. So you also get some risk mitigation and some volatility dampening.
We think retail investors are owed the opportunity to invest in our products and that we will benefit from that, yes, by diversifying our source of funding, but they will benefit from that most particularly. So, we’ve invested; we’re now into our fourth year of building our retail distribution capabilities, and it’s not simply just lobbing a product out there into a retail system or a private bank and saying I hope you can sell it, it’s really creating products for it, it’s building up a service network to service their clients, it’s building distribution to distribute to them, and it’s an educational system to educate them, and so on and so forth.

So, it’s a major effort, and the proof is in the pudding. Five years ago we sold about $0.5 billion a year of our products through retail channels. It’s up over $7.5 billion today.

Coordinator

Our next question comes from Christian Bolu, Credit Suisse.

D. Shin

Hi, this is Dina Shin filling in for Christian. Congratulations on the very strong quarter.

Over the last few months, we’ve seen a raft of regulatory noise impacting global banks, including the finalization of Volcker, the
Fed’s white paper on physical commodities, and concerns on bank’s involvement in highly leveraged deals. How do you think about pros and cons for Blackstone with all these changes? Also, do you think the increased opportunities far outweigh the continued pressures on banks who are important clients and financiers of your business?

S. Schwarzman

The banking system has undergone a very wrenching series of regulatory changes, which have not been fully implemented yet. I think what that does is it slows down their opportunity for extending credit and will also result in lower returns on equity for the banking system.

They also have increasing limitations in terms of how they look at compensation and issues of that type. We’re relatively unaffected by that in an alternative investment area, which, frankly, has done extremely well in terms of protecting capital and going through the financial crisis with very little impact and virtually no demands on the public sector for support.

We see this trend as basically good for an alternative asset industry and good for Blackstone for sure. We were doing fine
before these types of regulatory restrictions were unleashed on the banking system, and we’ll do fine afterwards. I’m frankly most concerned that the country keeps growing. I want a stable and sound system so we don’t have to live through what we all did globally with the financial collapse. On the other hand, there’s a certain balance one needs to keep countries growing at a rate that satisfies the needs of their populations, along with safety and soundness.

Overall, on balance, this is a positive thing for our industry, on the limited basis. Although getting the country to grow as fast as it can, prudently, is in our best interests.

T. James Also, when the banking system pulls back, the companies that take it on the chin are the smaller and medium-sized companies that aren’t the household names. They’re not the Fortune 500 and they’re not public companies, and those are the companies that are the engines for U.S. job growth and U.S. economic growth.

That’s what we focus on. It’s the long-only funds that can buy bonds and public equities, the Fidelities of the world, the mutual
funds of the world. Those are great. But we provide capital to the smaller and medium-sized companies that aren’t public that they need to grow. So, in a sense, the changes to the banking regulations have increased the country’s need for our kinds of services.

Coordinator Our next question is Michael Kim, Sandler O’Neill.

M. Kim Assuming more LPs increasingly gravitate toward more flexible, multi-strategy solutions, how much of a competitive advantage do you think the bigger, more diversified franchises maintain? Do you feel like firms need fund-of-funds capabilities to provide more comprehensive and liquid solutions across asset classes?

S. Schwarzman Well, we can see a real migration from a limited partner perspective to firms that can provide pretty unique solutions across asset classes. And we’re by far the largest, and we’ve been doing it the longest, and each of our individual business areas is about as large as any business area in the alternatives space from any competitor, and no one has all of these businesses under one roof.
What it allows us to do is to talk with the largest pools of capital in the world and solve a variety of problems. We have some limited partners who just give us very large amounts of money and ask us to allocate among our different asset classes, simply because they know there’s excellence in each of them and sometimes we do it with two areas.

When you have excellence across all the major areas, what happens is that the board of trustees of these large capital pools and the senior management of them know that they can migrate from asset class to asset class within our firm, with a real sense of safety, and reliability, and excellence of performance. So it becomes easier for these limited partners to allocate capital, and as a result of that, as well as the fact that almost all of them have articulated the desire to have fewer managers that puts our firm in a very unique position.

Consequently, as both I’ve reported and Tony has earlier, our asset raising capability has really dramatically increased, but also quite fascinating, our performance has not degraded at all, which is what most people would think would happen. But it simply hasn’t.
T. James You asked about fund-of-funds. I think in general fund-of-funds are losing share. I think they tend to get a lot of names, there’s kind of a regression to the mean in terms of returns, and there’s an added level of fees, and increasingly LPs are feeling like they can pick the best managers themselves. So, in general, it’s losing share.

Now, our guys in our hedge fund solutions, if they were just pure fund-of-funds, they’d probably be losing share to. But as I mentioned before, they’re manufacturing their own returns. They’re no longer a fund-of-funds, in reality.

Coordinator Next question is Patrick Davitt, Autonomous.

P. Davitt The balance sheet investment in your funds is now up 23%, I think, year-over-year, and clearly looks poised to really start generating more cash flow. I think you said in the past that you would expect to be in a place where you have too much capital. Do you think, with that balance up so much, we’re getting close to that point and can start to expect gains on that balance to flow more to shareholders through distribution?
L. Tosi

First of all, the 23% I gave you was the total growth in the assets on the balance sheet, so included in that are net performance fees, as well. The illiquid investments are now at about $2.41 per unit, which is about $2.7 billion. Right now, if you look at the cash and liquid investments we have on the balance sheet, it’s about $2 billion, and we continue to retain, when we have realizations, the gains on those investments. And we believe that’s a prudent strategy, because we continue to find places as the firm grows to put that capital to seed more strategies.

So, we don’t see a change in distribution policy with respect to the gains on our own investment income imminently. By the way, this year we will have paid out about 85% of the realized earnings, so about 15% relates to those gains in our investments, and then some holdbacks related to returning capital and recovering capital on acquisitions.

Coordinator

Our next question is from Brian Bedell, Deutsche Bank.
B. Bedell  A question on fundraising. Obviously you’re in a very good position right now where, as you talked about, Steve, and being in a position where the LPs are concentrating more assets to you. If you can just talk about the balance of that pace of fundraising versus the capital deployment opportunities. You also alluded to that being pretty strong as well, but as you go forward do you see the balance of those two areas changing to the point where you would prefer to raise less capital? Or, as you talked about before, the perpetual capital that you’re raising, and those types of products, do you see trying to orient the mix towards more of those open-ended products that are continuously raising capital?

S. Schwarzman  It’s interesting that, basically, I guess LT called them episodic funds, which is sort a funny name—

L. Tosi  I couldn’t think of anything else.

S. Schwarzman  —for our draw-down funds, that basically almost all of them have been capped where we could have sold much, much more than we did. Either we capped these funds because we think it’s an appropriate amount of money for us to invest and still
keep really terrific performance for our LPs, or sometimes our LPs tell us that they’re more comfortable at a certain level because that’s how they think the supply and demand for those funds is working.

Tony mentioned this on the earlier call, that we really—I guess I can't say anything, my General Counsel is here, on how much we could sell some of these funds. Sometimes it’s double. People want to give us the money, we just don't take it. So, we’re in this business for the long term, and the way you become long-term successful, is you produce great investment returns for your investors, and you can almost always raise money in large amounts when you think the opportunity is there. So, we’ve sort of right-sized that, and I don’t think any of us here are concerned that we’ve got a misalignment there.

In terms of the products that sort of get sold on a regular basis, some of those go into liquid securities where the markets can take that, and so we’re always sort of sensitive to never do anything that does not generate great performance. In fact, in our mezzanine business and real estate, we just really self-limited that, probably incorrectly given what the demand is. But
on the margins, we never want to get ourselves in a position where we’ve got too much money and feel under any pressure to do things that don’t generate really good returns.

T. James As Steve and LT mentioned, these are episodic fundraisers, so it’s a bit like a see-saw. Particularly if you want to raise a lot of money in one year, and then deploy it over time and not raise any more for three or four years. So, when you aggregate that, you get some lumpiness. So we might have a very big year this year, it might not be as big next year, just because real estate won’t be coming back—for many of the funds it’s come back within, so on and so forth.

So, you expect some lumpiness there driven by the fundraising cycle, and the investment cycle is really driven by market, which goes up and down, but on a different cycle. So those things, you can’t look at one year and say is it in balance or out of balance. You’ve got to look at it over three to five years to find the balance.

B. Bedell Right. And you feel you have a good balance going forward for that three- to five-year timespan, so that when realizations
eventually begin to crest, you’ll have enough money in the
ground to re-harvest after that cycle?

S. Schwarzman     Yes, we do.

Coordinator     Our next question is from Roger Freeman, Barclays.

R. Freeman     Just back on sort of the retail discussion, just wanted to get an
update on how the products are selling through Fidelity, and
what you’ve learned from that so far, and how you’re thinking
about additional product roll out maybe this year?

S. Schwarzman     Well, the investment performance of the product is excellent.
Fidelity actually did a similar product with another manager that
is not performing near as well as ours; no surprise there, we
find that to be a common occurrence. But the money came
directly from Fidelity, so it’s not like something they’re out trying
to market, and they allocated a certain amount of capital to us
which goes into some of their portfolios. So, we think they’re
very happy and we’re hopeful that we’ll get more in the future,
but we will see.
R. Freeman: Are there opportunities to expand relationships like these?

S. Schwarzman: Big time. But, we gave Fidelity an exclusive for a period of time. We invested together with them three years to get this product structured, and up and running, and working. So, they—in my view—perfectly legitimately wanted a period of exclusivity, and once that’s over we’ll be able to have discussions with other systems.

R. Freeman: Okay, that’s helpful, thanks. In terms of your proprietary indicators, I don’t know if I missed any comments on that, but what are they saying out of the portfolio companies about the U.S., European economic outlook and confidence levels, etc.?

S. Schwarzman: They’re saying that the U.S. is gaining momentum, so each quarter-by-quarter it’s gotten better and better. The expectations of our CEOs, based on early indicators they look at—incoming orders and stuff like that—is for further gains. And then Europe’s bottomed out and is improving a little bit, and China’s slowing.

Coordinator: Our next question is from Chris Kotowski, Oppenheimer.
C. Kotowski  I was wondering if you could expand a little bit on what Steve was saying about the investments in core real estate, because that seems like it’s a bit of a departure for you, and just which funds is it being done out of? Are these carry funds, and how scalable is it, and what should we be expecting in the coming quarters and years, and where would we see it in your financials?

S. Schwarzman  We have the largest opportunity real estate business in the world; many, many times bigger than anyone else, and as part of that business, we believe we’re also the largest owner of real estate in the world. And what happens when you’re in that pretty unique position, you get to see a huge amount of deal flow and you have enormous amounts of knowledge in terms of what’s going on virtually everywhere in the world because we operate globally.

What happens from time to time is we have limited partners who ask us to evaluate potential purchases, and from time to time ask us to help them manage those types of situations. I think we said today in our remarks that we had two of these
situations which were of a significant size, and we’re evaluating what to do in terms of further expansion in that area, and that’s where we are at the moment.

T. James And just to flesh that out a little, it wouldn’t be in any of our existing funds, so it would be new capital, from new investors often. They would be additions to AUM, and they typically have a management and a carry associated with it, so technically it would be a carry fund, although the holding periods are longer, the returns are lower, so it doesn’t have quite the same octane. And if you look at what some other guys have done, it could be a real scale business. It’s huge, potentially.

S. Schwarzman Just to give you an idea, what we do typically in the opportunity area is maybe 10% of the money that institutions allocate to be professionally managed in real estate. So our basic business, which is high return with surprisingly, historically, almost no risk of loss of capital. I don’t understand why people don’t allocate way more money to that strategy, because it’s worked out over 20 years to be terrific.
But, on the other hand, they don’t. They have limits, and diversification requirements, and the core area is massively larger than the monies that we have access to. The firm itself has a unique and positive reputation in the real estate area, and it’s something logical for us to think about in a little more depth. So you’ll probably hear more from us over time, but we’re looking at that area.

C. Kotowski  Okay, that sounds like a great opportunity, thank you.

Coordinator  Our next question is from Robert Lee, KBW.

R. Lee  Thanks, good morning, everyone. I’m just curious—you know, Steve made a pretty impassioned case about how inexpensive you think the units are, and the growth profile of the firm—so, from a capital management perspective, given your long-term view, why not use some of the growing cash flow to buy back units in the open market?

T. James  Well, we could have taken the company private at $5 a share at one point, and we didn’t do that because I really felt that we’re going to need our capital to grow our business. When we raise
new funds and expand the business, we have to put money into those businesses to show our good faith to our investors. So we have needs for capital.

In addition, we get presented with opportunities all the time to buy businesses. Most of those ideas are pretty bad, actually, but from time to time there’s a really good one. Like when we went forward with a combination with GSO, which was over $1 billion. So, basically, using our capital to just shrink our equity base, which we could do, stops us potentially from taking advantage of some pretty unique opportunities, and what we don’t want to do is be capital constrained.

We have a quite high payout for a normal company. We pay out somewhere around 85%, and that’s way higher than a normal company. So, we like to give people cash, I’ve always felt that I like cash, and I’ve always felt that that’s a good thing. One reason I like cash is I get paid $350,000 a year to work at Blackstone, so I’m a relatively low-paid employee here.

If you’re going to pay out a lot of cash, and you have a high dividend payout, shrinking your stock at that same time that
you’re rapidly growing, you have to put money in funds and you want the ability in all market environments to be able to buy things when they’re available that are perfect fits, then using your money to buy stock and shrink your equity base thus far has seemed to us not as good as an investment alternative as growing the business.

When we think that changes, we’ll change our policy. But at the moment, the growth in the business is so substantial that we want to use our money for that purpose, rather than buying in stock.

Coordinator

Our next question is from Marc Irizarry, Goldman Sachs.

M. Irizarry

Steve, when we think about the $265 billion in alternative assets, and how can you grow the business off of such a big base, and you look at the private equity segment, and it looks like you are moving beyond sort of just the big global funds into other verticals, if you will. I’m curious, when you think about areas like EM, or distressed EM private equity, or maybe distressed investing, how should we think about how, over time,
you’ve continued to build out the private equity verticals as you try and grow off this big base?

S. Schwarzman

I think that’s a great question, and we think about that all the time. There are a variety of verticals that we can grow, and how one attacks the emerging markets is sort of a logical question, in large part because emerging markets, depending upon how you measure, it’s 35% to 40% of the global economy.

So, we have a variety of ideas that we constantly debate internally as to how to add different areas. We broke out energy, for example, where, as Tony reported, our rates of return on our energy fund are somewhere in the 50s, which is pretty stunning. We could raise as much money as we wanted to, I think, in that type of sector. And there are other sectors and other strategies we can do.

The reason why I’m being slightly evasive is that I’m trying to be evasive, because if I lay out some things we’re thinking about, then our competitors get to think about them too, and we’d rather just sort of pop things out and do them, rather than talk about them. So, I’m not being completely cooperative with you,
but it’s not because there aren’t interesting things that we can do.

Coordinator Our next question is from Bulent Ozcan, Royal Bank of Canada.

B. Ozcan I just want to go back to the topic of valuation. Obviously, performance is not an issue at Blackstone. Innovation is not an issue either. So, just given where the stocks are trading right now and where you think fair value should be, what is the strategy to unlock value, from your perspective? Is it just sit and wait, and see if basic distributions take care of valuations? What are you planning on doing, going forward?

S. Schwarzman I think this is apparently a life’s work, to put people in touch with what I think is appropriate valuation. You can’t keep growing much faster than other money managers, and keep taking share and producing terrific results without getting recognized. And, in a way, our job is to point out what’s going on, and if people want to keep us at a ten multiple, I simply—I’ve been doing this for over 40 years, and that stuff doesn’t last. It just doesn’t last. And if we point out what we’re doing, over time
with frequency, then people will say, “Geez, that’s pretty amazing,” and we’ll be appropriately valued.

We can’t make anybody do that, and in terms of unlocking value, other than doing what we do, which is growing our business overtime and doing a great job and having more and more investors on the fund side, whether those are retail investors or institutional investors, you know, continue to give us money and us do a good job, I think, overtime, that’s the best way to do it.

Also, just because we’ve lived through many cycles, in terms of investment and realizations and so forth, for public investors, this is a relatively new asset class, so I think there’s some type of embedded skepticism or uncertainty as to how this works. We’re not uncertain because we’ve lived this, you know, numerous times and once the public gets to see the magnitude and the earning power and the distributions that come from a rapidly-growing manager of our type in this asset class, I think they’ll become believers too.
Those who figure that out late will make less. Those who figure it out earlier will make more. That’s sort of the yin and yang of life. We’re here to be open and transparent, and it’s up to others to figure out, in their view, what’s that worth. I have my own views and I don’t think they’ll turn out to be wrong, but you know I’m living this thing. Everybody else just sort of checks in periodically, so it may be a different level of passion or belief or whatever.

This is based on living through many cycles in this area and seeing how it works out and knowing that we’re now in a situation that’s a real breakout for the firm and has been the last several years. You’re seeing it reflected in stock prices. I believe that on the operational level, we’ll continue to be in a pretty unusual position compared to almost anyone in the world. If that’s worth ten times earnings, so be it; I don’t believe it is.

Coordinator

Our next question is from Mike Carrier, Bank of America/Merrill Lynch.

M. Carrier

Just a question on exit of realization activities; so fourth quarter, you guys were pretty active on both the IPO and the secondary
side. You also mentioned that you have three portfolio companies in the process of being sold; just in terms of the outlook, do you see the backdrop for M&A picking up? Then, when you look across cycles, typically what is the split when you think about activity between whether it’s IPO’s or secondaries versus M&A? And do IPO’s typically precede a pickup in M&A activity? So meaning is this fairly normal?

S. Schwarzman  This has been a pretty—Tony could answer this probably better than I could, but I just happened to talk first. This M&A cycle is pretty unusual. You have huge levels of corporate liquidity, low levels of debt, high levels of stock price, and what should be happening is that there should be a real dramatic increase in M&A activity. What’s held that back is basically political uncertainty, regulatory uncertainty, and a whole variety of issues of that type that have really gotten in the way of a normal cycle.

I think Tony mentioned earlier, and I agree with him, that this is going to be a calmer U.S. political environment this year. Last year, everybody lost, whether it’s one side politically or another side, by taking each other on and it’s turned out to be
unsuccessful for both parties. It turned out to be unsuccessful for the United States. I think as some of those conflicts recede then there will be more confidence in the business community and that typically leads to M&A activity.

What you saw is markets getting ahead of economic prospects. In other words, you know, GDP growth in the two’s doesn’t normally get you a 32% increase in the stock market. I mean why would it? And so the reason why a lot of these realizations have gone in the public market rather than strategically is they’re sort of—not quite a buyer’s strike but buyer caution and that will diminish in my view, and we’ll be seeing more strategic exits.

Although as Tony mentioned, when we often put companies up for sale, it’s called the dual track, and if the stock market looks better and the strategic buyers don’t show up, that’s fine. You know, we can make plenty of money. If you’re asking us to predict what’s going to happen; one, it’s a little bit hard to do. On the margin, I think we both bet that there’ll be more of a pickup in M&A activity and it’ll provide us with options to sell businesses. But we’re happy either way in that sense, because
if we take it public, and we own the company, and the companies do really well, and they continue to grow, we ultimately make a bunch of money for our investors that way too. It's not that we have to go one way or another.

T. James  
Mike, let me just add a couple of things; in the M&A cycle, there are some interesting things that have happened lately. If you look at the companies that have announced big acquisitions, the stocks have traded way up and historically that's not what's happened, and that's really causing boards to be very interested in—management to be much more interested in being adventuresome and going out and doing things.

Similarly, you've got kind of—as stock prices run, you've got two things happen; first of all, targets start to look a little bit more expensive particularly in relation to cash that's earning nothing and those companies that want to use their stock as currency have currency that they're more willing to issue, if you will. All those factor in together, in addition to what Steve talked about in terms of the calmer scene in Washington D.C. and some economic strength I think are adding up to provide fuel for the M&A cycle.
Then, you asked kind of like long-term what’s kind of most of our exits and so on; ebbs and flows, I’d say probably IPO’s or equity offerings are a little bit more than half. In addition to M&A, you’ve got dividend recapitalizations, which can sometimes be a very attractive way to lower a company’s cost of capital, take some money off the table, and you’ve also got sales to other financial buyers. I suspect actually you’re going to see a lot of sales to other financial buyers because there’s a lot of money out there, and some investors are being very aggressive in terms of prices that they’ll pay. Anyway, just to round out Steve’s answer a little bit.

Coordinator

Thank you. Our next question comes from Patrick Davitt, Autonomous.

P. Davitt

I know it’s really early days, but I’m curious to get your thoughts on any opportunities from an investment standpoint that are emerging from the emerging market’s blowup over the last week, and conversely, if any investments have been significantly pressured by the volatility?
S. Schwarzman: That's a good question. I think the emerging markets go through a variety of cycles, and clearly, there's sort of a concern about currency, which tends to destabilize these types of economies if that currency problem develops. What do they say? One person's tragedy is another one's comedy.

If there are difficulties in some of these countries, in our real estate business, for example, what normally happens in those situations is that credit dries up and then the normal sequence of real estate development that there are always a number of real estate owners or real estate developers who find themselves unexpectedly under enormous pressure. When capital dries up, it's hard for them to find solutions to their problems and that provides an enormous opportunity, for example, conceptually, for us. That works in our private equity business, as well, a little less in the credit business because we tend to stay away more from the emerging markets because the rule of law is often not as equivalent as it would be in the states. It provides opportunity in our hedge fund solutions business of various types, and so illiquidity and crises provide potential opportunity for us.
You know we don’t wish anyone ill in that sense. You know, it’s better if the world sort of moves along in a good and healthy way, but that’s not the way the world is constructed. There are always periodic dislocations and you know we can do quite well in those situations.

T. James

Patrick, let me just add a couple things. Obviously, we carry a bunch of our investments in other currencies, so when the currencies drop, those investments are often marked down. I would say, we looked at this earlier, but so far, it has not been a material impact.

Secondly, a lot of the entities that we invest in, whether they be malls or companies or whatever, cost denominated in local currency and revenues denominated in dollars, so ironically in that kind of scenario, they do very well earnings wise when the currency weakens. Then you’ve got to offset that against the fact that their companies might be carried in the local currency, but it mitigates—softens any impact a lot.

Then in terms of the opportunities that have jumped out of that, I think as Steve touched on, so far the early ones that look
attractive are real estate because that tends to move the quickest because it's kind of credit bubble driven, so to speak, market driven, and because it's hard assets, it's a little bit easier for someone like us to jump into that when times are sort of in turmoil than a company where you're trying to make projections on the business conditions and that's a little more uncertain.

The first opportunity—you asked what the early opportunities to emerge are and I would say those are primarily real estate related, which could be real estate equity or real estate debt.

Coordinator

Ladies and gentlemen, that's all the time we have now for questions. Therefore, I should like to turn the call back to Joan Solotar for closing remarks.

J. Solotar

Great. Thanks, everyone, for joining us and we look forward to speaking with you after the call if you have any follow-ups. Have a good day.

Coordinator

Thank you. Ladies and gentlemen, that concludes your conference call for today. You may now disconnect. Thank you very much for joining.