BLACKSTONE Third Quarter 2015 Earnings Call
October 15, 2015 9:30 a.m. ET

Operator: Ladies and gentlemen, thank you for your patience in standing by, and welcome to the Blackstone Third Quarter, 2015 Media Call. At this time, all participant lines are in a listen only mode and later there will be an opportunity for questions. If you should require assistance during the presentation, you may press star, followed by zero, to receive offline assistance. And as a reminder, today's conference is being recorded and I'd now like to turn the conference over to our host, Senior Managing Director, Peter Rose.

Peter Rose: Good morning everyone and welcome to our 2015 third quarter earnings call for the media. With me is Tony James, Blackstone's President, Joan Solotar, Senior Managing Director for Multi-Asset Investing and External Relations, and we welcome to this call for the first time, Blackstone's new Chief Financial Officer, Michael Chae. As always, Tony will give a quick summary of the quarter, and then he would be delighted to take your questions. Before handing over to Tony, let me remind you of the call for investors at 11:00 am today, Eastern Standard Time. We encourage you all to listen to that. The dial in numbers for that call can be found in the press release on our website. And with that, I will hand it over to Tony.

Tony James: Thanks Pete, good morning everyone, and we do appreciate your attention today. I know there's a lot of financial institutions announcing in this few days. And so thanks you for joining us. This quarter for us shows similar pattern to the last one. While our business continues to perform exceptionally well overall, this long term strength was massed in our reported financials by stock market volatility at the end of the quarter. Interestingly, that stock market volatility has largely reversed already, in October. Underneath the noise, investment returns delivered to LPs continue to be terrific.

AUM is growing nicely, and the earnings of our portfolio companies and real estate assets continue to grow. For the September quarter, however, the movement of stock prices of publicly traded portfolio companies caused a 639 million reversal of accrued performance fees, accounting for this sizeable drop in revenues and ENI. The total for the quarter ENI was a negative 416 million or 35 cents a unit. Distributable Earnings were excellent, however, at 692 million. We are on track for another terrific year of distributable earnings. Year to date, DE is already up to $2.51 per unit, an increase of 58% over last year.

Despite massive distributions to LPs of 45 million dollars in the last 12 months, AUM ended the quarter up 17% over a year ago, to a record 334 billion dollars. During the quarter we continued at a strong pace of fundraising and raised 16 billion of new growth commitments. Over the last 12 months, gross new inflows were 97 billion dollars – another new record. That leaves us with about 85 billion of dry powder, capitalized in opportunities that will hopefully fall out of this market turmoil.

Our first priority is always the delivery of high returns to our LPs. And our investment results continue to be strong. Private Equity's portfolio is up 9.5% over last 12 months, despite a 2.3% decline this quarter. While public stocks dropped, our non-public portfolio of private equity appreciated 2.3% in the quarter. In real estate, overall values held flat in the quarter, and were up 14% over the last 12 months. Again, public value softened while private values grew.

BAAMS defensive characteristics proved their metal this quarter, declining only .9% while the MSCI All Country Index was down 10%. Great example of protecting value, which is BAAMS positioning. And at GSO debt funds were down somewhat on the quarter, due to tremendous market turmoil in the below investment grade credit markets, where single Bs were down 6.2% and triple C index has plunged 8.5%. On a year to date basis, GSO's funds are generally flat or up – well out-performing their benchmarks.

One of the key features of our business is that our drawdown funds are locked up and are all equity funded. As a result, these funds are never under pressure to sell to meet redemption, or liquidity requirements. This means we can time our exits and call down capital, make new investments, when other investors are in retreat. Market corrections may delay exits temporarily, but if our companies perform well operationally, we'll continue to build greater value that will simply mean larger gains later. In other words, we can ignore public stock prices and focus on investing when markets are down, and take advantage of them to exit when markets are up.

The fundamental operating results of our portfolio remain strong. In Private Equity, our companies grew EBITDA by 9% in the quarter, compared to a decline for the S&P, though we do see a slowing in the rate of growth across more of the companies. In Real Estate, we are seeing higher rents, higher occupancies, and surging operating incomes across the board. Even in markets like China, that many people are worried about. On balance, we see the real economy in the US still grinding steadily, and slowly forward. However, for global industrial and goods manufacturers, contenting with a combination of weakness in emerging markets, export headwinds from a strong dollars, currency translation losses, and anemic domestic capital expenditures, one could argue that a recession has already begin in that sector.

In Europe, Germany is decelerating, but Southern Europe seems to have bottomed out and is improving. And in China, though the industrial sector has slowed, middle class consumers seem to be doing fine and we do not anticipate big problems there. Despite the drop in public markets, realizations remain strong at 9 billion for the quarter, bringing the total over the last 12 months to 45 billion, a huge amount of distributions to our LPs. That's pretty stunning, considering the environment. These results emphasize the point that we are not dependent on public markets for realizations. Notwithstanding, the pull back in public markets, this quarter we closed three strategic sales with portfolio companies, and have signed merger agreements for five more sales of portfolio companies which should be closing in the next quarter or two.

On the new investments side, we may be finally getting some relief from inflated asset values around the world, especially in commodities, energy and emerging markets. New project activity has jumped in several of our business. And for the quarter, we deployed over 6.5 billion in new transactions from our drawdown funds, an increase of nearly 30% from the second quarter. Year-to-date, deployments are up to 16.6 billion, a huge number, and it's sustaining the recent high levels activity. And particularly noteworthy, we have a tremendous, 11 billion dollars, committed to new investments that haven't been drawn yet, pending the closing of the deals.

It's in times like this that we sow the seeds that will bear the most fruit in future years, in terms of returns and gains. Last quarter I talked about the new initiatives we have undertaken and how they have successfully driven our growth. This month is our 30th anniversary and I am minded today to look backward instead. Since Steve and Pete founded this business in 1985 with $400,000, we've come a long way. We have built a unique global financial institution, distinguished by 30 years of superior investment performance. The Blackstone brand is very powerful, not just among asset managers, but in comparison to any financial institution in the world. Amongst alternative firms, Blackstone is unique in having leading, in many cases, dominant positions in not just one or two businesses, like other firms, but in many. It covers the full spectrum of alternative asset management classes.

Meanwhile, our organic growth continues to supersede that of both the overall alternative industry and the broader asset management sector. To make clear the scope of the difference between us and other firms, I'd like to highlight the sheer breadth of our business. They include private equity, opportunistic real estate, core plus real estate, tactical opportunities, secondaries, CLOs, stress debt, mezzanine debt, South American alternatives, real estate debt, credit hedge funds, energy investing, hedge fund investing, hedge fund seeding and ownership of GP minority stakes. And in every one of these, we are a leader. I'm hopeful that our new multi-strategy hedge fund platform will shortly take its place as a leader in that industry segment as well. We started this business last year and it already has 1.4 billion of AUM and an amazing investment record.

From the time I started in Private Equity in 1985, people have been talking about imitating Blackstone's diversified model. Well, guess what? No one has succeeded yet. These may not seem like hard businesses to enter at a low level, but incumbent players are generally strong, which means these are very hard businesses for a new entrant to be good enough to build a world-leading market position and to sustain it. So how are we positioned for the future? Well, we are the ultimate talent driven business, rated once again as a top place to work in financial services. We are blessed with an incredible reservoir of talent.

Leading our businesses is a dynamic, passionate management team that combines youth with deep and winning experience. There is nothing this team, working together, cannot do in the future. With that, I will take your questions.

Peter Rose: Operator, can you prompt the questions please?

Operator: Absolutely. Ladies and Gentlemen, if you wish to ask a question, you can go ahead and please press star, followed by one now. You'll hear a tone indicating you've been placed in queue and if you are using a speaker phone today, we do ask that you please pick up that handset before pressing those numbers. Once again, if you have a question, go ahead and press star, followed by one at this time. It looks as if our first question comes from the line of Devin Banerjee of Bloomberg.

Devin Banerjee: Hi Tony. Happy anniversary, and thanks for your time. You mentioned you can sort of time the public markets in terms of using them as an exit channel for IPOs. It has been a difficult time for IPOs, especially sponsor backed IPOs. This week, some of them getting delayed, some of them pricing not as well as I think the sponsors would hope. So this all sort of does beg the question, how temporary or permanent you see this market volatility being? Do you sort of subscribe to the view that uncertainty and volatility will continue until the Fed makes its move and gives more certainty to the market or until we see China settle more and commodities settle more? And how long do you think this all will take?

Tony James: Oh, that's a hard question to answer, Devin. I think that – my own personal view is the market was overdue for a correction.

And a lot of the normal value metrics we look at were pretty high. So I think we'll have a correction and then I'm of the view that it will settle in here and will be okay. And I think IPOs are still gonna be attractive for our companies. But I think it's important to remember that when a sponsor does an IPO, they don't actually get much liquidity for their position. Many times, most times, we sell no shares. And so really it's the start of a sort of several year effort to harvest the investments and so we're not looking at today's market, or next month's market, or this quarter's market or six months market. We have to look at – we have to have a several year view on the market, and I feel like you know, we've been through a bumpy patch with emerging markets. That will settle out. I think people will get more copasetic to where China is. I think commodities will bottom out in here. And I think the US economy, generally, is moving forward. And I don't think what the Fed does is gonna be that momentous, frankly, I think if they do rate raise, it'll be small. So I think what'll happen is the market will find its footing, so to speak, at a somewhat lower level and we'll be fine.

Michael Chae: And Devin, it's Michael Chae. I might just chime in as well, that in terms of the IPO market, as you may know, in the last three weeks we've actually successfully executed three IPOs. So yesterday in Europe a company called InterTrust, and two weeks ago, in a tough week, both Performance Food Group and Scout24. And Performance Food Group has traded extremely well since the IPO.

Devin Banerjee:: Michael, welcome to the calls. Can you give us a sense of how much has changed so far in the portfolio or portfolios, I guess, of private equity and real estate so far in the fourth quarter and how that translates, maybe, to overall ENI? How much it's rebounded?

Michael Chae: Yep, I think without getting too specific, Tony eluded to the fact that in October there's been an obvious recovery in the public markets overall and for our publics and that has largely reversed the ENI decline from the third quarter. But Devin, I don't want us to be getting into, like, giving a daily update of how the portfolio is doing, for obvious reasons. We'll never get out of that.

Devin Banerjee:: Tony, just to clarify – were you saying that before things settle in the US, you do think there will be like an entire 10% correction?

Tony James: No, I can't predict what percentage of the correction to the public market. I think we're overdo for a correction in general. Asset values are very high. We're having one. I don't think it'll be fatal, I don't think it'll be permanent.

Devin Banerjee:: Got it, all right. Thanks for taking my questions.

Operator: Our next question comes from the line of Ryan Dezember, Wall Street Journal.

Ryan Dezember: Hello, good morning, and I was curious, if you could kind of give a little more color on what you see in China and what your portfolio companies are kind of relaying back to you about the economy there and you know, and how it relates to sort of the pull it's had on commodity prices? And also if you have a moment, you know, you've got this big energy fund – I was curious, you know, what you see there in terms of the outlook for putting some of that money to work?

Tony James: Sure. Okay, China first. Clearly China has slowed, and slowed considerably from the 8 to 10% growth, 7 to 8% growth, even. And you know, what exactly it's drawing, I don't know, but it feels like around 5 to us in general. But it's not even. The industrial companies in China, and steel producers, coal producers, things like that, they're much slower. But the consumer segment is doing okay, in general. But even there, consumer products and things that appeal to mid-market consumers are doing better than those appeal – than the luxury area, which is softer again. Some of that's economic, some of that's political. There's obviously the Chinese government is obviously tamping down on corruption, discouraging conspicuous consumption, some things like that. To some degree those might go hand in hand. I'm not going to comment on that. But in addition to that, the economy needs to pivot from industrial to consumer. And actually, they've been talking about that for 10 years and in the prior 10 years, despite the talk about the importance of making that transition, they actually went backwards on that.

And so it's something they need to do. And it's something that they can afford to do now because in a demographic sense, because instead of the population continuing to grow, it's kind of reaching the apogee of population and the population in China will start to decline next year. So I think they can – they don't need to fuel the same kind of infrastructure building and do need to pivot towards taking care of an aging population and so on. So I think China's going through a transition. They've lots of resources, they have lots of control over their economy and institutions that we can only dream about, and I think they'll be fine and they'll be growing more slowly. And that's what we see in our portfolio companies and real estate assets there.

And then in terms of the energy fund, we have a huge amount of energy dry powder to invest in both private equity and credit. For the most part, it's – I don't think we've made a new investment yet in our new energy fund and private equity and we've got a lot of new energy sleeves in credit that are untouched also. They're looking at a huge number of things, all of a sudden, as you might expect. I think there's gonna be a raft of energy companies running out of liquidity in the fall, due to the combination of expiring bank lines, expiring hedges, regulatory, new regulatory standards being applied to energy credits by banking regulators, running out of liquidity just because of the lower prices and all hitting them at once. And the trick will be to pick the winners that'll survive, because there'll be lots and lots of opportunity. And so our guys are really swamped with new leads. But they have a virgin capital pool and I think this is gonna be ideal timing for those funds.

Ryan Dezember: Great, thank you.

Operator: Our next question comes from the line of Robin Wigglesworth, of Financial Times.

Robin Wigglesworth: Hi guys, thanks for your time. I just wanted to have a few questions about the 85 billion dollars worth of dry powder that you say you have now. I was looking, thinking about where you best ought to deploy that. I mean, you talked about energy now, I was wondering if you were looking at, you know, emerging markets, whether you think that would be a big interest play at some point over the coming years, or any other sectors that might be coming up on the horizon?

Tony James: Yeah, we're definitely spending a lot – suddenly we've gotten a lot more active in emerging markets, most particularly Asia. So the ones that – emerging market that we think would be fine long-term and doesn't have too many short term challenges. We think there's some great values in Brazil, but there's some daunting short term challenges, so we're not so active there yet, but we're starting to look hard there. But the level of activity in Asia is way up. So that's one area. Energy is certainly another area, but more broadly than just energy, anything commodity related is much more active now. Some of our funds have done some interesting things with streaming payments, and we're starting to look at some asset buys from commodity companies that are looking for liquidity and we'd rather sell assets in common to sort of deal with, manage their debt structures. And then in credit, obviously, I mean some of the, a bunch of that 85 is credit related. Geez, I think, I mean, the yields on triple C's now is – energy triple C's is 33% on average and it's ridiculous now. Some of those won't make it, so you won't get your yield, obviously, but others will. So there's just a ton of things to sift through there.

So, and in general, I think that yield related securities have been oversold, partly because that's where liquidity is. And so some good companies have been taken down too far with some not good companies. So you know, we've ended up, we went into the market with a company we have, Cheniere, for example, and bought back a bunch of stock there, because you know, it's an energy company, but they've got – their revenues are contracted for 25 years, so there's no real risk there, but it came down with the sector. So I think we're looking for that kind of opportunity where the markets paint everyone with the same brush and miss where there's real value.

Robin Wigglesworth:: This sort of specifically on emerging markets, I think the IMFs said that, you know, the corporate debt levels there have gone from 4 trillion in 2004, to 18 trillion now. Lots of it's dollar denominated. Do you see scope to raise EM dedicated distress fund at some point, or do you feel you have enough dry powder in other funds that you can deploy if something comes up in Brazil or South Africa or Indonesia or wherever really?

Tony James: I think that depends on the regions. So in Brazil, I think we have – we both have the team and the funding to do that. And not just Brazil. I really should say South America.

I think it's definitely scope for some really interesting things in distress credit in Asia. Right now that's being prosecuted out of our tactical opportunities business, and that's suddenly gotten much, much more active. And we're thinking of adding some staff to that. In other emerging markets, there's some interesting things going on. We have projects in Africa, with local teams and local joint ventures. I think the constraint there will be less money than finding the right team and putting it on the ground in some of these areas, but it's definitely something that we're interested in doing, if we could get the right, if we could find the right people.

Robin Wigglesworth: Thanks.

Operator: Our next question comes from the line of Dan Primack of Fortune.

Dan Primack: Hey guys, thanks for doing this this morning. Tony, I was curious your thoughts – not on the Dell/EMC deal per se, but on the apparent ability to get all that get – and kind of from your perspective, what that means for private equity deals going forward, and if it does mean, perhaps, that firms like Blackstone will start looking at larger targets as viable opportunities, given that Wall Street seems at least, in that case, to be willing to put up a lot of cash or a lot of debt with a lot of different banks working together?

Tony James: they were hot before, and with big deals were financeable in the debt markets, for sure. We weren't not doing big deals, if you follow this kind of reverse or double negative – we weren't not doing big deals, because there wasn't enough debt. We were not doing big deals because values were too high, prices were too high. And in general, I'd have to say, with big public companies, in general, prices are still too high. I think they're financeable, but they're high.

Dan Primack: Tony, one other question just to clarify, you've made a comment and I missed the first part of it, so I want to make sure I understood, got the first part of it. I think talking in the US, you were talking US industrials, you said there's an argument to be made that in that sector you said that the recession has already begun. What sector specifically were you referring to?

Tony James: Well, global capital equipment and industrial companies.

Dan Primack: Okay.

Tony James: You know, Caterpillar Tractor, you know, you name it. But gee whiz, I mean, think about that, you know? They have foreign subsidiaries where the translation has taken their revenues and growth down. They export capital equipment in dollars and now they're competing with the German and Japanese with much weaker currencies. Their end markets inevitably are emerging markets, which are all struggling with either the debt that Robin talked about, or with slowing growth and whatnot, and so the cumulative –and there's not much real capital expenditure in terms of building new plants, manufacturing plants, in the United States. So I think with that sector, it's slowing down and it's declining and you're seeing that – the reason the S&P 500 EBITDA declined net to net is that some sectors are doing great, but the industrial capital goods sectors, I think, are in at least temporary decline for all the factors I've mentioned.

Dan Primack: I appreciate it, thanks.

Operator: And our next question will come from the line of Greg Roumeliotis at Reuters.

Tony James: Sorry, hey, Greg, hang on a second, I just want to answer Dan's question. I just want to point out, fortunately we don't have many of those companies in our portfolio, lest anyone ask the question. Go ahead Greg.

Peter Rose: Operator, could you get Greg back on the line?

Operator: Greg, your line is open, if you can hear us, can you please check your mute button sir?

Greg Roumeliotis: Hi, thank you Tony. So I was hoping you could make a couple of more general observations on the IPO market. As you think about companies you can take public in the next 12 months, but also those of your competitors, because the market has become more challenging, but it's still open. In terms of, you know, mature companies that private equity firms tend to go for, what do you think makes a good IPO candidate in this environment? Is it having something more innovative versus using the process just to pay down debt? How do you think about what makes a good IPO candidate in this environment?

Tony James: I don't think it's any different from any other environment, really. I think what makes a good IPO candidate is a company with exciting growth prospects; a defensible business model, you know, the mote around the business; high margins; a management team that has sort of Pied Piper like aspects that can really get people excited; and in addition to organic growth, acquisition opportunities that are interesting, where you can, you know, consolidate industry and get external growth all in addition to organic growth. So I think if you have those elements, you've got an exciting IPO.

Greg Roumeliotis:: And as far as the refinancing world is concerned, industry wide, do you think because of persistently low interest rates, most people have pushed back maturity? Not just at Blackstone portfolio companies, more generally, to the extent that if the IPO market continues to be choppy for a couple of more quarters, would that be an issue as far as refinancings are concerned?

Tony James: Well, yeah, I mean certainly we did, and I'm sure everyone did, because the people in our industry that we compete with are generally very, very good and very smart. We've extended out all our maturities and then some, we've got plenty of liquidity. You know, we don't have much floating rate risk, and so on and so forth. So the capital structures are as strong as they've ever been, with one exception: energy. I do think in the energy sector you could see some, as I mentioned before, some companies running out of capital, partly because I think the banks will actually not be – they'll have a hard time rolling over their loans, given the regulatory changes. Now that's not our companies, but that's the industry sector.

Greg Roumeliotis:: Got it, and last question relating a little bit to Dan's earlier question with regards to the availability of debt because we do see big deals now in corporate M&A, can you give an update on the core private equity initiative – how that has gone and you know, when can we expect to see the first big deal out of that and not necessarily a name, but maybe what would they look like, particularly in this environment?

Tony James: Well, okay, in general, you know, we're still assembling our club to do the core investing. You know, we couldn't start that till after we finished BCP VII, so that's in the formation stage. I'd say it's going well. Until we get our investors together, we're not gonna be reporting on a lot of deals. I don't – I'm not sure the deals that we do will be necessarily blockbuster, big deals though. The core is focused more on the quality of the business than the size. And you know, what it might look like, I can't tell you until we have a deal.

Greg Roumeliotis:: Okay, thank you.

Operator: And our next question comes from the line of SHASHA Dai of Wall Street Journal. Your line is open.

Shasha Dai: Hi, good morning everyone. Tony, first I want to ask about the SEC settlement. With that settlement behind you guys, is there any outstanding SEC investigation or any revelatory action that hasn't been publicly disclosed?

John Finley: It's John Finley, I'm the General Counsel at Blackstone. As we – hi, how are you? As we disclosed –

Shasha Dai: Good.

John Finely: From time to time, we're hearing from regulators, it's the risk factor in our 10K, but I will say, because I don't want to sound mysterious about it, there's no shoe to drop that's going on with anything pending right now, from the SEC.

Shasha Dai:: Okay. And any of you guys who could you jump in on this – how does that fee episode let's say, which is now closed, how does that affect the way that you guys approach, in general, the marketing documents, disclosure issues when it comes to fee allocations, expenses or any other related issues regulators are looking at?

Tony James: Well Shasha, interestingly, it doesn't affect it at all. We'd already changed all our practices a couple years ago that were related to this and but in general, you know, we're all trying to be as fulsome with disclosure as we possibly can be. So I think you'll see in general, longer risk factors, longer disclosure times and things. You know, risk factors will go from 50 pages to 100 pages.

Shasha Dai:: Yep. And then the second question has to do with the private equity business. You know, given the macroeconomic environment that you guys talked about, so far on this call, you know with the fear of recession in certain sectors or in certain countries, with the Fed now not expected to raise rates, whereas some might fear that they may not raise rates this year – would the prospect of a recession or a slowdown, actually ease valuations a little bit, and what's your view on that?

Shasha Dai: I just want to be clear, we don't expect a recession in the United States.

Shasha Dai: No?

Tony James: Let's just be clear. We expect the US to continue to grow, you know, two to three percent, like it has been for a few years. So undiminished. You know, some certain sectors may have headwinds, but other sectors, like construction, for example, are, at their earlier stages, or cycles and have a ways to run. So, I think if there was a recession, in our view, it would be quite a surprise to people and the market would trade down and that would create some values. I'm not sure where you're going with that. Worries about the slowdowns in emerging markets, I think, are already reflected in stock prices and lower stock prices means better values. I used to work for a guy, whenever our stock – at DLJ, and whenever our stock was down, he would walk in and say, "This is great, value is rallying!"

Shasha Dai:: Uh huh, and talking about private equity, last question, could you give us an update on BCP VII – where is that fund now? Are you guys closer to a final closing?

Tony James: We had a – you know, BCP VII is final, is fully closed. 17 and a half billion of investable capital. And, but we haven't turned on the investment period yet, pending completion of BCP VI.

Shasha Dai:: Okay, excellent, well thank you so much.

Operator: Our next question comes from the line of Evelyn Lee, Private Equity Real Estate. Your line is open.

Evelyn Lee: Hi, good morning Tony. I wanted to get your thoughts on privatizations, particularly in real estate; Strategic Partners yield, biomet deals announced this past quarter. What's the window of opportunity for that and what are you saying in that, in privatizations?

Tony James: Well, you know, single assets in the United States became more pricey. At the same time, and as I mentioned, if you look at the asset level of our portfolio, the individual assets are performing really, really well because with growing operating income – the same time, because of market turmoil, worries about higher rates, and that sort of thing, yield instruments traded down. So that created kind of a dichotomy. We're looking at individual asset values and performance going up, while the stocks of entities that held these assets going down, and it created a gap into which we stepped. And I think if this – if the market conditions remain this way, we'll continue to look for opportunities like that.

Evelyn Lee: Okay. And do you have any idea what the time horizon is in terms of that window of opportunity?

Tony James: Um, no. I mean, it's really a function of the public markets. I mean, these are public entities we're buying, it's a function of the public markets. I mean, the reach stocks have already traded up pretty significantly in the last few weeks, so you know, we'll take that day by day, but it's one of the things that I frankly like about our business, you know, if they trade down, it's an opportunity, if they trade up, it's an exit opportunity. If they trade down, it's a buying opportunity. You know, we're flexible, shall we say?

Evelyn Lee: Okay, sure. And when both the Strategic and Biomet deals were done on behalf of BREP VIII, your real estate fund. Can you give us any color on what else we can expect to come out of BREP VIII? Are these deals kind of a really strong indicator of what else is to come? Can you just provide your thoughts?

Evelyn Lee: Well, you know, it's just a continuation of what we're doing. I mean, we – we continue to buy, to see some interesting opportunities in individual assets in different sectors and apartments and hotels and warehouses and you know we continue to sift through all that. So there'll be a mix of that. It won't all be public to privates, by any means.

Evelyn Lee: Uh huh. And any comments on your strategy for BioMed what's the value creation opportunity there?

Tony James: Too early to get into that, I think. We haven't even closed the deal yet.

Evelyn Lee: Okay. Thanks for taking my questions.

Tony James: Thanks.

Operator: Our last question will come from the line of Kelly Holman of PEI Media. Your line is open.

Kelly Holman: Tony, good morning. You mentioned earlier today how you're focusing on companies that are, say, a little bit below the large cap sector. Have you earmarked a certain amount of capital in BCP VII to focus on middle market buy outs?

Tony James: Well Kelly, you know, traditionally, people kind of think of Blackstone, biggest fund, therefore biggest deal.

That's not really the way it works for us. We've historically – while we've had the biggest fund, we've focused 80% of our money or so on middle markets and smaller things. Only about 20% of the capital we've invested historically has gone to large deals. And we're set up with – and we're set up with the infrastructure and the operating capability to handle a lot of midmarket deals and to put in the operating improvements there. And we're gonna stay with that. That works, it can be less competitive, we avoid having to, you know, live or die on the big deal, and it works for us.

Kelly Holman: And have you seen any particular sectors that are standing out in terms of offering the most attractive valuations within North American midmarket?

Tony James: Well, in general right now, and you know, we're looking hard at energy and commodity related businesses for the reasons I mentioned, we also have done a lot in financial institutions where you know, the great financial crisis wiped out a lot of capital and a lot of large participants, but consumers needs – consumer and businesses' needs for especially financed products didn't go away at all. Actually, the assets performed pretty well through all that. The reason the companies got pushed out of business was that they couldn't roll over their liabilities.

So if we can provide capital in a situation like that we can have a – we can find interesting platforms to put capital in and there can be a lot of organic growth. So that's another thing we've been focusing on. In addition, it's been a fragmented industry, where you can bring in a great management team, into a sort of medium sized or even small business, and then consolidate those into a big business, that's been a very, very successful model for us so we have several of those platforms going on. And then finally, we do a lot of sort of new build of power and other transmission and things like that, where we're building new assets. It might be in India, it might be in other emerging markets, it might be a wind farm in Europe, in the United States it's transmission lines, it's things like that. It's renewables of different sorts. And the beauty of that is, it doesn't matter what PE multiples are in the stock market or anything else like that, because you're building these assets, and you're building them to a very attractive buy and hold forever return, but you're basically getting it at book value, at cost. So that's been the other leg to the stool. So those four pillars are what we've built most of our investment activity on. We're always opportunistic, by the way, if someone wants to give us something with great value for little money.

Kelly Holman: Okay, thanks very much Tony.

Operator: We do have a follow up question from the line of Ryan Dezember, Wall Street Journal. Your line is open. Your line is open, sir.

Ryan Dezember: Hi, thanks for taking a second question. Invitation Homes – curious if you guys are still buyers of homes, what you're seeing in the market for US single family residential and if you have any thoughts, two of your rivals struck a deal to merge lately, and it seems like there's a kind of a set of some kind of large institutional managers. I'm wondering what your view is on that, in terms of, you know, your eventual exit or kind of what you do with this giant portfolio of homes?

Tony James: Yeah. Well, you know, we think of ourselves as being different from the competitors and much higher quality. Much higher quality in terms of the homes we buy, the service we provide to the renters, and the quality of the management, the quality of the infrastructure, and quality of the homes themselves. So we don't put ourselves in the same category as the other guys. We're still buying homes, although the purchase rate has gone down a lot as values have come up. But we're still finding opportunities here and there, in selected markets, to buy homes and fix them up and provide a very high quality rental experience for the tenants. And we're not, you know, we're not on a path to exit yet. We're still kind of building out the company.

Ryan Dezember: Okay, thanks.

Operator: And we have yet one more follow up from the line of Devin Banerjee, Bloomberg.

Devin Banerjee: Thanks for taking my follow up. We've written a few stories this year about how quickly you've raised money, for example, for BCP VII, for BREP VIII and how you've had to turn money away and this is something Steve has talked about, the you know, frustration or sadness of having to do – I'm just curious what happens when you have to turn money away from a big LP? Do you sort of take them down the hall to Dave Blitzer's office, and talk about what you can do in a separate account structure or does Joan sit down with them and talk about what you can do for them, or do you have to sometimes just tell them, you know, "We'll be back in the market in a couple of years, and talk to you then."?

Tony James: Well, it varies, I would say, by LP, of course. A lot of our fundraising is built on strong, multi-dimensional, institutional relationships. So, we're talking to these guys in general about multiple things at once, all the time. And so they may be focused – at any one time, with one of these – they may be moving to closing on BREP VIII but they're also in process on Core Private Equity on Tac Ops, on GSO and so on. So there's always – it's a portfolio discussion, it's not one thing that is all the people focus on, and then another. So needless to say, there is some – while we can't really accommodate you for that level of demand in let's say, BCP VII, but we think Tac Ops is a really interesting way to play some of the same themes you're interested in or core private equity or whatever. So we do have those conversations with them, but you know, they have their own assets, they have their own consultants, their own asset allocation models, their own investment staff, so it's a dialogue, but it's not like something we can control. But generally speaking, one of the strengths of Blackstone is the way that these big, the really biggest institutions wanna buy multiple products and view this as an institutional relationship, not a single product relationship, and not a series of single product relationships, and overall relationship. And of course, that plays to our advantage is the biggest, most diversified and I consider, I think best alternative asset management firm and you know, we play to our advantage, obviously.

Devin Banerjee: Great thanks.

Peter Rose: Thank you everyone for listening in and your questions. That concludes the media call. If in the course of your reporting you have further questions, please call the media relations office and one of us will get you the answers you need. Thank you.

Operator: Ladies and gentlemen, that does conclude the conference here for us today. And the replay of this recording will be available today through 12:05 PM through December 15th of 2015. You may access the replay any time by dialing 1-800-475-6701 and using the access code of today's call of 369664. If you are an international dialer, you may access the same replay by dialing 320-365-3844, and utilizing the same access code of 369664. Thank you for using our Executive Teleconference Service. You may now disconnect.