Peter Rose: Good morning, everyone, and welcome to our 2015 Fourth Quarter and Full Year Earnings Call for the media. With me are Tony James, Blackstone’s President; Joan Solotar, Senior Managing Director for Multi-Asset Investing and Strategy; and Michael Chae, our Chief Financial Officer. As always, Tony will give a brief summary of the highlights of the quarter and the year, and then we would be delighted to take your questions. Before handing over to Tony, let me remind you that at 11:00 a.m. there will be a call with investors, and 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. Tony.

Tony James: Thank you, Pete, and before I get started I want to say goodbye to Peter Rose, I suppose. This is his last press call. He’s been a wonderful partner and a wonderful representative of the firm, and I’ve learned a lot from him, so I wanted to say good luck, Pete. He’ll be staying in our orbit, continuing to advise us, but we’re transitioning his responsibilities to Christine Anderson. So, good morning, everyone, and thank you for joining us. Overall, 2015 was a year that reflected Blackstone’s continuing strong underlying business fundamentals, but with an overlay of mark-to-market volatility from the stock market.

ENI was $2.2 billion for the year and $436 million for the last quarter. That quarterly ENI was down from 2014’s amazing fourth quarter levels, but it represented a substantial rebound from our third quarter loss this year of $416 million. These swings reflect short-term marks due to variations in public stock prices of our traded portfolio companies, but given our focus on creating long-term value it’s really just noise. We do not believe the markdowns represent permanent diminution of values, impairments, or changes in what we ultimately expect to realize from our investments. We have no need to sell these assets until we think the time is right, and the funds holding these assets are not subject to redemption requests from investors.

Our portfolio companies and real estate assets continue to perform well, growing their EBITDA, paying down more and more debt, and continuing to build equity value. So, ironically, by not selling now we actually expect ultimate realizations to be even larger, compounding from current valuations at attractive rates.

The other side of reduced market valuations, of course, is that new investments have become much more attractive. While major market indices are down only 10% to 15% from their peaks, many individual company stock prices have dropped 30% to 40%. At the same time, those companies’ other sources of growth capital, particularly from credit markets, have dried up.

And this is the beauty of having long-term locked up capital. When markets drop we hold off selling and accrue even more value, while simultaneously, we have fresh capital to invest at much more attractive entry prices when other investors are in retreat. In fact, today we are ideally situated to capitalize on the market’s choppiness with over $80 billion of dry powder in hand. As I have said before, market turmoil is ultimately great for our business, because that is when we sow the seeds that blossom into our highest returns.
Although we think global growth will slow this year from 3% to something like 2% and the downside risks are elevated from a year ago, we feel the market for many individual stocks has overreacted and this has created some interesting buying opportunities for us. In the US, overall economic environment is admittedly somewhat mixed. While manufacturing and industrial products have declined, the consumer is hanging in there with low unemployment, solid job creation, and rising wages. As a result, we do not see a recession on the horizon absent a macro shock. Our portfolio companies in the US are still showing revenue growth, albeit at a slower rate than in the last few quarters.

Meanwhile in Europe things are stable, but growth is apt to remain slow. China has slowed, and we believe it is growing at a rate below the reported 6.8%, but I’m frankly not sure it makes all that much difference whether the true growth rate is 4%, 5%, or 6%. They are dealing with a delicate balancing act to keep interest rates low to stimulate the economy while maintaining a stable currency, but we believe they have the resources and the tools to do it. Absent a policy mistake, which triggers some kind of stampede, China should still register decent growth and avoid a hard landing.

As regards to energy markets, I don’t want to predict exactly when a rebound will happen, but we feel oil and gas prices are at lower levels than will be sustained long-term and we see considerably higher prices within several years. With a severe capital squeeze in the industry today, this dynamic will create terrific investment opportunities for investors like us that can take a long view. We have raised over $8.5 billion of drawdown funds dedicated to energy investing in the last two years, virtually all of which is still uninvested.

While we’ve been strategically patient in energy, we see many great opportunities in other areas in 2015. In total, we invested over $32 billion from our 2015 drawdown funds, including almost $16 billion in the fourth quarter alone. Real estate led the way with $16.6 billion in capital invested in the year. While that level of investing may be hard to repeat for real estate in 2016, we expect a pickup in activity from the other groups given that we may be finally getting some relief from the inflated asset values of the last few years around the world.

Fundraising is the lifeblood of our business and the driver of our future profitability, and it was really strong throughout 2015. In the fourth quarter we raised $16 billion, bringing the total for the year to a staggering $94 billion. To put that number in context, that single year total of new assets is more than the entire AUM of most well-known market participants. As you know, fundraising for our drawdown funds is inherently lumpy and episodic. Although we will not have our two big flagship funds in real estate and private equity in the market in 2016, we still expect it to be a very strong fundraising year for the firm. This evidences the substantially greater breadth and depth of our business today in comparison to several years ago.

Reflecting the strong fundraising last year, AUM rose to another record, jumping 16% to $336 billion at year end, despite very substantial realizations and the declining markets. At the same time, requests for forthcoming redemptions in our hedge funds and hedge fund solutions businesses are minor.
Growth in AUM and deployment of that capital drives our recurring fee-related earnings. Our fee-related earnings of $311 million in the quarter represented our second best quarter ever. For the year as a whole, fee-related income was $936 million, and we still have $46 billion of AUM already raised that is not yet deployed in earning fees and most of that will layer in over the course of 2016.

Based on recent fundraising and deployment, we believe that our fee-related income plus other recurring items, like the interest income on our credit investments, cash flows from our income producing real estate, current yields from some of our portfolio companies, and so on, should provide a steady base level of distributor income of almost $1 a unit, even with zero realizations. That alone is almost a 4% yield on our current stock price.

But beyond that, 2015 was actually our second best year ever for realizations. Total realizations for the year amounted to $43 billion and drove a leap in net realized performance fees over 2014. This led to a 29% increase in distributable earnings for 2015 to $3.23 a unit, an all-time record.

While market conditions can be volatile in any one period, these numbers nicely frame the likely range of our DE. At the low end we can pretty much count on about $1 of DE per unit, even with almost no realizations in a given year, which I think is very unlikely given the diversity of our investments across industries, asset classes, and geographic regions. There is almost always something that we’re selling.

At the high end, we can expect upwards of $3 of DE per unit in years when we have substantial realizations. So that’s where we get the $1 to $3 range, and, of course, that range should continue to grow at mid to high-single digits in line with our long-term secular growth.

The returns we are earning for our LPs continue to be strong, and that’s the lifeblood of continuing to gather assets. In terms of gross portfolio appreciation last year, results were excellent. Private equity and tac ops were up 7% and 9%, respectively, despite declining markets; strategic partners was up solidly at 19%; opportunistic real estate appreciated 10% and core plus real estate was up 19%, an amazing result for a lower risk asset class; BAAM, which trades in public markets primarily, was up 3% with low volatility in markets that were down significantly; and while the meltdown of below investment grade credit drove our credit funds lower by 1% to 10%, depending on the fund, this dislocation means current yields that that portfolio is delivering today are really compelling; and there’s a plethora of new investment opportunities leading to record capital deployment for GSO in the quarter. Looking at returns another way, the average multiple of invested money on our realized investments continues to average better than 2 to 1 overall.

In summary, our firm is in the best shape it has ever been in terms of our team, our competitive position, our franchise and limited partners, and our ability to grow and thrive in the future.

Thank you, and I’d be happy to take your questions.

**Peter Rose:** Operator, can you prompt for questions? Thank you.
Operator: Thank you, sir. Our first question comes from the line of Devin Banerjee from Bloomberg. Please go ahead.

Devin Banerjee: Hello, Tony. Thank you for your time, as always, and if I can just say thank you to Peter as well for all of your hard work in our dealings together over the years.

Tony, I know you mentioned Blackstone has a lot of dry powder for new investments in energy, but would you say that Blackstone or some of your peers in the credit world were too early in making some investments last year given sort of the further decline in oil since then?

Tony James: Well honestly, Devin, we didn’t make a lot of investments last year. We thought we would. I think probably a year ago I sat and said hey, this is going to be an interesting energy investment. But prices bounced so quickly in the spring that we got almost nothing put to work, and so I don’t think last year was necessarily… I think we were smart last year. We held off and we were very disciplined. We did a good job raising capital. I mentioned $8.5 billion of dedicated energy fund… but to put that to work because of the other funds that invest with that… it really amounts to closer to $15 billion of available energy capital that we have.

Where we took some markdowns, which were frankly minor in the great scheme of things for us, was in energy investments we’ve accumulated over the last four or five years. Obviously, if you had energy investments over that period of time, and oil goes from $100 to $30, you’re going to take some markdowns. But we were lucky or smart or whatever you want to say to sell most of our natural gas and oil exposure before the rundown of prices, so the mark-to-markets in energy have been very small.

Devin Banerjee: Okay. One more question, and this is maybe for you or Michael. Can you remind us, given the sort of precipitous decline in the stock over the past six, seven months how you think about certain corporate finance actions, like share buybacks or a change in your payout policy or anything like that?

Tony James: Well, I’ll start on that. Obviously, at some point the best investment out there is our own stock. But remember the structure of our business is such that we pay out almost all of our earnings now, so if we had to lever up to buy that stock… in we don’t want to look… we also are proud of a strong balance sheet, and that’s a competitive strength. As we grow our AUM, I mean we are really growing fast here and have tons of opportunities ahead of us, our LPs expect us to have a bunch of skin in the game and we put up money side-by-side. So we need access to capital in our business. And so one of the things that’s going to restrain opportunistic stock buybacks is the fact that we pay out almost all of our earnings and we need capital to grow.

Michael Chae: I would just add, Devin, this is Michael, just stepping back, we do have a robust balance sheet and we have a lot of options around strategically and around the use of their capital. Historically, and today, we like our approach of basically distributing substantially all of our cash earnings with our shareholders and delivering great yield, and at the same time, as Tony said, at some point from a corporate finance accretion standpoint looking at your stock may make sense. But we feel very good about our position right now and the returns on the capital that we have within the firm.
Tony James: Then the other thing is acquisitions for this firm have been incredibly value creating for shareholders, and while our valuation is down, inevitably the valuation of all the peers is down, frankly, even more. So this is the time when we look back at some of the value we’ve created with a GSO or Strategic Partners. With some of the tuck-ins that GSO has done, and the CLO business, I think this is the time when you can make some value creating acquisitions that give really a really huge long-term boost to the shareholders and build a lot of value.

Devin Banerjee: Are you considering any right now?

Tony James: We’re always looking at a few things. There’s nothing that’s on the cusp of being done.

Tony James: I think we’d say that the appeal of Blackstone as a partner is only rising.

Devin Banerjee: Gotcha. Thanks.

Operator: Thank you. Our next question comes from the line of Matt Jarzemsky. Please go ahead.

Matt Jarzemsky: [Audio disruption] equity markets and the market for acquisition financing of late, how are you thinking about the exit environment for the balance of the year? Thank you.

Peter Rose: Matt, you kind of clicked out there. Could you ask the question again?

Matt Jarzemsky: Yes. How do you guys think about the exit environment, the balance of the year, just given sort of the tight window for IPOs and the way acquisition financing has gotten a little tougher of late?

Tony James: Well, first of all, there’s still a lot of strategic activity out there, and a lot of our exits this year were strategic and they seem to have undiminished appetite, frankly. I think as they have a hard time finding growth elsewhere they’ll continue to buy things, and for a strategic buyer there’s plenty of capital out there. First of all, they have very strong balance sheets, a lot of them are sitting on cash, and they have access to capital, there’s tons; the access to capital for investment grade or strong credit is terrific. So I think the strategic bid is still good.

And don’t forget the IPO market is overplayed as an exit for us. Usually when we IPO we don’t sell any shares; it’s not an exit event. It establishes value, in some ways, ironically, it introduces volatility into our P&L, but it doesn’t get us out, doesn’t get us proceeds to distribute to our shareholders.

So I think we still have a number of exits we’re expecting to harness this year. I think it will be a good year for exits.

Peter Rose: Matt, did you have a follow-up?
**Matt Jarzemsky:** No, that’s all for me for now. Thanks, guys.

**Peter Rose:** Thanks, Matt.

**Operator:** Our next question comes from the line of Shasha Dai from *The Wall Street Journal*. Please go ahead.

**Shasha Dai:** Hi. Good morning, everybody. Hi, Tony. I wonder what’s your outlook on Europe, specifically going forward for the next year or two, what specific sectors or asset classes or regions in Europe do you see the most attractive opportunities? Thanks.

**Tony James:** Okay. Well, in general Europe I think, as I mentioned, is stable. I don’t think it’s going to go down. I think Draghi’s made it clear he’ll do whatever it takes to keep it on the track of recovery, but I think the recovery will be slow when you look at the area as a whole.

Within that there’s some areas of greater promise. We’re seeing a lot of strength in Spain, for example, and some of the Southern European countries on the one hand. On the other hand, I think some of the countries, like I think Germany has headwinds because the markets it exports to all have headwinds, and I think some of those countries will have more political turmoil dealing with the refugee crisis, the rise of the Nationalist Party, divided government, and things like that. So where we’re seeing the biggest rebound right now is Southern Europe.

In terms of asset classes where we’re seeing the biggest opportunities there is in real estate, where there’s still a lot of opportunities to do interesting things there, and then, but the private equity guys in Europe are active as well. It’s chugging along, it’s not some kind of peak, but it’s chugging along with smaller companies, consolidation opportunities.

Then, thirdly, a very big opportunity for us in Europe right now is in the direct lending, where we’re putting out money with extremely attractive returns and filling a gap in the credit markets in Europe.

**Shasha Dai:** Okay. Excellent. Thank you so much.

**Operator:** (Operator instructions.) Our next question comes from the line of Meghan Morris from *PERE*. Please go ahead.

**Meghan Morris:** Hi, all. Thank you for taking questions this morning.

A quick question on real estate, to what should we attribute the drop in ENI for real estate, and then what’s your outlook for the coming year?

**Tony James:** Michael, do you want to talk about the drop in ENI?

**Michael Chae:** Well, I think for real estate, actually, in the quarter ENI is positive sort of year-over-year, so if that’s the part of the question. Certainly the rate of appreciation at the portfolio
is still good and for the whole year it was very good. That slowed a bit in the second half, largely driven by public stock performance, as Tony mentioned. But I don’t think it—

**Tony James:** Okay, so let me jump in. If you look at all the private assets in real estate continue to do very well, operating cash flow, rents, occupancies all going up, cap rates are still very strong, totally fine. The operating performance of the public companies still doing great, Hilton, Briggsmore, all these companies still doing great, very strong, but the stock prices are down and that’s driven the change in ENI.

**Meghan Morris:** Thanks. That’s all on my end.

**Operator:** Our final question for today comes from the line of Steve Gelsi from *Buyouts*. Please go ahead, sir.

**Steve Gelsi:** Hey, Tony. Pete Rose, congratulations on capping off a great career at Blackstone. It’s been great to work with you and I'll miss working with you. Tony, question for you. You noted in your comments performance in all three alternative credit strategies were negatively impacted in the quarter by energy commodity pricing, turbulence in the credit market, and technical pressure caused by year-end selling, and your returns for the quarter were down for mezzanine, rescue lending, and hedge fund strategies, respectively. When was the last time you had a quarter where you actually had some down quarters in credit and could you give us a little bit more color on the credit markets and the high-yield bond market?

**Tony James:** Well, Michael will look at last quarter, but let me talk generally about the market. One of the things I’ve noticed over the 25 years of being an investor is very, very often it’s the less than investment grade credit markets that signal the first downturn, and they turned down, as you probably know, last fall in a very, very sharp way. Our CEO, Steve Schwarzman, has talked about the dangers of some of the illiquidity in the market’s been created through some of the regulatory changes and whatnot, and, of course, that illiquidity aggravates the downturns. Right now there was just sort of no bid for securities, so if you had to sell something these markets gapped down. Of course, there wasn’t necessarily a lot of selling volume either, but the marks are heavily affected by the lack of liquidity. So that kind of played out and there was a big drop in the credit markets in the fourth quarter. The equity markets usually follow, and did subsequently, and we’re still, of course, seeing that early this year. I feel like at this point the credit markets are stabilizing, so I think there will be some fantastic investment opportunities. I don’t think that the credit market down leg was driven by a surge away from energy, I’ll come back to energy because that’s almost a special case, but in the other credit markets the down legs was not driven by a surge in defaults, weakening economic environment, or anything else. It was driven by selling pressure, flight to quality, and lack of liquidity, and those are temporary factors.

Now in energy, obviously, which is something like 25% of the below investment grade credit markets, there you’ve had some fundamental change, there you had a lot of impairments and damage, not in our portfolios so much but in the market is what I’m talking about. Our portfolio is actually our guys have done a very good job. Not that they haven’t taken their lumps here and there, they have, but they’ve done a very good job and I think their companies are in good shape
and we’ll, through the cycle, earn some very good returns, even on historic investments. But there’s a lot of breakage out there, and these companies have no access to capital, they’re running out of capital, they’re having liquidity problems, and in that sector I think you’ll have some significant defaults, and, of course, it’s a big chunk of the total market, which pulls the indices down.

The last time we had I think declines on the three credit markets was in 2011, Michael tells me, and that was a great time to be buying.

**Steve Gelsi:** Okay. So it’s not a systemic thing at this point you don’t think?

**Tony James:** Well, it reflected the overall below investment grade market and the market conditions. I don’t think it’s signaling another Great Recession with lots of defaults and fundamental economic problems. I think it’s just market moves. Let’s face it, all of the markets were at some kind of all-time peak, credit markets lowest interest rates ever and whatnot, and the Fed is starting to raise rates and the economy, as I tried to get across in my comments, it’s slowing, it’s not declining but it is slowing.

There’s plenty of concerns about emerging markets and liquidity there; there’s capital leaving those markets to come into the dollar; the stronger dollar is hitting our manufacturing sector; China has a bit of a delicate balance to strike to keep that growth and keep the interest rates low to encourage the economy without having the RMB get out of control in terms of its decline against the basket, so there’s some tricky things to balance. I think people are a little worried and that’s pulled the market down. It’s systemic in the sense that it’s across the market, but it’s not systemic in the sense that it reflects long-term losses, impairments, defaults, and things like that.

**Steve Gelsi:** Okay. Thank you very much.

**Tony James:** Okay.

**Peter Rose:** Thank you, everyone, for joining us. Again, I encourage you all to listen to the 11:00 call with investors. If in the course of your reporting you have questions, just call the media relations office and we will get you answers. Thank you.

**Operator:** Ladies and gentlemen, that does conclude our conference for today. Thank you for your participation and for using the AT&T Executive TeleConference Service. You may now disconnect.