Blackstone Second Quarter 2015 Earnings Call

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Operator

Welcome to the Blackstone's Second Quarter 2015 Investor Call. And now, I'd like to hand the call over to Joan Solotar, Senior Managing Director, External Relations & Strategy. Please proceed.

Joan Solotar

Great. Thank you, Jason. Good morning, everybody. Welcome to Blackstone's second quarter 2015 conference call. Today, we're joined by Steve Schwarzman, Chairman and CEO, who's joining us from overseas; Tony James, President and Chief Operating Officer; Laurence Tosi, CFO; and Weston Tucker, Head of IR.

So earlier this morning, we issued our press release and slide presentation illustrating the results, and that's all available on the website and we'll be filing our 10-Q in a few weeks.

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

So I'd also like to remind you that nothing on the call constitutes an offer to sell or a solicitation of an offer to purchase any interest in any Blackstone Fund and the audiocast is copyrighted and may not be duplicated, reproduced or rebroadcast without consent.

So, a very quick recap of the results: We reported ENI of $0.43 for the second quarter, that's in line with consensus. I know, one of the – well, Reuters have reported it incorrectly earlier, but has since corrected that. That's down from last year due to lower appreciation in the Private Equity and Real Estate funds, particularly the publics, which were down in line with markets. Their performance was actually still quite good overall across all of the businesses. Distributable earnings were up quite a bit, 35% to $1 billion for the quarter or $0.88 per common unit. We'll be paying a distribution of $0.74 to holders of record as of July 27, which brings us to $2.85 paid out over the last 12 months. And, just based on where the stock is today, that equates to a compelling yield of 7% on the current price, which is one of the highest of any large company anywhere in the world.

And, with that, I'll turn the call over to Steve.

Steve Schwarzman

All right. Thanks, Joan, and thanks to all of you for joining our call. In the first half of 2015, Blackstone sustained strong momentum across all of our businesses: Private Equity, Real Estate, Hedge Fund Solutions and Credit, and continue to distinguish us in the world of money management.

We remain the only manager with leadership positions and strong investment performance in every one of the alternative classes. And our limited partner investors recognize that, and are rewarding us with more and more of their capital as a result. This is why Blackstone took in $94 billion of new capital in the last 12 months despite capping, which means limiting the size of all of our major funds. In other words, the demand for our product significantly exceeded the money that we could accept. And, in that sense, we could have raised much more than $94 billion. This $94 billion is a record for Blackstone, or any other alternative asset manager. And it's actually more than the combined fundraising of the other public alternative managers for any year in history. Our fundraising success is unprecedented for our industry and has propelled Blackstone to a record $333 billion in AUM, up 19% year-over-year. So what's driving this success and our sustained growth over many, many years?

Blackstone is very different from a typical asset manager. We've been able to continually outperform and deliver outperformance for our LPs versus the relevant indices since the firm's inception three decades ago. When our investors give us $1, we've generated $2 to $2.50 on average in our Private Equity and Real Estate funds across markets and economic cycles for 30 years.

This is not a one-time event. In the second quarter, if you invested in the public stocks of basically any developed market in the world other than Japan, you'd have had either achieved flat performance or lost money. Blackstone, however, despite the headwinds in the public markets, continued to deliver superior returns for our investors. In Private Equity, we outperformed the S&P by 370 basis points in the quarter and in Real Estate, we beat the REIT index by 1,250 basis points.

Our Credit and Hedge Fund Solutions business meaningfully outperformed benchmarks as well, which Tony mentioned, with our mezzanine fund being up, I guess somewhere around 24%, which I think is what Tony said. And when you have performance like that in flat markets, you will have loyal investors and you will have more money from them. This is because when we invest with a specific view of operating and from improving assets in our portfolio, growing their cash flows and creating real and lasting value.

A great example of this was the IndCor warehouse company we sold last quarter. We painstakingly built this platform through 18 different transactions over four years, in many cases buying assets from distressed sellers, and we consolidated them and created an irreplaceable company of scale. Now we're doing something similar in European logistics with our company Logicor. In Private Equity, we built up Merlin from the small "London Dungeon" attraction, which I think we paid about $85 million for, to become the second largest theme park company in the world behind only Disney before exiting the investment earlier this year. And in the case of Center Parcs' investment in the UK, we leveraged the combined expertise of both our Private Equity and Real Estate groups to maximize the value of the property and operations. And just last month, we announced its sale for more than triple our original invested price.

What we do at Blackstone can't be replicated by investors in the public markets, and very few can do it anywhere or at our scale. Meanwhile, the public market backdrop, as everybody knows, has been volatile and challenged lately, largely driven by the drawn-out situation in Greece, as well as the sharp decline at the stock markets in China. In the case of Greece, we seem to have a temporary solution now, which has calmed markets. China's issues may have longer lasting implications, particularly in commodities and related areas.

Despite public market headwinds, our portfolio of companies, as Tony mentioned, overall are really in terrific shape. In Private Equity, trends remain healthy with portfolio company revenue and EBITDA up 5% and 12%, respectively, over a year ago. In other words, that's a 12% increase in earnings. This compares to most estimates for S&P companies showing flat to down earnings. So the outperformance of the companies we own is really substantial.

In Real Estate, our office rents in the U.S. and UK are rising in the double-digit percentages, while hotel RevPAR growth has been healthy despite lodging stocks being down between 3% and 7% for the quarter. We've also seen 15 consecutive quarters of base rent increase in our grocery-anchored retail portfolio and surprisingly probably to most of you, Chinese shopping malls are reporting double-digit percentage same-store sales growth.

Trends in our portfolio companies compare favorably to the U.S. economy, which continues to grow somewhere in the 2% rate. There's been much focus recently on the Fed potentially increasing interest rates, which still hasn't occurred despite most predictions to the contrary. I think this could happen in the next six months, which Janet Yellen seems to be indicating in a well-telegraphed and controlled way.

In a rising rate environment, I expect our portfolio including Real Estate and Credit to continue to perform well, which it has historically in that type of environment, and that's because rising rates are usually accompanied by better economic activity, which is obviously beneficial to the portfolio and I personally think that any rate increase would be very, very gradual.

As public markets move up and down, you should expect our public holdings, of course, to move up and down as well. That's the reality of our business and part of our financial results in the short-term. Fortunately, the capital in our fund[s] is largely locked-in with approximately 70% of our AUM not subject to any redemption risk. In these businesses, we are not foresellers and can wait until their time is right to exit our positions, while at the same time continue to compound value for our limited partners and ultimately for our shareholders.

A volatile market as backdrop could also lead us to deploy greater capital to take advantage of dislocation whenever this occurs. So ironically, our ENI could be temporarily going down at a time of great opportunities for setting up future gains.

Blackstone has by far the industry's largest pool of dry powder at $82 billion and a fully integrated network built around the world positioning us very well to take advantage of any market dislocations. Each of our businesses has
continued, as Tony mentioned, to expand its platform and by the nature of our size and diversity, we're investing more today than we were five years ago. In Real Estate, in addition to the global fund, we have dedicated opportunistic pools in Europe and Asia, the Real Estate debt area and now our Core+ business.

In Private Equity, we have our global fund and our energy fund and we've ramped up the size of our Tactical Opportunities business and have added our secondaries business. In Credit, we have rescue lending, mezzanine, a dedicated energy fund, a dedicated Europe fund, CLOs, a hedge fund platform, and so on.

So Blackstone is not limited to just being in a few big funds. We find unique opportunities and we grow those businesses to where they are at scale. Because of our global footprint, we're able to identify risk-reward around the world and move our scale capital quickly and decisively. And our size and brand give us a significant competitive advantage to win deals or in many cases be the exclusive partner, as we were in the GE deal announced in April, which was the largest real estate purchase since before the financial crisis.

Despite more difficult investing environments in both Private Equity and Credit, we've still been able to deploy significant capital. We've invested $5 billion, for example, in the second quarter, bringing us to $26 billion invested over the last 12 months.

The dominant themes include distressed real estate in Europe, European credit, energy, and opportunities created by the pullback of financial institutions globally, including mortgage lending and Tactical Opportunities "special situations" deal flow.

On average, over the past three years, we've invested or committed more than $20 billion per year from our drawdown funds alone, which is far greater than our investment pace prior to the crisis. Although our capital deployed in a given year may be up or down depending on markets, we're functioning now with a completely different scale of operations than we were even five years ago and we're continuing to create fantastic performance despite that.

Our greater investment pace today is planting the seeds for future gains and distributions that I believe will be of a significantly larger order of magnitude than what we're harvesting even today, which is quite strong.

As we've expanded and further globalized our businesses, we've kept a strong focus on keeping our internal culture intact and ensuring Blackstone quality across regions and products. We never franchise out decision-making and we retain one single global investment committee for each of our business lines. Our investors have confidence that when we invest anywhere in the world, we're doing it with the same process-driven analytical rigor that has defined us in our performance for the past 30 years. I expect it will continue to define us for the next 30 years as well. That's why Blackstone remains one of the fastest growing, most profitable asset managers in the world. In fact, there are not many other companies of our scale in any industry that have grown at our rate on a sustained basis.

And unlike most other leading companies, we payout the majority of our earnings on a current basis – in fact, a lot more than a majority – equating to one of the highest dividend yields of any major company in the world at 7%, as Joan highlighted. I believe these factors make Blackstone stock a very compelling value for investors, and I'm confident that over time, the public markets will come to the same conclusion, driving a premium valuation for Blackstone.

In the meantime, Blackstone will continue to operate as we always have, focused on generating exceptional long-term performance for our investors with very low risk of loss of capital.

With that, I'd like to thank everyone for joining the call, and I'm going to turn it over to our CFO, Laurence Tosi.

Laurence Tosi
Thank you, Steve. As Steve pointed out, all of our global investment businesses grew double-digits over the last year amassing a staggering a $114 billion of incremental asset-based expansion from $94 billion of gross inflows and $20 billion of value created through positive fund performance. That one year growth is 40% greater than the entire size of Blackstone at the time we went public.

In total, Blackstone's businesses grew AUM at a combined rate of 19% with each business growing at a multiple of the industry average. That growth comes from generating new ideas, new strategies and continuing to outperform broader market appreciation. This quarter, the contribution of each business shifted, demonstrating Blackstone's unique balance. GSO and BAAM had the strongest economic income growth year-over-year, Private Equity had the highest total distributable earnings and Real Estate had the highest fee revenues. Each business is a market leader, performing well and contributed materially to our results.

Total firm ENI is flat year-to-date at $2.1 billion or $1.80 per unit at a margin of greater than 50%. A few points to highlight about ENI and earnings momentum:

Sustainability. Performance Fee revenue momentum continued to rise to a record $2.2 billion year-to-date. We have now added $4.5 billion of gross performance fees in the last 12 months, which is more than our record level of realizations and managed to grow the accrued Performance Fee balance year-over-year.

Earnings power. Blackstone's growth reflects our increasing asset base paying performance fees, which grew 13% year-over-year to a record $158 billion, effectively lowering the level of appreciation needed for earnings growth. Compounding effect. The compounding effect of performance fees paid on asset appreciation is a key earnings driver and why cumulative results continue to show strong earnings momentum.

Total management fees are down slightly year-to-date and in the quarter as new assets raised are not yet earning fees and lower levels of transaction and advisory fees impacted results. There was also a reduction in P/E management fees coupled with an increase in operating expenses related to one-time items consisting of fundraising fees and legal reserves.

Firm-wide, however, base management fees are up 4% for the quarter, and we expect we will return to double-digit growth levels as more of the $57 billion of committed capital we've raised begins paying fees.

Distributable earnings continued to accelerate in the quarter, continuing a trend we've seen over the last few years. Distributable earnings are up 35% in the quarter and 83% year-to-date on a 45% surge in Realized Performance Fees. Over the last year, we have returned $46 billion of capital related to realizations, representing $20 billion of gains. We have now realized over 70% of performance fees we have accrued as of the end of the second quarter of 2014.

That realization rate has accelerated from an average of 45% in the prior years to the current level of 70% and our pipeline for exits remained strong as more than 60% of the $4.5 billion in Performance Fees we have accrued relate to assets that are either public or liquidating. Additionally, more than half of the current $4.5 billion net receivable is related to pre-crisis deals and 90% of those are public or in liquidation.

Blackstone’s delivered strategic design, which we painstakingly assembled over many years, better positions us today to absorb and materially outperform in periods of market volatility, dislocations and a shifting global opportunity set.

Our outperformance comes from the fact that our core fund strategies for finding opportunities and creating value do not depend on public markets. The value created in Private Equity and Real Estate comes primarily from operating earnings growth, demonstrated this quarter and over the last year by double-digit fundamental growth, as Steve pointed out, compared to a backdrop of flat global growth.

In Credit, our expertise relies on analyzing borrowers, structuring collateral and pricing credit risk. In Hedge Funds, the returns come from our expertise and scale at picking managers, innovating new products and ideas and making active allocations across asset classes. All of these strategies and skills are at their core sustainable competitive advantages that are not temporary, cyclical or market dependent.

Think about it this way: Blackstone has now generated $5 billion of performance fees from investments we made before the financial crisis in 2006 and 2007. The only way to achieve that is by leveraging our unique operating platform to find opportunities and create value through active management and patient capital structures.

The Blackstone platform delivers outperformance even in periods of high asset prices, as we've seen over the last few years where investments aged more than one year are averaging gross IRRs in Private Equity of 27%, Real Estate of 31%, and Credit of 28%, as Steve pointed out.

Our culture learned from our pre-crises experiences and we adapted by building firm capabilities to manage these markets. Strong performance drives growth and sustained performance drives franchise value and investor loyalty. Investors have validated Blackstone's distinctive, patient investing and operating model by committing record levels of capital to our funds, a record of $31 billion of commitments in the quarter, $61 billion year-to-date and $94 billion over the last year.

It's of note that our investor base has drawn strong and growing interest from new global and fast growing pools of capital. In fact, 14% of our capital over the last year came from sovereign wealth funds, 13% from retail investors. Both capital pools were not meaningful contributors just a few years ago. In fact, almost 50% of the capital from our most recent fund comes from outside of North America, up from just 15% a few years ago.

The loyalty to our performance runs so deep that BCP VII and BREP VIII, our global flagship funds, raised $32 billion so far this year with demand far exceeding their caps. Moreover, as investors concentrate their capital with the best managers, Blackstone certainly benefits from that powerful consolidation with 81 investors in our recent flagship funds making commitments of over $100 million.

As of today, we have record levels of capital to deploy – $82 billion – to take advantage of opportunities in the marketplace. Is that too much capital or will we compromise to put money to work? Absolutely not. Of the $82 billion, half was raised in the last two years. So, the timeframe for committing capital is long, and we are patient by nature.

We've also built the unique platform to put that capital at work. We have $15 billion committed and deployed year-to-date with approximately 15% of that outside of North America. That puts us on pace to meet or exceed $20 billion of invested capital in 2015, providing further earnings growth in future years from the value created with that capital.

It is not just our differentiated platform, leading return profile or ability to access new pools of capital that drive our results. It is a new, more diverse and capable Blackstone.

In Private Equity and Real Estate, $28 billion or 15% of our total assets in those segments are public. The rest are subject to long-term private values or in funds that are less susceptible to public equity market swings, such as Tac Ops, secondaries, multi-strat, Real Estate debt, Real Estate core. All of those are new businesses, which now amount to $40 billion in assets up from zero just a few years ago.

Our Credit and Hedge Fund platforms are scale drivers of our financial results. Those businesses are now $150 billion of AUM or 45% of the firm, up from $39 billion in 2007. Those two businesses have generated over $1.4 billion in revenues over the last 12 months, marking a significant part of the firm's performance and in terms of diversity, their performance is driven by very different dynamics than our other businesses.

In Credit, we earn management and performance fees largely on collateralized assets paying current yield. In Hedge Funds, the strategies are either designed to have a third of the volatility of the S&P, be market neutral, long-short or relate to asset growth of alternative managers, all of which is a step or move from public markets.

I always find it curious when people describe or value Blackstone on a sum of the parts largely because what makes Blackstone distinct is that the whole is far greater than the parts. All you have to look at is the unprecedented speed and scale with which our newest initiatives have grown as extensions of that whole.

Tac Ops, which is two years old now, is $11 billion. Core Real Estate, 18 months old, has $7 billion. Strategic Partners, purchased two years ago, has nearly tripled to $13 billion, and new energy funds created over the last three years are reaching $20 billion between Private Equity and the BDC and GSO funds. Retail distribution is ahead of our record year last year and has reached nearly $1 billion a month in flows, up from nothing just a few years ago.

These initiatives are still in their infancy and they are addressing the deepest markets Blackstone has ever accessed. They are nimble extensions of core competencies, gaining scale fast and will materially contribute to the firm's growth for years to come.

Lastly, when you think about forward earnings, consider the vintage and scale of assets that are in ground as the primary driver of those earnings. As of today, we have $220 billion of invested capital more than a year old and are earning close to $3.50 per unit in both ENI and distributable earnings. That performance does not account for the $26 billion we've invested over the last 12 months or the $82 billion in Dry Powder we have recently raised.

With the explosive growth of the last 12 months and continuing momentum in our fundraising, we will soon have over $330 billion of money at work, creating earnings which will drive significant value for unitholders to a new level, reflective of that 50% increase in assets at work. While we do not and should not try to predict the timing of those earnings, our long history indicates based on prior performance, it is not if Blackstone will generate returns and reach higher levels of earnings, but simply a matter of when.

With that, we'd be happy to take your questions.

Operator
[Operator Instructions] And our first question comes from the line of Michael Cyprys with Morgan Stanley. Please proceed.

Michael Cyprys
Hey, good morning. Thanks for taking the question. Just on the management fees, is there any color that you could share just in terms of mechanics of the flagship management funds turning on and the implications for fee-related earnings? I think you've mentioned about $57 billion or so in committed capital that's not yet earnings fees. Just what's the timeframe for that coming online? And it looks like there was a disconnect in the quarter with management fees possibly stepping down from the predecessor funds, but with no benefit from fees coming on, on some of the new funds. Did I get that right?

Laurence Tosi
The second part, no. So, there is not an impact on the step-down yet, because it doesn't impact in Real Estate. But let me just go through the two major funds that you see. In BREP VIII, we expect to begin earning management fees later this quarter and the first full quarter of those management fees will be in the fourth quarter this year. And for BCP VII, that will begin sometime next year, first or second quarter, depending on the investment pace. With respect to Tac Ops and the other fundraising, those will begin hitting in the next quarter. So, you're right,

there will be an increase, and that's why I mentioned, we'll be back to double-digit related base management fee growth shortly as those new funds come online.

Michael Cyprys
Got it. Okay, great, thanks. And then, just as a follow-up. If I could just turn to the geographic split, you've certainly grown the platform substantially over the past couple of years with large amount coming from – or increasing amount coming from non-U.S. clients.
And appreciate some of the disclosures you guys have showing the capital invested by region. But just curious how much of your revenue and your client base today would you say breaks down by geographic region? How has that evolved over the past couple of years and how do you see that mix evolving, say over the next three years?

Laurence Tosi
So, I would – I describe it this way, which I did a little bit in my speech is that the more recent funds are closer to 50-50 North America and outside North America and that's from a level – we were 80% to 85% North America just in the last generation of funds. So, that clearly is a shift and those pools of capital outside the U.S. are growing quite strongly. We're also seeing balance on the high net worth side. It started off primarily in North America and now we're starting to see some really nice growth internationally. With respect to our revenues and businesses, they are all global funds so it depends on where you put the capital to work. The blended average of capital to work today is still about 70% North America versus 30% outside, but that's shifting. As you can see, we've now for the last 18 months been pretty close to 50-50 North America versus international investments.

Tony James
And even international investors for the most part give us dollars – give us investment in dollars. So we get our revenues in dollars from international investors, if you will.

Michael Cyprys
Okay. So, about 70% of invested capital base is in North America with 30% outside?

Laurence A. Tosi
Right.

Michael Cyprys
Okay. Great. Thanks.

Operator
And our next question comes from the line of Luke Montgomery with Bernstein Research. Please proceed.

Luke Montgomery
Hey, good morning. In Credit, you've been saying a lot of the capital deployment's been Europe, maybe you could just update on what you're seeing there and how we should think about the strategy in terms of origination versus buying assets? And more specifically, you're considering opportunities in Greece with the possible privatization of assets there and what's

your appetite for buying non-performing assets from so-called bad banks like Real Estate from the Irish bad bank, NAMA?

Tony James
Okay. So most of our investing in Europe are new loans in other word – as opposed to buying assets in the secondary market. However, we've setup some joint ventures with some European banks to do some things around non-performing loans. We definitely have an appetite for that regardless of the sellers kind of the question of the underlying asset quality, although our Real Estate debt and our corporate debt are done by different groups. So, as you know collectively we've bought non-performing loans substantially in Spain, in Italy, in Ireland, and in other places.

We have not bought anything in Greece to your specific question. And without a presence on the ground in Greece, I don't think that's ever going to be a big part of our mix and it's also hard to predict what's going to happen, because it's such a political social process, not really an economic and business process. And in our kind of assets, it's one thing for people to speculate what's going to happen with Greece in public markets, if you're wrong you can sell out and stop bleeding. Once we buy an asset, we own it for a long, long time. So, you got to have – you got to be able to develop conviction around what's really going to happen and that's hard right now.

Luke Montgomery
Okay. Thank you.

Operator
And our next question comes from the line of Michael Carrier with Bank of America. Please proceed.

Michael Carrier
Thanks, guys. L. T., just I had a few questions on the FRE, both the current quarter and then probably more importantly the outlook. So, I guess just on the current quarter, if you can just give us a little bit of color. I know you said on the transaction fees in PE, there were some items and then also in the non-comp expenses, I am assuming there might have been some fundraising cost in there, but just those two line items kind of unusual, so what's maybe more of a normal run rate? And then, if you look at the management fees in the Real Estate business, it looks like your fee AUM went up, but your management fees didn't go in tandem.

I mean, I don't know if in the past quarters there's been some catch-up fees that you've been getting as the fundraising has been going on, but just wanted a little color on that. And then, finally, just in terms of the outlook, given how broad the business is now, just trying to understand as the fee start to kick in on BREP VIII and BCP VII, what we should be thinking about in terms of the operating leverage or the scale for the margins? Because if we look back and compare the business in prior cycles, it just vastly different. Just want to get a sense of how much upside we can see on the margin across the cycle?

Laurence Tosi

Okay. Lot in that. Let me take each piece. Let me start with management fees in Real Estate, you didn't have the impact of BREP VIII in the second quarter and so I think that's what you're seeing playing through there, so you don't see the uptick. You did have asset sales, which of course would have the opposite effect of bringing our management fees down.

With respect to one-time items in the quarter, there's really two drivers and I'll speak about that across the business is that, you do have fundraising expenses that impact, for example, BCP VII, you have fundraising expenses now, but you don't really have the management fees to offset that yet, so it's a timing difference that we've seen in the past. And you did have some legal reserves that we took inside of the Private Equity piece. But I would say, Mike, if you look back at the first quarter, that's closer to the run rate we would expect, ex interest and fundraising expenses or non-compensation expenses are largely 1% or 2% growth year-over-year, so we're keeping a tight rein on that

.

If you ask about the outlook going forward, certainly having, we have almost $56 billion of committed capital that's not paying fees that will come online. I gave you some timeline on that in my last answer. And that will certainly have an uptick in our fees going forward.

Let's talk a little bit about margin. Margin hovers in and around for fee-related earnings, in and around somewhere between 29% and 31%; 32% to 33% at the height, and it will fluctuate within that, but you won't see a lot of earnings leverage other than a couple of hundred basis points as those funds come back on, and that's just by the way that we design the firm, we reinvest in the firm and the way we do compensation ratios.

Michael Carrier

Okay. Thanks. And then just on the DE, I think last quarter you gave like the of catch-up related to BCP V, I don't know if you had an update, but obviously the outlook is pretty good for the distributable earnings, but I just wanted to get a sense on how far along we are in the catch-up phase?

Laurence Tosi

Sure. So there's really two phases of catch-up, there's how it hits unrealized fees and then realized fees, the way you might interpret that is what hits ENI and what hits DE. On an ENI basis, we're 85% of the way through the catch-up, and on a DE basis we're 70% through the catch-up. So that's how I would model it.

Michael Carrier

Okay. Thanks a lot.

Operator

And our next question comes from the line of Glenn Schorr with Evercore ISI. Please proceed.

Kaimon Chung
Hi. This is Kaimon Chung for Glenn Schorr. Just trying to isolate further the ENI driver this quarter, I mean, there were big differences between first quarter and second quarter, public versus private, America versus EMEA and most of that took place in late June on macro concerns like Greece and China and higher rates. Have these trends reversed lately and more importantly has anything changed your overall outlook? Thanks.

Laurence Tosi
Well, Glenn, first a couple of things. I think it's always hard to take when you look at our business it's really hard to take one quarter in isolation. Actually if you look at the year-to-date numbers on appreciation for Private Equity and Real Estate, Real Estate is at 9% and Private Equity is at 9.5%. We just had a particularly strong first quarter. By the way you also had a really strong second quarter of last year where we saw near record levels of realizations. So I would look – always take a longer term and look at the run rate of the appreciation.

That actually more fairly reflects the underlying operating fundamentals, which Steve pointed out are really good in Real Estate and they are really good in Private Equity.

Tony James
Just on that Kai, I mean, I tend to look at LTM and they’re in the – Private Equity’s at 16.5% and Real Estate’s at 20%, just chugging along at those kind of levels where they've been for last several years.

Laurence Tosi
And so following on that, we have seen a comeback in the – the primary driver of the publics was in Real Estate in the second quarter, where you had Real Estate publics were down in line with the REIT index about 10% – about 35% of that's come back. The disconnect – which is good for investing, bad for mark-to-market – is that the operating fundamentals of our public Real Estate holdings are far better than the REIT index which is flat.

So over time, that disconnect will play out both in the values of the companies that we hold, but also does create some investing opportunities that we like.

Kaimon Chung
Thank you. And then, just one more, what portion of the GE deal is in the numbers and what is not?

Laurence Tosi
Actually, very little of it is in the deal. It's a complicated transaction across several funds and the closings will take place over time. There's been a couple of small closings, but the bulk of it has not closed yet, Glenn. So it will take over the next quarter, maybe quarter plus, it might take more than just the third quarter.

Kaimon Chung
Yeah. Thank you.

Laurence Tosi
So, for example you closed in BXMT, which is the first most liquid assets, but you haven't closed – the other assets will take some time. Remember, there’s loans, real assets, mixed in the business.

Tony James
And there’s people to move, it's an organization – there's organizational aspects of this as well that takes some time to sort out with GE.

Operator
And our next question comes from the line of Craig Siegenthaler with Credit Suisse. Please proceed.

Craig Siegenthaler
Thanks. Good morning, everyone. So, I just have two questions here on Real Estate. First, is it reasonable to expect an increase in capital raising from Core+, just given the distribution resources allocated to BREP VIII over the last nine months? And also, could you provide a little more color on the $4 billion of uninvested reserves at the close of BREP VII? Thank you.

Tony James
Okay. Let me talk about Core+. Yes, it's reasonable to assume that that business will continue to raise substantial capital. And that's been ramping up very nicely. I think they raised several billion dollars just in the last quarter. And the beauty of that business is it's a business where we can scale the money to put to work to really to match what's raised, and we get that money in the ground very quickly. And so, we're doing some interesting things there which will expand the target audience for that product as well. So I think that will scale nicely. In terms of the breakdown of the dry powder...

Laurence Tosi
Yeah, I'll do that. It does look a little unusual, Craig, because normal you'd see us take reserves of around 10% or so, and then you'll see that when we end a fund you'll see that then – that capital will be retired. In this case, we had so much recall capital in BREP VII because there were a lot of deals that we actually exited quickly, meaning fund returns have been excellent in that fund, that the number looks bigger at $4 billion. So the size of the reserve is larger than you typically see because of that recall capital.

Joan Solotar
But of that also, a $1 billion has been committed, it's just not invested yet.

Laurence Tosi
So then you’ll end up with $3 billion left over on top of that, which again will be larger than you'd normally have.

Craig Siegenthaler
Got it. Thank you.

Operator
And our next question comes from the line of Patrick Davitt with Autonomous. Please proceed.

Patrick Davitt
Hi. Good morning. Thanks for taking my question. I read an article this week about LPs and sovereigns increasingly setting up their own in-house management capabilities. It reads like it's still in the very early stage particularly in your world in alternatives, but to what extent are you seeing that and how does it affect the conversations you're having with them as you fundraise? And, I guess, if this really is a trend in the long run, do you think you can co-exist peacefully if that's where it's going?

Tony James
Yeah. Okay. This has been a trend for a long time actually and certain investors are far down the road than others. To do that well and to do it in scale, takes a big company. So only our biggest LPs are set up to do that. Of the biggest LPs, most of the public funds in the U.S. which is the core of our business, for the most part do not have the mandate to do that, do not have staff to that, do not have the budget to hire the staff to do that and will not do that.

So where we're seeing large LPs effectively doing direct investing is really the international. It's been led by the Canadian pension funds, but there are certain other international institutions that will do that as well. But again there, many of those international institutions particularly when we're talking about Asia and Middle East, they want to base their operations in their home country, they want to staff it with local nationals and it's very hard for them to be effective on a global basis.

So bottom line is we don't worry about this as a trend, first. Secondly, to the extent they want to do direct investing, for the most part, the more enlightened ones, the Canadians are a bit of the exception, what they want to do is they want to use that direct investing to look at co-invest with trusted sponsors. So, what do they do, is they give capital to funds, most particularly our funds, and then in return, they expect us to offer them some co-investment opportunities where their deal team will jump on and look at it and that's been a very symbiotic relationship, frankly. And in fact, their goal for more direct investing has really encouraged them to concentrate more resources with the biggest players like us. And so, I think we are actually net benefiting from that. However, there is definitely more capital in the market looking to be invested in deals than just the committed capital in the funds, and that of course just has an effect on the overall supply and demand of capital. But generally speaking, it's been a trend, but not one that's going to threaten our core business.

Patrick Davitt
Okay. Great. Makes sense. And then, just quickly, we've seen a few of the announced strategic deals, which – could you update us on kind of the filed and maybe even close to filing – IPO pipeline, maybe some numbers there, how that's tracking?

Tony James
Well, we have four or five things in – they are not all IPOs necessarily, most of them are secondaries, frankly. But we have four or five things in the pipeline, I would say, in Private

Equity and probably three or four in Real Estate, all of which are possible depending on price and market appetite and one thing and other. The Real Estate sales, in light of the soft quarter for real estate-related equities, that's probably a little cooler in the last 90 days, especially because those companies continue to have great EBITDA growth. So we really paved the way and we're accruing more value by holding it now. And so, that means bigger future gains. So we're very patient about that, but we keep chipping away at it.

Patrick Davitt
Okay. Thank you.

Operator
And our next question comes from the line of Bill Katz with Citigroup. Please proceed.

Bill Katz
Okay, thanks very much. I got – I inadvertently cut off the phone, so if this was answered, I apologize in advance. You mentioned very strong year-on-year growth in the unrealized receivable. Sequentially though looks like it's down about 9%. Just given the very strong pace of distribution, how do you think that that receivable plays out over the next couple of quarters? We had a peak or do you think that that can actually start to reverse and climb again, again just given pace of distributions that's going on right now?

Laurence Tosi
Okay. First of all, I didn't say very strong, I said, it was up year-over-year, which I think is remarkable given the amount of realizations that we've had, and it's almost, I guess, about $4.8 billion of total – let's call it incremental realizations. And remember, 70% of the receivable as of the close of the second quarter of last year has now been realized. And so, that realization rate has picked up. It was 45% realization rate over the last couple of years, now it's picked up to 70%.

I think the comparability's sequentially is difficult because in the first quarter, you always have the incentive fees related to annual Hedge Fund high watermarks that hit in. So it's not surprising to us even with lower level of appreciation that the receivable didn't go up this quarter because you do have that comparability issue, but I think we feel like what's in the ground now, by way of example, the investments we've done over the last couple of years are only about 15% of receivable, so there's a long way to go with a lot of capital. That's about – by the way, that's $40 billion of capital we have in the ground; that's only 14% of receivables. So, as those businesses click on, we think there will be forward net momentum in growth and receivable.
I would also point out that the growth isn't uniform when we typically do a Real Estate or Private Equity deal. You have relatively low level of value in the first year because you're basically holding it largely a cost, what you see is an acceleration over time. And then, of course, we're still exiting assets at 20% to 25% premium to our prior quarter mark, so that will kick in as well. So we actually feel good about the forward outlook and that's why I gave you some of those stats in and around the growth of the underlying portfolio and the fact that even with these realization rates, we're still adding to the receivable. So we most certainly do not see it as a peak.

Bill Katz
Okay, it's helpful. And then you've been very successful in gathering assets in the retail business. Could you talk a little about maybe geographically where you're seeing that growth U.S. versus non-U.S. and which products in the underlying demand you see going ahead?

Tony James
Yeah. Okay, so it's Tony. The vast bulk of that is in the U.S., and in fact we built an international organization, but we're really just coming through the first year of that. About a $1 billion was – the various amounts that we raise retail is international and the rest – year-to-date, the rest has been domestic. And so, we've got a lot of potential, untapped potential still in the international markets but we're starting to get that and we've got people on the ground, the organization on the ground to do it.

Bill Katz
And just one last one. Obviously, just tremendous success in both the Private Equity and Real Estate respectively. You mentioned you had more demand at the end of the day. What drove you to cap it where it is right now, given that you are deploying at a pretty high clip, is there any sort of supply/demand concept you're thinking through in your minds?

Tony James
Which fund, Bill?

Bill Katz
Both the Private Equity and Real Estate, right? And you said, you were oversubscribed in both I believe, I recollect, maybe wrong there, but.

Tony James
Yeah, definitely.

Bill Katz
Why cap – I mean, obviously very impressive numbers, so not trying to quibble but just conceptually trying to understand why not go for $20 billion, in your mind what was the holdback?

Tony James
Yeah. Sure. Well, part of that is the dialogue with your LPs. So, you try to find that magic amount that they're comfortable with and that you can deliver on, and balance that with demand. The investment pace has been strong, but particularly in Real Estate it's been strong. In Private Equity, it's a little more challenging to put out capital at record investment levels.

In Real Estate, an awful lot of the money has been put out in America in the last few years and that market is becoming tighter, and so – and it's the biggest market. So we're just trying to be smart about not so much what we're investing today but what's the right level through the cycle. We've got four years or five years, we actually have six years to invest these funds but we try to target to invest them in four years and five years, much quicker than what we've got in order to deliver on our LPs – for our LPs, keep the J-curve down. And so, we thought these are – we thought these are reasonable levels. They are the two biggest funds in the world of their types so we are hardly like – being unduly conservative, I don't think.

Bill Katz
Understood. Thanks for taking my questions.

Operator
And our next question comes from the line of Robert Lee from KBW. Please proceed.

Robert Lee
Great. Thank you, and thanks for taking my questions. Maybe the first one is just kind of a little bit of modeling question. But I notice that in the calculation of DE, I mean year-over-year, the other payables is down to 85%, and I know typically I think the second half of the year tends to also be a little bit higher, so I know it was zero this quarter. So, should we be expecting that that's going to ramp back up to kind of what I call more normal levels in the second half of the year?

Laurence Tosi
Yeah, you should. It has to do with how we calculate it on the different assets that go through and it relates to the tax receivable agreement. So, yes, Rob. You should look at it on a more normalized basis.

Robert Lee
Okay, great. And then, question on financial advisory. I know in the presentation you talked about that being on track for the second half but just kind of curious, the spin of the advisory business, when do you think you may be able to expect the kind of more details on it so that we can kind of start thinking about the value for BX shareholders that will be unlocked by that spin and putting some value on it?

Laurence Tosi
Okay. So, Rob, we filed a Form 10, which you can go through and it'll show what – basically the carved out financials for PJT are. So, that gives you the detail. I think right now we're expecting that the spin will happen sometime this fall, which we're expecting to do.

With respect to the earnings to date, and this is in the press release but let me reemphasize this that that business will from time to time be lumpy with respect to its returns, and we think by the end of the third quarter, it will be up year-over-year.
So, there's a bit of a comparability issue. In fact, if I just took the results through today, as we sit here, the 16th of July, they're actually up year-over-year so they had some scale deals close just after the end of the quarter.

With respect to the distribution itself and valuation, I think there is already some reports out there on valuation, I'm not going to speculate on that piece.

The impact on Blackstone is, it's about 3% on ENI and about 5% on DE, both of which are numbers that we frankly would grow through in six months to nine months with respect to the regular activities in Blackstone. So, it will be a good one-time distribution to the shareholders which, as I said, we expect to happen this fall, and we think with respect to the impact on Blackstone, it will not be material over time.

Tony James
And the timing – to put a little more specific of about timings, someone near the end of third quarter or the beginning of the fourth, right in there.

Robert Lee
Right. Great, I appreciate that. And then, my last question is – and I'm sure it's probably one you guys had referred in the past. But going back to the balance sheet and capital, I mean, you've done a great job expanding the business and it doesn't actually feel like you've had to commit a lot more capital with newer strategies or at least been able to maintain it very steady, raised a lot of cash and a very cheap debt and I think you make a pretty compelling case about the stock being cheap and undervalued. So, I'm just still kind of wondering what the reticence is about thinking – putting share repurchase in the mix, given your liquidity, given you haven't really used a lot of that, you haven't needed to use a lot of it's kind of expand the franchise and you do make a pretty good case of that, I think on the value.

Tony James
Yeah, well, we love the value, but we also think we have a huge number of growth opportunities frankly. And you're right, we've done a pretty good job managing down some of the percentage capital commitments in our core funds. If you look at, what we did a few years ago on BCP V and BREP V, I guess, IV, I can't remember, they were big, bigger, much bigger percentages of the capital than they are today. Having said that, some of these new vehicles we're doing have huge potential scale. Just Core+ Real Estate, that got the "$50 billion," which is I think certainly within the realm of possibility, it could take a lot of capital. And some of the things our businesses are doing could really scale. The other thing is, the acquisitions we've done, all of them have been very, very accretive. We've been disciplined about it, but I think if you add up the number, it's more than people perceive, that's probably, L.T., six, seven acquisitions?

Laurence Tosi
We've done eight acquisitions since the IPO, eight acquisitions and so the capitalput to work was about $1 billion.

Tony James
And those are very lumpy. It's a little hard to predict those. And the other thing is we don't generate positive cash really, because we pay it out to our LPs. So we do need to be careful about our balance sheet, to be able to fund the growth and have available capital for the opportunistic things like acquisitions. And then we're just very conservative financial managers, which is – we think that our LPs, when they give us money for 10 years or 12 years, they should know they're giving it to the Rock of Gibraltar in terms of its solidity. And so that's kind of our view and that's been – our driving view about the balance sheet is not to lever up.

Laurence Tosi
Can I add two things to that – so the acquisitions have turned out really well, I mean, they're better than a 30% IRR in the deals that we've done and that reflects the fact that there is so much

synergy when we find the right teams and the right thing. The other thing I'd say is that what's unusual is we don't have the same dilution you see in a lot of financial services companies or asset managers who are giving out a lot of stock every year, because the characteristics of performance fees has a certain vesting period with it. So if you look at over the last eight years, we've averaged just over 150 basis points of dilution from stock given out over time, so we're not creating that type of headwind and, of course, we've done good things with the capital and we've earned our way through it.

Robert Lee
Great. I appreciate the color. Thank you so much.

Operator
And our next question comes from the line of Michael Kim with Sandler O'Neill. Please proceed.

Michael Kim
Yes. Good morning. Just first wanted to come at the outlook for realizations maybe a bit differently. I know there's a lot of moving parts and it's difficult to make generalizations across the different businesses. But just curious to maybe get your thoughts or perspective on sort of the potential trajectory for realized performance fees. Just at a high level, it seems like there is a bit of a push/pull in terms of more seasoned portfolios on the one hand versus maybe a bit more volatile market backdrop going forward. So just curious to get your thoughts on how that might play out as it relates to exit activity.

Tony James
Okay. Well, I think if the market conditions of today are reasonably stable, you will continue to see a high level of realizations. Obviously, if the markets fall out of bed, they will go down, and if the market gets hotter, you will probably accelerate. But in today's markets which – the S&P is at about 16% PE; they feel not undervalued but not peaky either, at least equity markets, you will see a high level – you will continue to see strong realizations.

Having said that – and so our realization activity will be – there is some variation in that, but it's not near as big as I think what most – what the market expects. So I look at the kind of level, maybe we are slightly above normal this year. I think last year was about a normal level and an average year going forward that we could expect to distribute. And there will be some years we're a little below. But this isn't – we're not like at some kind of huge peak way above normal now. So if you look at what we did last year and you think okay, a little higher in strong market years, a little lower in weak market years, you wouldn't be too far off in my opinion.

Michael Kim
Got it. That's helpful. And then, just maybe to follow up on the fundraising side. Obviously, a lot of demand from LPs and it does seem like GP rationalization is starting to pick up. So just wondering if maybe the balance of power, if you will, has shifted a bit back in favor of the GPs in terms of fees and/or structures to the point where maybe you're hearing less noise from LPs as it relates to the terms?

Tony James
Well, we're hearing less noise, but we've also improved the terms for LPs. So if you look at our Private Equity fund, for example, you look at fee splits, it's gone from 50/50, i.e. we got 50% of each fee and they did, to 65/35, to 80:20, and our most recent Private Equity funds were essentially 100% of the fees go to LPs. And there's never been any particular pressure on carry in the core funds.

So I think at this point that's stable, partly because sure, the market environment maybe the balance of power is to the GPs that have good records. But as much as anything LPs have made some progress. On some of the newer funds that we started, like Tac Ops and some things like that, you'll see there, rising fees and carry as we've established those track records. And so, there should be some good news for that with certain of our products.

Joan Solotar
But overall base fees for the core products really haven't changed. They didn't go down in prior years than where they were.

Michael Kim
Got it. Okay.

Tony James
Really to flesh that out, actually, we increased base fees slightly on Private Equity as we shifted from deal fees splits into base fees. So generally speaking, it's a very stable picture.

Michael Kim
Got it. Okay. Thanks for taking my questions.

Operator
And our next question comes from the line of Brian Bedell from Deutsche Bank. Please proceed.

Brian Bedell
Hi, good afternoon, and thanks for taking my questions. Just quickly on the outlook on energy, maybe Tony, if you – or L. T. if you want to describe how you thought energy impacted the portfolio performance broadly across the franchise, I guess, mostly in Private Equity and in Credit segments this quarter. And then, the deployment outlook near term, I know longer term, it's a good backdrop, but if you can you comment on what you're thinking over the next say few quarters for the deployment outlook in segments in energy areas? Thanks.

Tony James
Okay. Energy prices, maybe L. T. has a more specific answer, but in general, energy prices have dampened the returns in both Private Equity and Credit. And by energy prices, I really mean oil and gas prices,which is what I assume you mean, but – and those are fully reflected in our returns. And so, however – we don't have that much exposure really to oil and gas, a lot of our energy portfolio is in power, power generation, renewable power and things, so on and so forth.

And most of our companies are in very solid shape, so we haven't been hit near as hard as most of the other bigger energy investors. We actually – for the most part, our guys are very nimble, they got into gas, earlier they got out of gas at the right time, got into oil, they got out of oil for the most part before the oil prices went down. So our portfolio is very robust and they still are reporting good positive returns notwithstanding what's happen to energy prices quarter-by-quarter. So we're very happy with that overall, but if oil and gas prices – oil was up at a $100, we have higher marks I'm sure. I haven't played that through, but I'm sure we would.

In terms of the deployment outlook, it's picking up and I think it will be very strong. High percentage of the likely closings in our private – or announcements, new commitments in our Private Equity portfolio are energy related, and on the Credit side too with the new fund and some big new deals, they've got handshakes on, that's about to pick up as well.

Brian Bedell
Okay. Great. That's helpful. And then, maybe just a broader picture on the fundraising environment, obviously, it's been so incredibly strong dry powder now up to $82 billion from $64 billion last quarter. You deployed about $26 billion in 2014, and I believe $10 billion so far in the first half this year. If we think about going into the second half, just for you to frame, the sort of conundrum of the heavy demand – oversubscribed demand for the products and the ability to find new places to deploy that. Does that make you want to slow down the fundraising pace even aside from the two big flagship funds?

Tony James
Well, remember the fundraising for the kind of funds we do is episodic, in the sense of, we go raise – we've $16.7 billion closing, our fundraisings for BCP VII. All we can – since there's is a hard cap of $17.5 billion all we can have left on that in the next few years is $800 million. So, and similarly with BREP VIII closed, it's going to be a while before we do another big BREP VIII. So, the fundraise – so we've been through a phase now where our big flagship funds having very successful fundraises and year-to-date both BREP VIII and BCP VII had closings and Tac Ops is in the market.

And so, those are major bites, which will kind of be behind us. Now there is a lot of other products and new products and other things, which coming up, it's not going to fall out of bed, but – it's not something you decide, oh, well, let's raise a little more this quarter, a little less next quarter, because we're kind of – we do it fund-by-fund and those are episodic. But the investment pace, I think is very sustainable at where it is now. The returns have been great. We don't feel we're having to compromise at all to get high returns. And I don't see any reason why we can't run with sort of $20 billion investment pace for a while. Some markets are cooling a little bit, but we're still finding things to do, other markets are heating up. So and then as I say some of the new products are just really big scale. So, I think we're in a pretty balanced area here.

Joan Solotar
But I think you also have to look at where your fundraising is – as Tony said, so in areas like Real Estate Credit after GE deal, they used up a lot of capital, European Real Estate, et cetera. So, it's really based on the pace of investing rather than when we want to take in money.

Brian Bedell
Great. And then I think you quoted a number for Core+ fundraise in the quarter and I missed that – what was that number?

Joan Solotar
Yeah. It's – so, total in Core+ is about $7 billion.

Brian Bedell
$7 billion total, yeah. Great, great. Thanks so much for taking my questions.

Operator
And our next question comes from the line of Devin Ryan with JMP Securities. Please proceed.

Devin Ryan
Hey, thanks, good afternoon. Appreciate the view that Credit and Real Estate will do well when rates move higher. Just given the expectation that rates could move over the next six months and looking, I guess maybe within Private Equity, specifically, I know that you guys underwrite every deal that the buyer is going to have more expensive financing. I think that's probably been a conservative assumption in recent years. But with the view on potential rates moving, does that change the premium relative to the existing market that you guys have kind of benefited from recently? And then, I guess, also do you see any shift in competition from higher rates that could impact your ability to sell products or buy assets?

Tony James
Okay. Not sure I completely understand all the question, but let me just sort of meander around a little bit. As you say, when we go into a deal, we assume that the buyer is going to be buying from us five years from now in a normal credit market whatever we think that may be. That – in today's – by comparison in today's world that would be lower debt to EBITDA multiples than is available today at higher rates. Could we be wrong on that? Yes. And – but, I don't think that – and if we are wrong, I think it's more apt to be better credit markets, but we're already assuming rates rise in that.

And, but a lot of our investments are not just public to private LBOs where you put the maximum amount of debt on, many times frankly, we are not taking all the debt available because we want more conservative capital structures. And the guiding principal in our investing in Private Equity is not levered returns, it's unlevered returns. So, we have to be able to drive unlevered return zero, not a dollar leverage on a portfolio company investment to higher rates than investors can earn in the S&P for us to want to do the deal.

And so, then – so if we're doing that, we become much less sensitive in our investing to amounts of leverage. Also to the extent we do a lot of things built on, developing or building new assets, whether they be energy or infrastructure or things like that, things in emerging markets – again, we are not – those returns are driven not so much by the amount of leverage available. The other big themes in Private Equity that we do are consolidations where we back a great management team to buy a company in an industry where think we can roll up a lot of the other players, at very, very attractive multiples of post-synergy EBITDA. And the return is not at all driven by the amount of leverage. Return on those deals is driven by our ability to continue to effectuate acquisitions and get the operating synergies.

And then, the other kind of business that we've moved to actually, because we felt like the most overpriced assets in this market are slow growing cash flowing assets, almost like bonds. So bonds are the most overpriced financial asset, but slow growing mature companies with lots of cash flow are the values where leverage has pushed up the values the most, and where you're most vulnerable if rates come up. So we've moved away from those kinds of assets in our acquisition activity. And if you look at, in addition to energy, in addition to the consolidation plays, the other thing you'll see us is doing growth investing actually where you always had a high percentage of low capital structure for those investments in equity.

So if you're paying 12 times EBITDA for a company and you had five times debt, the fact you can get 5.5 times now doesn't affect your price very much and you're still getting a high quality company with real organic growth. So, again, I think that the value and returns on those companies will be contingent on us continuing to get the growth and continuing to have a franchise, not on credit markets. So I think I feel very good about the fact that we're not premising our investment strategy on these credit markets and we're not even really in some ways even taking the advantage very much of them.

Devin Ryan
Got it. Thanks. That answers my question. I appreciate it.

Operator
The final question is coming from the line of Eric Berg with RBC. Please proceed.

Eric Berg
Thanks. Just a couple of questions. First, I would have thought that given the underlying – given the strength of the fundamentals of your underlying investments, your portfolio companies, EBITDA and other measures of fundamental strength and given, too, the strength of the stock markets, especially outside the United States in the first quarter of this year, I would have thought that your year-to-date economic net income would have been up, but it too was kind of flat. What's your interpretation of that? Why would that happen given the factors that I mentioned?

Tony James
Yeah. Okay. So, I mean, let me take a whack at that and then maybe everyone will jump in if they want. But, first of all, our economic net income this quarter versus the same quarter last year is not so much a function of what's happening now. Yes, we're accruing values, we're accruing good values. That's why we gave you the returns on these funds, which are Private Equity 16.5%, Real Estate 20% over the last year, those are great returns. But if we compare ourselves to a quarter last year, when the markets boomed, you might have had even bigger markups. And so it's a mistake to think about – you're kind of conflating a little bit absolute return and relative return for a given quarter. First of all.

Secondly, remember too that while the European market – foreign market has been strong, the dollar has been strong too. So currencies are a factor here because we translate back into dollars. And then, then we have different fund dynamics where some funds are in catch-up and other funds aren't, funds go in and out of catch-up. And that affects the amount of the gain which shifts – and then some funds have different comp ratios than others. And so depending on where the gains are, it affects how much flows to ENI in a different quarter.

Eric Berg
Okay. My second question is sort of a – may I ask the second question real quick, you have time to take it?

Joan Solotar
Of course. Go ahead, Eric.

Eric Berg
Thanks very much. It's a broader non-numerical question. It's more on sort of the business plan at Blackstone. One of the things that occurred to me, I'm deeply involved with following the retirement savings business. And given your success as both agents and principals, let's talk about as agents for others, given the fact that you've been – that you have so far outperformed the stock market and credit market indices and given this retirement crisis that we continue to have in this country, can a way be found to sort of – obviously, you are contributing to the solution by working for your pension fund clients, but what about defined contribution 401(k) and related areas. I would love to get the management's view on how are they in coming – in the next year or in coming years, your investment success and prowess could be put to work in helping solve ordinary people's income needs in retirement or is that not realistic?

Tony James
Well, first of all, let me say that you're my new favorite person and we're going to get you on the road, have you spend some time in Washington and everywhere else in the world. We completely agree. Let's just start with that. And frankly have been spending some considerable time on this. I have the view that the hidden crisis in America that no one is talking about is what's going to happen with all of these 20, 30, 40-year-olds who no longer have corporate pension funds with defined benefits, so they've got 401(k)s and they're making little contributions in there, which is earning very, very little. When they retire at 65 and they don't have enough to live on and its entire generation, maybe two generations of people, we are going go, oh my god, what happened. And if they can't invest money at higher returns than 4% to 5%, which is all the public markets are going to give you, we're going to be in trouble as a country.

So I think that Blackstone has an obligation to save the country by delivering superior returns consistently with reduced, I'd say reduced, lower risks than public markets to retail investors. Now, there is a lot of institutional barriers to do that, but retail investors need these products just as badly or worse than institutional product, because they have less options today. And the reason that institutions have moved over the years from 5% of their assets into alternatives, with the average pension being 20% and the average endowment being over 50%, the more sophisticated the institutional investor, the higher the percentage of assets they have in alternatives, is because that's the only way they've been able to – are and will be able to get returns.

But there are lot of institutional barriers for retail investors, not starting with Department of Labor and a lot of other things, which just now prohibit it, because they require daily liquidity, daily mark-to-market; some of our products don't lend themselves to that. We're creating products that can accommodate that, but it's a small subset of what we do, and a lot of the returns we make come from the fact that we can free ourselves from the tyranny of daily liquidity and take advantage of the substantial enhanced returns that come when you can do that without taking more risk. So as a society, we will need to work on this, and I promise you, eventually people will recognize this has to happen and we are there to serve when it does.

Eric Berg
Okay. I look forward to talking to you more about it.

Steve A. Schwarzman
Yeah. I'd say – this is Steve – that Tony has given a terrific answer on it. This is basically a political issue and it's a misunderstanding of risk. And somebody thinks that they're protecting the public from firms and asset classes like – that we're in. We've been doing this for 30 years and have averaged about double the stock market and some of our asset classes have lost virtually nothing. And so any rational look at the situation would come to the kind of conclusion that was implicit in your question and explicit in Tony's answer and this should really happen. But there are certain political beliefs that they just don't want to encounter reality. They have a theory that things actually are different than they are.

And so, as we go through political cycles, there may be changes in this, but there is an economic reality that the performance is there and people need this stuff. They need the returns. They've solved that problem institutionally. When we started in the business, alternatives were somewhere around 2% of institutional portfolios. They're now somewhere around 17% to 20%. Some institutions are at 40% and the public's at 2%, and they are being held back unfairly in terms of their own retirements and wellbeing. And I'm optimistic that this will ultimately be addressed and it would be a terrific legacy frankly for an administration to do something like that for people because if you don't have a good retirement, given the age people live to now, I mean, that could be 30% of your life and people need to be supportive.

So you hit a hot button with us where you can tell by Tony's answer or my answer. And if we can unlock that, the scale of the firm would get to a really remarkable thing. I mean, there are people who have $4 trillion plus managing public money with returns that are a fraction of ours. Now, we can't deploy that much money in our current mode, but just think about that, I mean, it's a huge opportunity for us at some point in the cycle.

Eric Berg
Well, again, good luck to you on getting that done. Thank you.

Joan Solotar
Thanks, Eric. Thanks, everybody. If you have follow-up, please feel free to give us a ring.