BLACKSTONE Third Quarter 2018 Earnings Investor Call
October 18, 2018 at 9:00 a.m. ET

**Moderator**: Good day, and welcome everyone to the Blackstone third quarter 2018 investor call. During the presentation, your lines will remain on listen only. If you require assistance at any time, please key star zero on your telephone, and a coordinator will be happy to assist you. If you wish to ask a question during the call, please key star one on your telephone. If you then decide to withdraw your question, then please key star two.

I'd like to advise all parties this conference is being recorded for replay purposes. I now would like to hand it over to Weston Tucker, Head of Investor Relations. Please go ahead.

**Weston Tucker**: Great. Thanks, Matthew, and good morning. Welcome to Blackstone's third quarter conference call. Joining today's call are Steve Schwarzman, Chairman and CEO, Jon Gray, President and Chief Operating Officer, Tony James, Executive Vice Chairman, Michael Chae, Chief Financial Officer, and Joan Solotar, Head of Private Wealth Solutions and External Relations.

Earlier this morning, we issued a press release and slide presentation which are available on our website. We expect to file our 10Q report early next month. I'd like to remind you that today's call may include forward looking statements which are uncertain and outside of the firm's control, and may differ from actual results materially. We do not undertake any duty to update these statements. For discussion of some of the risks that could affect results, please see the risk factors section of our 10K. We'll also refer to certain non-GAAP measures, and you'll find reconciliations in the press release on the shareholders page of our website.

Also note that nothing on this call constitutes an offer to sell or a solicitation of an offer to purchase an interest in any Blackstone fund. This audiocast is copyrighted material of Blackstone, and may not be duplicated without consent.

So a quick recap of our results. We reported GAAP net income of $949 million for the quarter. Economic net income, or ENI, per share, increased 12 percent year over year, to $0.76. Distributable earnings per common share also increased, up 21 percent to $0.63. We declared a distribution of $0.64 to be paid to holders of record as of October 29th, and that includes a $0.10 special distribution announced previously.

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

**Steve Schwarzman**: Good morning, and thank you, Weston, and thank you, everyone else, for joining our call. Blackstone reported excellent results for the third quarter, characterized by strong growth in our key financial metrics, as well as industry record assets under management and inflows for the last 12 months. Jon and Michael will review our results in more detail, but as we highlighted a few weeks ago at our Investor Day in New York, our firm has never been stronger or the outlook more promising. We
continue to execute on our mission to be the best in the world at what we do, which is to deliver outstanding returns to our limited partner investors across an ever-expanding array of strategies, which also translates to great results for our shareholders.

When we execute on this mission consistently and over long periods of time, our LPs entrust us with more and more of their capital, including $125 billion of inflows for the past 12 months, driving total AUM up 18 percent to $457 billion.

The market backdrop has become more turbulent recently, as everyone knows, with risk assets around the world impacted by growing concerns around macro issues. These include rising interest rates in the United States, trade tensions, emerging markets weakness, and geopolitical risk in Europe. Taken together, these issues add up to more uncertainty and volatility in an already complex investment environment.

However, the US economy remains in great shape by nearly any measure. Growth is strong, confidence is high, and there aren't any signs of the excess we saw ahead of the last down cycle. Interest rates are likely to continue moving higher, but if that happens in alignment with better growth, which we believe is likely, that should help offset some of the downward pressure on multiples.

On trade, although our companies have modest direct exposure, progress has been made, including resolution on NAFTA – which has got some new name, USMCA – which we expected, but got done within two hours of the deadline.

On China, trade issues have now been joined by technological and geopolitical concerns. As a result, it's likely to take some time to reach agreement on each of these matters. I think it is worthwhile to briefly remind you of the benefits of long term, locked up capital in times like these. We are not forced to invest, nor are we forced to sell, and we do neither unless we have a strong conviction that the asset or company will generate a good return for our investors.

We're always looking around the world for interesting investment opportunities, and where we can match great talent against those opportunities to build a scale business, we go ahead.

One of these new areas is Blackstone Life Sciences. We previewed this to you on Investor Day, and two weeks later, we announced the acquisition of Clarus, a leading life sciences firm, to jump start our efforts. Although this business will not initially have a material impact on our financials, it has great potential over time, given the rapid advancements in science and innovation occurring in the sector, and the current lack of funding and operational resources.

And we have many other promising new initiatives underway at Blackstone. As we continue to grow, our key differentiators remain our people and our culture, which were on full display at Investor Day. If you attended or watched the replay on Blackstone.com, thank you for dedicating a few hours of your time to learn more about our firm. If you
haven't, I highly encourage you to do so. You will see why at Blackstone we're so optimistic about the future and why I personally believe the best is yet to come. And now I'll turn things over to Jon.

**Jon Gray:** Thank you, Steve. Good morning, everyone. I couldn’t agree more with Steve about the strength of the firm and the collective optimism we share for the future. At Investor Day, we outlined a roadmap for shareholders, where robust investment performance builds investor confidence and drives Blackstone's culture of innovation. This combination accelerates earnings growth, and also significantly improves earnings quality. We continue to advance against all aspects of this roadmap.

Specifically, investment performance remains quite differentiated. All of our flagship strategies have beaten relevant indices over the last 12 months, just as they have over the last 30 plus years. Corporate private equity led the way in Q3, with 7.5 percent appreciation, and over 30 percent for the last 12 months, while TacOpps and our secondaries business appreciated 16 and 19 percent over the last 12 months respectively.

In real estate, our opportunistic funds were up 3 percent in the quarter, and 14.5 percent over the last 12 months. That's four times ahead of the public REIT index. Core Plus real estate was up 2.7 percent for the quarter and 11 percent LTM. In GSO and BAAM, our flagship performing credit strategy and BPS composite each delivered approximately 2 percent gross returns for the quarter. For the last 12 months, performance for those two areas was 10 percent and 6 percent respectively, well ahead of relevant indices.

This strong performance continues to drive our fundraising results, including another huge quarter in Q3. We had over $24 billion in gross inflows for the quarter, and a record $125 billion for the last 12 months, as Steve mentioned. Amongst the biggest drivers in the quarter were our latest PE energy fund, our new direct lending business, and Tactical Opportunities.

BREIT, our non-traded REIT, is now raising $250 million plus per month, reflecting the potential of perpetual capital in the retail channel. We also launched two more perpetual vehicles in Q3, bringing our total to 13, with the launch of Real Estate Core Plus Asia and our credit direct lending strategy. Total perpetual capital across the firm has grown to $68 billion. Over time, these vehicles should improve earnings predictability, given the sticky nature of the capital, and the fact that realized incentive fees don't require asset sales.

At Investor Day, we described line of sight on $150 billion of potential inflows. We achieved $24 billion of those inflows this quarter, and four major flagship funds, corporate PE, PE secondaries, global, and European opportunistic real estate, have all launched fundraising or soon will. These funds were collectively $50 billion in their last vintage. We expect all will be larger and finish fundraising in 2019. In fact, we expect the majority of capital for our newest global opportunistic real estate fund will close in the current quarter.
As these flagship funds come online, along with the maturation of Core Plus real estate, we expect a meaningful step up in fee-related earnings, as Michael discussed at Investor Day.

Moving to investing, we had another active quarter, with nearly $10 billion of deployment. Major new commitments in the quarter included a midstream Permian investment, a large European bank, and the arches underneath the network rail system in the UK. The last 12 months have seen a near record $48 billion of deployment, reflecting the growing scale of our platform. Post-quarter end, we closed on two large public transactions, the former Thomson Reuters business Refinitiv, and Gramercy Property Trust, representing $3 billion of fee earning deployed capital. Scale continues to be our calling card. All of this investing plants seeds for future performance revenues.

On the harvesting side, we realized approximately $11 billion for our investors, an active pace, reflecting a diverse number of sales across the firm. Combined with solid fee-related earnings, this translated to $1 billion of capital returned to shareholders in Q3 alone, through dividends and share buybacks.

As Steve noted, recent market volatility highlights the power of our business model. We can afford to be patient, with the vast majority of our capital in long term or perpetual vehicles, with an average remaining duration of 12 years. On the flip side, we can also take advantage of market dislocations, with $95 billion of discretionary dry powder and more to come.

One other note. Some of you may have seen the announcement on Monday that Steve's making a major personal gift to MIT of $350 million to further the study of artificial intelligence. His goal is to help the US maintain competitiveness, while also ensuring the study of the human impact of AI, particularly the potential for workforce displacement. We believe this is the single largest investment in computing and AI at any American academic institution. As always, Steve's a visionary, looking forward.

In closing, the firm is truly firing on all cylinders. We remain 100 percent committed to generating exceptional returns for our fund investors, which sustains our growth and greatly benefits our shareholders. With that, I turn things over to Michael.

**Michael Chae:** Thanks, Jon, and good morning, everyone. The third quarter marked a continuation of the firm's robust momentum, highlighted by strong growth in our key operating and financial metrics, and substantial capital returned to our shareholders. Total revenue rose 11 percent year over year to $1.8 billion, while economic net income also increased 11 percent to $911 million, or $0.76 per share, driven by strong fund returns and a steadily growing base of AUM.

AUM was propelled higher by 18 percent year over year to new record levels through the combination of $125 billion of gross inflows and $30 billion of market appreciation, even net of $44 billion of realizations over that same time period.
Management fee revenue rose 13 percent year over year to $779 million on higher AUM, with growth in every segment, while performance revenue and principal investment income increased 4 percent on a combined basis to $996 million.

For the year to date period, which is more informative than a single quarter, total ENI increased 12 percent to $2.8 billion, our second best performance ever for the first 9 months of a year. Growth in ENI for both the quarter and year to date period was led by private equity. Third quarter appreciation of 7.5 percent was driven by broad-based strength across both the public and private portfolios, with particular strength in our energy and technology holdings.

Performance revenue and economic income for the segment both nearly tripled in the quarter to $533 million and $444 million respectively. Across the firm, the funds delivered compelling returns over the past 12 months, with all flagship strategies exceeding relevant public market indices, as Jon discussed. This was achieved despite a measure of FX headwinds impacting our real estate area in particular. Excluding the impact of FX, BREP appreciation in the quarter was approximately 4 percent, versus the 3 percent reported.

Additionally, in credit, third quarter returns were affected by a decline in the stock price of GSO's largest public position. Excluding this investment, gross returns for the performing and distressed clusters were 2.5 to 3 percent in the quarter. And despite the unrealized decline, the investment still represents a highly successful signature deal for GSO, which is generating an attractive realized and unrealized MOIC of approximately two times our original $650 million basis.

In aggregate, despite distributing $1.8 billion of net realized performance revenue across the firm, the accrued receivable balance increased nearly $500 million to $4 billion, up 13 percent year over year, to its highest level in over 3 years.

Turning to fee related earnings, third quarter FRE increased 1 percent year over year to $346 million, and for the year to date period, increased 5 percent to over $1 billion. Adjusting for the monetization of our prior direct lending subadvisory business in the second quarter, underlying FRE growth continued at a healthy pace, up 10 percent in the quarter and 13 percent year to date, in line with our historical long term growth rate.

Looking forward, Jon referenced the four major flagship funds in our near term pipeline. We expect the fundraising for all four to be completed by the end of 2019, and expect to light up those funds through the course of 2019 and into early 2020, subject to the pace of deployment in the predecessor funds. At Investor Day, we spoke about a clear path to a better than 50 percent increase in FRE in the next two years, and 75 percent plus growth in approximately three years, as compared to the last 12 months. The assumptions around fund sizing and timing that underlie that view remain very much intact.

Moving to realization and DE, third quarter realizations of $10.7 billion included in private equity Ipreo and the partial monetization of Royal Resources and other energy
assets, and in real estate, a range of office and other asset sales in the US, Europe, and Australia. These realizations were completed at an attractive aggregate multiple of 2.4 times. For those of you who tuned into Investor Day, you heard me discuss the consistent historical performance of our corporate private equity and real estate platforms, which have both delivered a cumulative 2.2 times realized grossed MOIC since inception, over 30 plus years. At 2.4 times, our third quarter realizations exceeded those long term averages.

These realizations help drive the 23 percent year over year increase in distributable earnings in the quarter to $769 million, or $0.63 per common share. Net of the 15 percent holdback, and including the second installment of our previously announced special distribution, the total distribution to common shareholders was $0.64, up 45 percent versus the prior year. This brings the distribution for the last 12 months to $2.42 per share, equaling to a yield of nearly 7 percent, which remains the highest of the largest 150 public companies in the United States.

In closing, with respect to returning capital to our shareholders, during the quarter, we repurchased another 6 million shares in the open market under our repurchase program at an average price of $36.40. Combined with our regular and special cash distribution, we returned a total of $1 billion to shareholders with respect to the quarter, and $2.3 billion year to date. Going forward, we intend to continue to programmaticallly use our repurchase program to target zero dilution on an annual organic basis.

We remain highly focused on our commitment to drive outsized returns for our shareholders. We believe there are few companies in the world with a growth profile similar to Blackstone that simultaneously sustain such a shareholder-friendly approach to returning capital. With that, we thank you for joining the call, and we'd like to open it up now for questions.

**Moderator:** Thank you. To ask a question, please key star, then one, on your telephone. To withdraw your question, simply key star two. Please stand by for your first question. And your first question comes from the line of Craig Siegenthaler of Credit Suisse. Please go ahead.

**Craig Siegenthaler:** Good morning, Steve, Michael, Jon. So starting with shadow AUM, of the $95 billion dry powder, can you provide us the level of shadow AUM that is not yet earning management fees yet? And then when the fees turn on, what would be the increase in management fees on that shadow AUM base today?

**Michael Chae:** Craig, we'll get you those numbers. In terms of what's not currently earning management fees within our total AUM, Craig, it's about $52 billion. That's on our management fee eligible assets. And I think in terms of the – just stepping back broadly – in terms of the uplift, a portion of that obviously will earn fees upon investment, and a portion of that will earn fees upon activating the funds. And I think rather than try to quantify that exact subset, it is all part of, over the next couple of years, the overall uplift in FRE that we've talked quite explicitly about.
**Jon Gray:** And those shadow AUM numbers, as we close on these funds before they start, will grow.

**Michael Chae:** Correct. We think that dry powder number of $95 billion, and this won't be surprising math, over the next several quarters will well exceed $100 billion, by quite a bit.

**Craig Siegenthaler:** Got it. Thank you.

**Moderator:** Thank you for your question. Your next question is from the line of Glenn Schorr of Evercore ISI. Please go ahead.

**Kaimon Chung:** Hi. This is Kaimon Chung in for Glenn Schorr. We've been increasingly hearing about concerns over the growth of the non-bank lending space and aggressive risk taking by some players, given where we are in the rate cycle and the high leverage levels and beginning sign of some credit problems. Just wanted to get your perspective on the commercial lending market, and maybe just specific comments on – around direct lending CLOs and BDCs performance going forward. Thanks.

**Joan Solotar:** Hi. It's Joan Solotar. So I would say importantly, first just to start with Blackstone because we've gotten that question, we looked back at our portfolio from several years ago, and across the metrics where you would see those signs, so on leverage, we're actually slightly lower on leverage today than we were then. We look at percentage of loans with covenants, it was 75 percent then, it’s 75 percent today. We've had no degradation in the rate, and interest coverage is actually slightly better.

**Jon Gray:** This is all in the context of GSO.

**Joan Solotar:** …and this all direct lending.

**Jon Gray:** Yeah.

**Joan Solotar:** So the focus that we have – these are middle market companies, where frankly the retrenchment of the banks has left them without many alternatives. And I would say our peers who have broad credit platforms are in pretty much the same place.

Now where you have had pricing competition and degradation on underwriting has been more in firms where there's a single SMA or they’re in this one line of business, all they do is direct lending, and there you have had pricing declines. But given our brand, the value that we bring, the flow that we're seeing, frankly, we really have not seen that at all.

**Tony James:** You know, one thing to remember is with the interest rates so much lower now than they were in the last cycle, the debt service coverage ratios are actually much higher than they were in '07 and '08. So absent a big recession, these credits should be fine.
**Moderator:** Thank you for your question. Your next question is from the line of Devin Ryan of JMP Securities. Please go ahead.

**Devin Ryan:** Great, thanks, good morning. So I guess my question is – and I'm getting this question from investors – just around kind of the rising tensions with Saudi Arabia. I know it's a developing story but would love any thoughts around any potential implications on either the infrastructure fund or fund raising or just anything else you can share with thoughts on that would be appreciated.

**Jon Gray:** Sure. So I would start by noting, like everybody, we've been concerned about what we've been reading the last couple of weeks. That said, for us, we take a long-term approach both to our relationships and to building businesses. So I would just say, as it relates to our investors, we have relationships with them and their institutions over decades and when we look forward, we've made commitments that often are a decade or longer. And so we think of ourselves as long-term responsible stewards of capital and that's core to our business and will stay that way.

Specifically around infrastructure, what I'd say is, again, we're building for us a long-term business here. We obviously started with a large anchor commitment, but just to put some framework around it, what we did was we identified an opportunity in infrastructure that said – there's $2 trillion of capital needed in the US overtime, so there is a big scale opportunity here. We should build a world-class team, which we've been doing over the last, really year or so. We’ve put in place some wonderful people including Sean Klimczak from Blackstone. We've raised a dedicated fund at this point with $5 billion of capital. We've started to identify opportunities and hopefully over the next couple of quarters we’ll start to announce those, and the plan is to build this business to scale.

Specifically as it relates to our fundraising and the concerns you raised – yes, in the short term we may get some questions. But the key thing to remember is our investors know that Blackstone is the sole GP of the capital. We have 100% discretion as to where we invest, when we invest, how we manage the assets, how we sell. So investors have enormous confidence in us, which is why we feel like this business is very much on the path to growing to large scale regardless of obviously some near-term challenges.

**Devin Ryan:** Great. Very helpful. Thank you.

**Moderator:** Okay. Your next question is from the line of Gerry O'Hara of Jefferies. Please proceed.

**Gerry O'Hara:** Great. Thanks. Maybe one on the life sciences business. Perhaps you can elaborate a little bit on the recently announced Clarus acquisition, what you found attractive about that particular business, and perhaps some color on how you plan to either scale that business or just the segment as a whole.
Jon Gray: Sure. So I'd start with it's very much consistent with what we've been talking about on the last few calls and in Investor Day, which is a bit of a pivot towards growth at the firm. So we've been talking about Asia, where we just closed on two new funds in private equity and real estate, over time doing more in tech and growth equity, and then here in the life science space, we feel like there's a lot of opportunity over time.

Again, a bit like my infrastructure comments, the focus is on where is there a large scale opportunity. And when you look in the life science area, what we're seeing is there is a very large pipeline of drugs that it costs an awful lot of money and resources to bring them to market, particularly as they get towards the phase three trials, later on in their process.

So we said, gosh, wouldn't it be terrific if we had more operating capability? So we identified the opportunity, we talked to a lot of people in the space, we found a world class organization in Clarus that has terrific people, expertise, and a great track record. We also at our firm have a lot of expertise ourselves, given we've been one of the largest health care investors out there, and in real estate, we're the second largest owner of life science office buildings.

So scale opportunity, great people to go after this, and then, of course, over time, build this to be larger. Today, they're managing funds of roughly $1 billion in size. We think over time, given the scale of opportunity and talking with our partners at Clarus, they think, we think, something much larger will be attractive to the market, and we think our institutional investors will respond well to this.

But again, we've got to – we have to identify an area where we think we can really deliver for investors and do it in size. That's what we're going to do here. It won't happen overnight. But I can tell you, since the announcement, what's interesting is just how much our phones and their phones have been ringing. And it speaks to a lot of companies out there, particularly large pharmaceutical companies, who want to do more but are a bit constrained either by resources – either capital, or the process to bring these drugs, to run the clinical trials. So we think this partnership with Clarus is very exciting.

Moderator: Thank you for your question. Your next question is from the line of Mike Carrier of Bank of America Merrill Lynch. Please go ahead.

Mike Needham: Good morning. This is Mike Needham for Mike Carrier. My question is on your fundraising and the recent strength. This quarter, it shows – it continues to be really strong, and the AUM targets from Investor Day imply continuation of your growth rates. How do you think a bear market might impact your fundraising in those targets? On the one hand, it seems like the demand for liquid strategies is really strong, and you keep creating new products. But on the other hand, fund sizes did decline after the last recession, and I imagine there might be some rebalancing out of alts.

Jon Gray: I think that's a good question. I think if you had a sharp correction in the market, you could see a bit of a slowdown in fundraising. That's a natural response. But I
think your earlier point's the most important one, which is performance. And what we've seen over time at the firm is really strong performance means we have the ability to raise capital.

I go back to some of the funds we raised – I think it was our seventh opportunistic real estate fund in 2010-11, very difficult time to raise capital, and we raised a much larger fund than our previous fund, as investors pulled back from opportunistic real estate, but allocated a lot to us, given performance.

So one of the reasons we highlight on these calls our performance – it was in Steve's comments and mine and Michael's – is because that is the essence of the firm. And so I think your confidence that we'll be able to raise capital sort of regardless of environment is a result of the returns we've generated for investors.

So short answer is yes, sharp declines in markets can slow fundraising, but the key thing, and we're seeing this of course in long only managers who are facing more pressure, if you don't deliver differentiated performance, the money doesn’t flow your way. In our case, in the near term and over the last 30 years, we've done that, and we're continuing to see more inflows to Blackstone.

Mike Needham: Thank you.

Moderator: Thank you for your question. Your next question is from the line of Rob Lee of KBW. Please go ahead.

Pell Bermingham: Good morning. This is actually Pell Bermingham on for Rob Lee. I know in the past that you've mentioned how Greater China offers a ton of opportunity for Blackstone moving forward. Given what's going on today, how do you see that impacting deal flow?

Jon Gray: So we take a long term approach to China. It's the second largest economy in the world. I think it's forecasted at some point over the next decade or two to be the largest economy in the world. As a result, it's a place where we should be and are deploying capital. In the near term, what's going on with some of the trade tensions can slow growth there and may make it a little more challenging, although I'd point out oftentimes when perceptions are negative, that creates interesting investment opportunities. So the stock market there has gone down a fair amount. That may create opportunities.

You may have seen with us in the UK in the last – just in this last quarter, we announced a large deal in private equity and one in real estate. Obviously, we, like everybody, have concerns around Brexit, and yet what we've seen at the same time is a lot of investors pull back.

So we are long term believers in China, certainly, and the current dislocation could create
some opportunities, but we're aware that the economy there is slowing down in the near term.

**Pell Birmingham:** Great. Thank you.

**Moderator:** Thank you. Your next question is from the line of Bill Katz of Citi. Please proceed.

**Brian Lu:** Good morning. This is Brian Lu in for Bill Katz. Thank you for taking my question. We noticed a dip in FRE margin this quarter, primarily attributed to base comp and other expenses. I understand that the FRE margin can be lumpy in any quarter, but how much of the expenses of quarter over quarter were attributed to new initiatives versus growth in the base business? And how should we think about the margin evolving over the next few quarters?

**Michael Chae:** Sure. It's Michael. Good question. I think you – when you mentioned lumpiness, that's right in the short term. So in terms of the quarter over quarter movement, that was primarily due to what can often happen quarter over quarter intra-year, which is slight movements in comp accruals, and so that was probably the biggest factor there.

And then as you also mentioned, there was a slight drag from a margin standpoint in terms of the ramping of a number of our initiatives, which obviously will mature and scale in the near term, and we think adjust that margin headwind out into something closer to historical levels. So we're in that period where – and then the other factor of course is we are still lapping having Franklin Square in the business a year ago, and that's a third factor. So I'd say in the next couple of quarter, given that we exited the – and monetized the Franklin Square business in the second quarter of this year, we'll have a couple more quarters of lapping that comparison. You'll continue to see ramping of – in a positive way, of our initiatives. And we think our long term margin trajectory, as we talked about Investor Day, will continue to be a very strong one.

**Brian Lu:** Great. Thank you.

**Moderator:** Thank you for your question. Your next question is from the line of Allison Taylor Rudary of Oppenheimer. Please go ahead.

**Allison Rudary:** Good morning. We've entered a period I think where interest rates are top of mind for folks involved in asset classes across the board, and it'd be interesting to hear some of your thoughts about how your real estate business is approaching investment and portfolio management in this rate environment, both in the context of our current strong macro backdrop, but also going forward where there might be some areas of risk and opportunity.

**Jon Gray:** Important question. We've talked about it on the last few calls, and the good news here is we've been really focused across all our business units, talking about this in
our management and operating committee, anticipating at some point here rates would turn.

So if you look across the business, I think we're – you can't be insulated completely, but I think we're about as well-positioned as we could be. In our credit area, with GSO, our BREDS real estate, that area, 75 plus percent of our assets are floating rate, so we actually benefit in a rising rate environment.

In our BAAM hedge fund area, we have a lot of significant hedges in place, anticipating a higher rate environment. Again, very helpful to that business.

In private equity, 60 plus percent of our debt is fixed rate, anticipating higher rate environments, and our companies are really focused on growing EBITDA and cash flows either through being in good secular sectors, or in our ability to add a lot of value. And so that growth I think is very helpful again in the rising rate environment.

And then in real estate, we've really been looking at this over time, anticipating – frankly, thought it would happen sooner – that rates would go up. So if you look at our opportunistic portfolio, our largest holdings are not bond like assets. They're faster growing assets. So global logistics, which is our largest position, obviously has very good fundamentals, because of what's happening with online sales. We have big exposure to single family housing in the US and Spain, both areas where you're seeing very strong growth. Life science office buildings in the US, another area I mentioned earlier, strong growth, and Indian office buildings.

So a lot of emphasis on growth as opposed to bond like assets. Similarly, if you looked at BREIT, our non-traded REIT, what you'd see there is multi-family housing, logistics, and hotels make up close to 100 percent of the portfolio, which is different than a typical real estate portfolio today. So we've pivoted more towards growth to help the portfolio, which we definitely think was an important decision we made on behalf of our investors.

And then on the flip side, I think this rising rates, of course, can cause marketing corrections and investment opportunities. So the REIT market has pulled back a fair amount. Public equity markets have gone a little bit sideways generally. And so I think with our dry powder, we're well positioned, if we do see a pullback here.

Allison Rudary: Terrific. Thanks very much.

Moderator: Thank you. Your next question is from the line of Alex Blostein of Goldman Sachs. Please go ahead.

Ryan Bailey: Good morning. This is Ryan Bailey on behalf of Alex. I was just wondering, you know, we've had another strong quarter of private equity returns. I was wondering if we could peel that back a little bit and if you could give us some insight into the health of the portfolio on the private side in terms of revenue growth and EBITDA.
**Jon Gray:** Yeah, so we continue to see good signs in terms of obviously the US economy, where the bulk of our assets sit. Revenue growth over the 12 months, call it mid-single digits, and EBITDA growth, high single digits, and that's obviously positive for equity values. We've seen strength in the energy space. Some of our technology-oriented businesses are doing well. Generally, we're seeing pretty good things. Even our European businesses, despite slower growth there, are performing well. So on the ground, the facts feel pretty good.

If you said what's the thing our CEOs – and we do a quarterly flash report asking our CEOs about what's happening across a range of their businesses. The two big concerns, you know, we focus, and all of us do, a lot on the tariff discussion, but if you ask our CEOs, the biggest concerns are finding and retaining talent, and what's the potential risk on the wage side. So that's one. The second area is technological disintermediation. So those are the two areas they focus.

But generally, the sentiment around what's happening, consistent with what you see in consumer sentiment and broader gauges of corporate sentiment, the sentiment in our portfolios is very positive.

**Ryan Bailey:** Thank you very much.

**Moderator:** Thank you. Your next question is from the line of Andrew Nicholas of William Blair. Please go ahead.

**Andrew Nicholas:** Hi, guys. Good morning. Quick question for Michael. Just with respect to the $2.00 FRE target, given last month's Investor Day, I was wondering if you could help us think about how much of that comes from performance fees or net performance fees in the permanent capital vehicles.

**Michael Chae:** Sure. And that's obviously out several years, but what I would say is currently and over the near term, the next year or so, the percentage added to FRE, if you will, by the performance fees, the recurrent performance fees in permanent capital, are in the mid-single digits, basically, five, six, seven percent. And then a couple, few years out, it'll get up to more like 10 to 15 percent. And so that's sort of the math around that.

**Andrew Nicholas:** Great. Thank you.

**Moderator:** Thank you. Your next question is from the line of Michael Cyprys of Morgan Stanley. Please go ahead.

**Michael Cyprys:** Great. Thanks, and good morning. Just a question on the Clarus acquisition on the life sciences side. I guess two-pronged question. If you look across the industry, M&A has a mixed track record, perhaps kindly described, but Blackstone's had a much better track record than perhaps many others. Just as you look across, what do others get wrong with M&A? What lessons do you take away with that? And as you execute on Clarus, how are you going to execute maybe differently than others, as you
think about execution risk, and then if you could also talk about the incentive structures that you're putting in place as well to retain key investment talent. Thank you.

**Jon Gray:** So I would say what we're talking about with Clarus is not necessarily integrations, mergers, those sorts of things, and a wide range of buying – you know, a company that has a wide range of drugs and so forth. What we're talking about specifically, their business has been focused on corporate partnerships where they sit down with pharmaceutical companies and identify drugs that are promising but don't make maybe the top tier list for that company. But given the right resources to get through the clinical trials and the right amount of capital, that there's a high degree of confidence that this can become a commercially advantageous thing to do. And if you look at the Clarus track record in this discrete area, they have had tremendous success. So I think this is different than broad-based sort of big pharma M&A.

**Tony James:** Yeah, and let me comment on the other acquisitions. I think that we've been very, very disciplined about what we do, and we've done that around a certain few things. Most important, we have to have great people, not average people, not – we're not just filling a box because we have a spot. We have to have great people.

And those people have to be real team players. They have to fit in our culture. They have to want to be part of something bigger and better. They want to benefit from the rest of Blackstone, and they want to contribute to the rest of Blackstone. We don't want sole practitioners. We don't want people with their elbows out. They've got to be part of the team.

And that – and frankly, finding those two things and doing it in nice niches has really been the key to our success.

**Jon Gray:** Yeah. I would just echo what Tony said, which is for us, the ideal acquisition target is relatively small. It gives us key talent, expertise, relationships, but then when you put it into the Blackstone system, you get incredible growth. We saw that clearly with GSO. We've seen that with our secondaries business, SP. We expect the same thing here. That's the formula.

We don't really want to go out and pay a lot of money for AUM. We'd like to acquire – integrate great talent that shares our values, and then help them grow at a much faster rate than they did before.

**Michael Cyprys:** Great. Thank you very much.

**Moderator:** Thank you. And our final question is from the line of Mike Carrier of Bank of America Merrill Lynch. Please go ahead.

**Mike Needham:** Hey, thanks for the follow-up. It's Mike Needham again. I have just a couple of modeling things to clarify. On the base comp expense, was there any one-time item or lumpiness there? It just seemed like a bigger increase. And then the FX impact in
real estate that you guys points out, do you have any hedges that would offset that? Thanks.

**Michael Chae:** On the comp question, it's sort of the same answer as the margin question. On a quarter over quarter basis, there can be fluctuations intra-year on comp accruals, and if you look at sort of the year to date, either on margin or comp ratios, they're pretty in line, so I think those will work themselves out over time.

And in terms of the – on the real estate side, Jon, I don't know if you want to handle the FX –

**Jon Gray:** No, go ahead.

**Michael Chae:** Look, we – I would say there's – first of all, as a firm overall, we've talked about this before. As it relates to euro and to certain degree pound exposure, based on the euro and pound denominated liabilities we have at the firm level, we actually have a natural financial hedge in place relative to currency fluctuations in euros and pounds at our fund level. And what you saw this quarter in real estate was actually less about the euro, which was obviously pretty stable in the quarter, and more about some other currencies, Asian currencies.

And it varies by region, but we certainly look at, from a debt and interest rate structure standpoint, at the deal level, hedging that out. At the equity level, as you know, for example, in the case of the euro, we have a euro denominated fund, and so investing in Europe, and so that largely effectively acts as a natural hedge as well there.

Hedging your equity in a long term illiquid deal, whether it's private equity or real estate opportunistic, that's a different matter. That can be expensive. And so that's – I'd say that's a different kettle of fish. But the point is, in a number of different ways, at the firm level, at the fund level, and at the deal level, we deal, with currency exposure.

**Mike Needham:** Thank you.

**Moderator:** Thank you for your questions, everyone. I want to now turn the call over to Weston Tucker for the closing remarks.

**Weston Tucker:** Great. Thanks, everyone, for joining us this morning, and look forward to following up after the call.

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