

**BLACKSTONE Second Quarter 2021 Investor Call  
July 22, 2021 at 9:00 a.m. ET**

**Joanna:** Good day and welcome to the Blackstone second quarter 2021 investor call. During this presentation your lines will remain on "listen only." I'd like to advise all parties this conference is being recorded. And now I'd like to hand it over to Weston Tucker, Head of Shareholder Relations. Please proceed.

**Weston Tucker:** Great. Thanks, Joanna. And good morning and welcome to Blackstone's second quarter conference call. Joining today are Steve Schwarzman, Chairman and CEO; Jon Gray, President and Chief Operating Officer, and Michael Chae, Chief Financial Officer. Earlier this morning we issued a press release and slide presentation which are available on our website. We expect to file our 10-Q report in a few weeks.

I'd like to remind everyone 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 a discussion of some of the risks that could affect results please see the risk factor section of our 10-K. We'll also refer to 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 for the quarter of \$2.9 billion. Distributable earnings were \$1.1 billion, or \$0.82 per common share, and we declared a dividend of \$0.70 to be paid to holders of record as of August 2. One additional item of note: We announced a change in Blackstone's legal name from the Blackstone Group to Blackstone, which I think is how most already refer to us. We anticipate BX shares will trade under the new name on the New York Stock Exchange on August 9.

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

**Steve Schwarzman:** Thanks, Weston. And good morning and thank you for joining our call. The firm's results were truly outstanding in the second quarter. Distributable earnings nearly doubled year-over-year to \$1.1 billion, while fee-related earnings increased 30 percent to over \$700 million. For the last 12 months, both DE and FRE reached record levels. Our investment performance represented the best quarter and 12-month period of fund appreciation in our 35-and-a-half-year history. In addition, AUM grew 21 percent year-over-year to another record: \$684 billion.

The second quarter in my view was the most consequential in our history, not just in terms of financial results but more importantly in terms of setting the foundation for the

firm's long-term growth trajectory. We're seeing significant momentum with our expansion into the retail and insurance channels, including a landmark announcement last week of our partnership with AIG, comprising at least \$92 billion of AUM over time. These channels represent vast new markets for Blackstone and a new paradigm for growth at the firm. Looking forward, I believe we are positioned for an acceleration of growth on almost every dimension, including meaningful expansion of our earnings power and in particular fee-related earnings.

Taken together, the retail and insurance channels have approximately \$110 trillion in assets globally. This is nearly double the size of the institutional channel where Blackstone exclusively focused historically. And these two channels are dramatically underpenetrated in their allocations to alternatives. We've invested significantly over the last ten years to build out our distribution capabilities in these channels, resulting in material cost to us early on without commensurate revenue. Now the wisdom of that approach is becoming apparent as we expand our product lineup, including moving into lower-risk return areas like core-plus real estate and private credit.

In retail, which is an \$80 trillion addressable market, our long-term strategy was not just to sell one-off products but to develop the highest-quality support organization for retail customers and to service in depth the largest private wealth distribution systems in the world. We are establishing the leading platform in our industry with a menu of bespoke products, including our non-traded REIT, BREIT, and our new BDC, BCRED.

The response from individual investors for Blackstone-managed private real estate and credit has been powerful. We are now raising nearly \$4 billion per month – that's \$4 billion per month – for BREIT and BCRED together. We believe that demand for these two products will continue for years to come. I believe it'll continue to grow, that this powerful distribution channel is ideal for other products we are developing as well. We currently are launching a new vehicle in Europe that is similar to BREIT, with sales to start in September, and we have additional products in the planning and development stage.

In insurance, we announced that Blackstone will become the exclusive external manager of a significant portion of AIG's life and retirement portfolio, which would rank as the third largest US public life insurer. This partnership meaningfully accelerates our growth in the \$30 trillion global insurance market, with Blackstone becoming one of the two largest alternative managers in this space. We will receive \$50 billion of AUM later this year, growing to at least \$92 billion over time, as I mentioned. And we're excited about the long-term prospects of this relationship.

This announcement was the culmination of nearly a year's work between our two companies and reflects a remarkable team effort across virtually every area of Blackstone. I'd like to congratulate Jon Gray and Michael Chae and Gilles Dellaert, who leads our insurance solutions area, along with a very large number of people at the firm who worked tirelessly to bring the partnership to fruition.

Across the firm, Blackstone has never been in a better competitive position than we are today. We've established deep and enduring relationships with limited partners around the world, including institutional, individual, and insurance clients. Our flagship strategies have materially outperformed relevant benchmarks over time, including 15 percent net returns annually in both corporate private equity and opportunistic real estate for 3 decades, beating the comparable public indices by approximately 500 to 900 basis points per year.

We continue to grow rapidly, principally organically, because we keep inventing new things, and today we offer our clients over 50 different investment strategies. We have more talented people at the firm today than ever before, operating at the highest level of excellence and commitment. Blackstone is the gold standard in the alternative management business with the most powerful brand. Our market capitalization of \$127 billion equates to the 70th largest public company in the United States, and our forward momentum has never been stronger. As we grow our core mission remains unchanged: to generate outstanding long-term performance for all of our investors with the highest integrity and a significant focus on sustainability of ESG. I couldn't be more proud of our people and what we've become. With that, I'll turn things over to Jon.

**Jon Gray:** Thank you, Steve. Good morning to everyone. We have consistently outlined a simple vision for the firm: Deliver strong investment performance and we will attract more capital. This powers the Blackstone innovation machine and allows us to broaden the customers we can serve and the investments we can make. Our second quarter results were a picture perfect example of this model at work.

Starting with investment performance, all of our flagship strategies again posted outstanding returns, leading to the best quarter for fund appreciation in the firm's history, as Steve mentioned. This performance is reflective of the way we've positioned investor capital over the past several years towards fast-growing areas of the economy, including logistics, life sciences, sustainability, and tech-enabled businesses. These sectors have continued to benefit from strong fundamentals, further accelerated by the onset of the pandemic. We also are now starting to see a recovery in some of the areas that were more impacted by the pandemic, such as leisure and hospitality, although it is still early. Michael will discuss our portfolio performance in more detail.

The strength of our returns over decades reinforces the Blackstone brand, leading to the extraordinary growth and platform expansion that Steve described. Total inflows were \$37 billion in the second quarter and \$116 billion over the past 12 months. Perpetual AUM increased 55 percent year-over-year to nearly \$170 billion. As we've discussed, growth in perpetual capital is like planting perennials, which have a recurring and compounding contribution to the firm's financials, and meaningfully accelerates growth in fee-related earnings.

The largest single engine of perpetual capital and fee-related earnings at the firm is our real estate Core+ business. AUM has grown to \$85 billion across five vehicles. The largest of these, BREIT, raised nearly \$6 billion in the second quarter and an additional

\$2.6 billion of monthly subscriptions after quarter end on July 1, bringing it to \$34 billion in total size. We are launching a sixth Core+ vehicle, BEPIF, which like BREIT will target high-quality, income-producing assets on behalf of retail investors, this time focused on European real estate.

Moving to the AIG partnership, it is a compelling illustration of the continued expansion of our business model. It marks our third large-scale mandate with a major insurance client and will bring our total insurance AUM to \$150 billion later this year, one of the largest platforms amongst our peers, and at least \$200 billion when fully phased in. This partnership is a testament to the strength of our direct credit origination capabilities and our proven ability to deliver for insurance clients. BREIT will separately acquire AIG's affordable housing portfolio in the US for \$5.1 billion. This speaks to the leading scale of our BREIT franchise and the advantages of long-duration capital.

Blackstone will also acquire a 9.9 percent stake in AIG Life & Retirement, which is consistent with the disciplined capital-light approach we've talked about previously, as well as our other insurance partnerships. We are not taking on an insurance company balance sheet. Rather, we are making a minority investment in a company in which we see meaningful value. I will also join this new company's board. We are excited about the long-term prospects of this strategic relationship and we are incredibly grateful to Peter Zaffino and the AIG board for their confidence in us.

Around the firm other areas are seeing tremendous momentum as well. Our credit segment, the fastest-growing segment at the firm, reported \$19 billion of inflows in the quarter with robust LP demand across direct lending, liquid strategies, and our fourth mezzanine vintage. Our \$14 billion infrastructure vehicle, another perpetual capital strategy, has seen investment activity accelerate over the past several quarters and is now over 70 percent committed. We expect to reopen fundraising in the next few months.

In the secondaries area we launched a fundraise for SP's new flagship private equity vehicle, which we expect to be far larger than its \$11 billion predecessor, with the first close targeted for September and activation prior to year-end. We also had a first close of approximately \$800 million for SP's new GP Solutions strategy, which invests alongside GPs in high-quality assets that they want to hold beyond the initial fund term.

In Asia we've raised over \$5 billion so far for our second private equity vintage and fully expect to hit the \$6.4 billion cap, which is nearly three times the previous fund. We've begun raising our third real estate vintage in Asia, which we expect to be larger than the prior \$7 billion fund. And in BAAM we began fundraising for our innovative Horizon crossover platform with an initial close of nearly \$2 billion post-quarter-end. This platform focuses on minority investments in fast-growing companies as they prepare to grow public.

Overall, the fundraising outlook is very positive for the firm. On last quarter's call we said we were highly confident that total inflows would exceed \$100 billion again in 2021,

the fifth year in a row approaching or exceeding this level. We now expect to approach \$200 billion of inflows this year, including our pending insurance partnerships.

Blackstone's expansion has also significantly widened the aperture of where we can deploy capital. We invested \$24 billion in the quarter and committed an additional \$28 billion to pending deals, our most active commitment quarter ever. Over the past 12 months we've deployed or committed well over \$100 billion. We remain focused on our high conviction thematic areas, such as sustainability, logistics, digital infrastructure, housing, and the post-Covid travel recovery. Our largest new commitments in the quarter included a \$10 billion enterprise value data center business, one of the largest platforms of single-family rental homes in the US, European toll road operator ASPI, which represents the largest buyout in Europe in the past decade, and industry-leading healthcare supply and distribution company Medline, the largest buyout globally over the same period. Post-quarter-end we announced the acquisition of Sphera, a sustainability management software company. The scale of our platform and our reputation as a trusted partner are enormous advantages when it comes to investing.

In closing, our mission is broadening and we're bringing our investment solutions to a larger audience. We are still in the early days of this journey. And with that, I will turn things over to Michael.

**Michael Chae:** Thanks, Jon. And good morning, everyone. I'll first review the firm's financial results, highlighted by continued strong momentum across our key metrics. I'll then discuss investment performance and share additional details on the partnership with AIG.

Starting with the results, total AUM rose 21 percent year-over-year, or by \$120 billion, to record levels driven by robust gross inflows of \$116 billion over the last 12 months and despite record realizations of \$63 billion. The sustained strength of the firm's recent inflows without raising any of our largest flagship funds highlights the significant expansion of product offerings and growth in perpetual capital that Steve and Jon described. Fee-earning AUM rose 14 percent year-over-year to \$499 billion, nearly one-third of which is now perpetual, driving 24 percent growth in management fees to a record \$1.2 billion in the second quarter.

Fee-related earnings increased 30 percent year-over-year to \$704 million in the quarter, or \$0.58 per share. For the last 12 months FRE increased a remarkable 40 percent to a record \$2.8 billion, or \$2.33 per share, more than double our annual FRE at the time of our Investor Day just three years ago. Key drivers, as we've talked about, include the continued expansion of existing strategies, scaling of new businesses which are increasingly contributing to profitability, the transformational effect on earnings power from perpetual capital strategies, and the firm's robust margin position. FRE margin expanded to 54.4 percent for the trailing 12 months and we continue to expect full-year 2021 margin to be approximately in this area. Overall, we remain highly confident in the outlook for this high-quality earnings stream.

Distributable earnings nearly doubled year-over-year to \$1.1 billion in the second quarter, or \$0.82 per share, underpinned by the growth in FRE and a more than six-fold increase in net realizations from the pandemic trough to \$518 million as the market environment supported strong activity levels. Fund realizations reached nearly \$20 billion in the quarter, with an additional \$5.9 billion currently under contract or closed after quarter-end. During the quarter we sold our Australian logistics portfolio and brought a number of holdings public and executed sales of public positions, including Sona Comstar, TaskUs, Custom Truck One Source, Apria, Finance of America, and post-quarter-end, Alight. Since the start of the year we've publicly listed 20 companies and 33 percent of the corporate private equity portfolio is now public.

Turning to investment performance, which remains outstanding across the firm, our portfolio companies are reporting some of the best trends we've seen against the backdrop of continued strength in global equity and credit markets and the broad-based economic recovery that is underway. In real estate the BREP opportunistic funds appreciated 9.4 percent in the quarter while the Core+ funds appreciated 5.7 percent. For the last 12 months the BREP funds appreciated 25.4 percent and Core+ appreciated 18 percent. BREIT continues to show particular strength, driving the inflows that Steve and Jon highlighted with appreciation of 8.3 percent in the second quarter. Since inception five years ago BREIT has delivered 11 percent net returns annually. Our overall real estate returns continue to be driven by gains in logistics, which now comprises approximately 40 percent of the global portfolio along with US suburban multifamily, life sciences office, and in the second quarter, US hospitality.

In private equity the corporate private equity funds appreciated 13.8 percent in the quarter, the fifth consecutive quarter of double-digit appreciation, and 52 percent over the last 12 months. The corporate PE funds have appreciated 45 percent from pre-crisis levels, well ahead of public market indices over the same period. Strength remains broad-based across both private and public portfolios, led by our technology-related and energy holdings. Notable gains in the quarter include those from the IPOs of two thematically driven investments led by our India team: Sona Comstar, India's largest component supplier for electric vehicles, and TaskUs, a technology services company for leading online platforms. Comstar was valued at a multiple of original cost of nearly ten times at the end of the quarter, and TaskUs at nearly eight times, further building upon the firm's highly successful track record in Asia.

Our credit business delivered strong results in the second quarter, driven by improving fundamentals and spread tightening across both private and public holdings along with strength in energy. The private credit strategies reported a gross return of 4.8 percent in the quarter and 29 percent for the last 12 months. The liquid credit strategies reported a gross return of 1.7 percent in the quarter and 11 percent for the last 12 months. Finally, BAAM's BPS composite return was 3.5 percent gross in the quarter and 15.3 percent for the last 12 months.

Overall, exceptional investment performance across the firm powered over \$2 billion of net accrued performance revenues in the quarter and lifted the balance sheet receivable

up 30 percent sequentially to \$6.8 billion, the highest level ever and up over 1.6 times the pre-Covid balance, highlighting the very strong fundamental positioning of our portfolio. At the same time, the firm's invested performance revenue-eligible AUM increased 41 percent year-over-year to a record \$351 billion. These are both important leading indicators of future value.

Moving to the AIG partnership, which is both strategically and financially compelling for our firm, by year-end we expect AIG to transfer the initial \$50 billion of their life and retirement portfolio to Blackstone, which over time as the portfolio matures will be primarily reinvested in Blackstone-originated investments in private and structured credit. In each of years two through six of the relationship our partner has committed an additional \$8.5 billion in new assets per year, bringing total committed assets to \$92.5 billion over time. Following the initial six-year period the partnership renews subject to long-term relative performance measures. We anticipate fee revenues to Blackstone of approximately \$150 million in 2022, increasing to approximately \$400 million by year six. These revenues will carry attractive incremental margins given our extensive existing capabilities.

We will also invest \$2.2 billion for a 9.9 percent stake in the new company upon closing of the transaction. With over \$5 billion of cash and corporate treasury investments and minimal net debt, our balance sheet and access to low cost capital afford us full flexibility to execute this strategic investment. Following AIG L&R's IPO we will hold publicly traded common stock subject to certain phased lockup restrictions in what will be the third largest public US life insurer.

In closing, as Blackstone moves into the second half of 2021 and past the second anniversary of our conversion we have never been better positioned as a firm. One of the several benefits of conversion has been our inclusion in most of the market indices, including being added last month to Russell's US indices, a key benchmark for both index and active money managers. The dual catalysts of exceptional financial performance coupled with the much broader universe of investors that can own our stock has translated into a powerful value proposition for shareholders. We believe there's significant support to continue this momentum. With that, we thank you for joining the call and we'd like to open it up now for questions.

**Joanna:** Certainly. Thank you. If you wish to ask a question please key star then one on your telephone. We request one question only and please rejoin the queue for a follow-up question. If you decide to withdraw your question, key star two. You will be advised when to ask your question. As a reminder, to ask a question please key star then one on your telephone.

Our first question comes from the line of Glenn Schorr at Evercore ISI. Please proceed. You're live in the call.

**Weston Tucker:** Good morning. Glenn, can you hear us? Hi, Joanna, it seems like Glenn might be having a problem with his line. Maybe we should move to the next question.

**Joanna:** Certainly. Thank you. And our next question comes from the line of Alexander Blostein from Goldman Sachs. Please proceed, Alexander.

**Alexander Blostein:** Great. Good morning. Thanks, everybody. So, maybe starting with the retail platform and given the success of both BREIT and BCRED and obviously the footprint in the retail channel continues to grow, you talked about expansion into several new products. So, maybe we'll dig in a little bit more there first. Jon, I know you mentioned a new sort of BREIT product. How quick do you guys expect that to ramp? I think I heard a September launch.

And then, broadly, it feels like there's a lot of runway still to leverage your distribution and brand and retail broadly, so curious what other type of products might be suitable for the retail channel that you guys could work on over time?

**Jon Gray:** Thanks, Alex. I'll back up – and Steve touched on this, but the size of the retail market globally, I think, is \$80 trillion for folks who have more than a million dollars of assets. And today their allocation to alternatives is in the low single digits. And so, we think that the market is very big and they're just starting to come to it, as you're seeing. And we're having great success domestically first – frankly, globally, but first with BREIT, now with BCRED. And yes, we do think there are more products that we can deliver. You noted the European-focused product. I think it's too early to say how big it can be. What we do know is if we deliver strong performance in a world where people have limited investment options, particularly around getting attractive yield, we tend to attract assets.

So, what we do is we create a product that we think can deliver for the customers. That's the most important thing. We distribute it and then we keep executing. And we find more and more investors find it attractive. And that's exactly what's happened with BREIT. It's what's happened with BCRED and we would expect hopefully with BEPIF over time, although I don't want to dimensionalize the size because I think it's just too early.

In terms of future products, I don't know if I want to go into specifics yet but there are a number of areas where we can do this given the scale of our platform, and that is our great competitive advantage, that we're sort of everywhere around the world. We're in each of these verticals. But the bar is set by "can we deliver for the customer" So, I don't think we have anything yet to talk about but I would expect over time we will roll out more of these sequentially. And if we deliver as we have in the past we think they can grow to be quite substantial.

**Alexander Blostein:** Great. Thanks very much.

**Joanna:** Thank you. And our next question comes from the line of Bill Katz at Citi. Please proceed, Bill, you're live in the call.



**Bill Katz:** Okay, yeah, thank you very much. A lot of detail here, so I appreciate all of that. Just as you think about the capital raising in the insurance opportunity – congratulations on both the Allstate and AIG deals now at this point – what's the path forward here in terms of gathering more assets? Is it incremental investments such as AIG or is it just sort of leveraging your origination capability and working with sort of other third parties to try to see how you sort of tap into a big market from here? Thank you.

**Jon Gray:** Thanks, Bill. I would say we'll start with the strength of the platform we built, which is – and the strength of our brand and our track record. We've said on this call a number of times that we wanted to not become an insurance company, that we would make strategic investments, minority investments, and we thought because of the brand and our ability to originate credit that we could create the kind of long-term relationships where we could grow in insurance. And I think – given what we've done with these last two transactions I think we've proven that to the marketplace.

In terms of how we go and grow from here I think we have multiple avenues where we can have success. These relationships, each of them, I think, has the potential to grow because they are – with the exception of Allstate, which is a run off portfolio – our two other clients here with FG and AIG, these are growing businesses and we think they can continue to grow, and as they grow, benefiting from our expertise in asset management, we'll get more assets. So, that's existing clients.

And then, like our traditional business we think we can serve more clients over time. And what we've found is that scale is a real competitive advantage. If you think about it, making a \$50 million mortgage loan is pretty competitive, but making a \$500 million or a billion dollar mortgage loan is less competitive. And so, as we get more and more scale in commercial real estate lending, corporate lending, asset-backed lending, infrastructure lending, that's going to benefit all of these clients, and so it creates a bit of a virtuous cycle.

So, we think as we continue to grow our capabilities we'll serve these clients particularly well, they'll grow, and we can get additional clients. And we really like the momentum we have in the space today.

**Bill Katz:** Thank you very much, Jon.

**Joanna:** Thank you. And our next question comes from the line of Michael Cyprys with Morgan Stanley. Please proceed.

**Michael Cyprys:** Hey, good morning. So, you guys have mentioned some very large TAMs that you think are addressable, including the \$30 trillion in insurance, \$80 trillion in retail private wealth. In the past you've also mentioned around \$50 trillion on the traditional institutional side. But I guess as you look at your investment capabilities today what portion of that TAM is realistically serviceable in your view? And how do you think about increasing that serviceable TAM or SAM with new capability adds and extensions

to other parts of the marketplace? Certainly, DCI and Harvest have given you more liquid market capabilities. But I guess how would you describe your overall vision and aspiration here?

**Jon Gray:** I think our vision led by our founder and CEO is to do something very large, that the horizon here, what we look out at is not really limited because of the scale of those markets and how underpenetrated alternatives are. So, I think our number today on the institutional side is probably \$60 trillion there. There, that market has moved much further along on the alternatives curve. I think we'll see these other areas, particularly if you think about insurance or retail, the idea of trading some liquidity for higher returns is highly logical in this environment.

What exactly the numbers are – again, I'm not sure I want to put a number against it, but I think you're seeing here that what we talked about – the \$4 billion in a single month of perpetual capital from just two products – gives you a sense of the potential here. I think that the TAM here is much larger than people recognize. I think they have historically looked at our business as operating – I said this on TV earlier – in a sort of narrow channel and now we're really moving into these open waters. And so, we think we can do more with institutional clients and obviously much, much more here with retail and insurance.

And so, the size of the markets are big. Our platform is large. Because we're in all the different verticals we think we can do a lot. Putting a number against it, I think it's just a little bit early. But the momentum, as I said in my last question, feels incredibly positive.

**Joanna:** Thank you. And our next question comes from the line of Adam Beatty at UBS. Please proceed.

**Adam Beatty:** Hi, good morning. Thank you for taking the question. I want to ask about the real estate portfolio specifically. I appreciate the rundown, and you mentioned hospitality or travel and leisure real estate, which was obviously dented during the pandemic and has been a historical strength of Blackstone. I just wanted to get your thoughts and maybe a little more color on how you're approaching that market now, where you see opportunities, and where in terms of proportion of the portfolio you envision it over the next couple of years. Thank you.

**Jon Gray:** Yeah, hospitality for us used to be in real estate a very large portion. We fortunately – and it wasn't because we anticipated the pandemic, it was just where we saw the most attractive returns – had deemphasized that. So, today it represents about seven percent of our portfolio. I think that number will go up. One, I think we're going to see more of a recovery in our existing assets, but two, that's a sector that was hit hard by Covid. And so, you've seen in recent announcements we've bought in real estate and private equity jointly Bourne Leisure in the UK, which is the leading leisure park business there. We acquired Extended Stay Hotels in our real estate business – again, a play on the recovery in travel. And I wouldn't be surprised if we continued to do more in this space as that percentage goes up. We do think people will return to travel –

individual and leisure travel first, over time corporate and group travel, and so it's a sector we like. We definitely have by far the lowest exposure we've had to it but we'd like to increase that exposure going forward.

**Adam Beasley:** Thank you. Much appreciated.

**Joanna:** Thank you. And our next question comes from the line of Jerry O'Hara with Jefferies. Please proceed.

**Jerry O'Hara:** Great. Thanks. Perhaps picking up on the comments as it relates to the infrastructure business and, I guess, heading back into the market for fundraising, perhaps you could talk a little bit about the demand there, what some of the trends are and what you might expect as you go back into the market for fundraising and infrastructure.

**Jon Gray:** So, on infrastructure our team there led by Sean Klimczak has done a terrific job deploying the capital and the returns have been really strong. And as you know, that's the key consideration for investors: Do you deliver positive returns? Have you built a good portfolio? I think it's worth noting here that we're doing this in an open-ended format. And that's important because unlike our drawdown funds it's not that we're going to – we raised \$14 billion initially, we've got this large matching commitment, but it won't be that we'll do another big close and wait three years. It will be like our Blackstone property partner funds institutionally in Core+ real estate where we're open every quarter. It's an open-end perpetual vehicle.

Our expectation is given the portfolio we've assembled, given the strong performance, that investors will respond and on a quarterly basis we'll continue to see inflows just as we've seen – we talk a lot about retail Core+, but institutional Core+ has grown to be quite significant now. I think it's over \$60 billion. And so, I think you could see a lot of potential for infrastructure, another engine for us, another perpetual capital vehicle where we're not forced to sell assets, and another way to serve our clients and deliver what they're looking for. So, I would say a sector that we see a lot of potential, and our team has done a great job the first few years with the business.

**Jerry O'Hara:** Great. Thank you.

**Joanna:** Thank you. Our next question comes from the line of Robert Lee with KBW. Please proceed.

**Robert Lee:** Great. Thanks. Good morning. Thanks for taking my question. Just going back to AIG and the capital on the balance sheet, so – I mean, understanding that you're completely committed to the capital-light model and distributing the lion's share of your DE, but if I look at – you're committing \$2.2 billion to the stake in AIG. I believe you – there was some capital you have – you were putting up for the Allstate transaction. So, as you look to drive deeper into the insurance industry, maybe future re-insurance or other transactions, I mean, is that at all – maybe it's just marginal, but adjusting how you're thinking of capital and is there any possibility that how you're thinking about the 85 –

roughly 85 percent – payout ratio you've had for many years now could be tweaked to accommodate growth in the insurance business?

**Jon Gray:** So, I would say – I'll let Michael talk about the payout ratio – I think the 9.9 [percent], given the scale of these contracts and their long duration is a sensible thing for us to do. It doesn't really reflect a deviation of our long-term capital-light strategy. We're not looking to take on insurance liabilities or do spread investing. We really want to be the best alternative asset manager out there. What I'd also point out on the capital in the context of AIG, we will be getting public shares, which are subject to certain lockups but ultimately will be freely tradeable. And so, again, we think this makes a lot of sense the way we've done this. No, I wouldn't anticipate this would change the payout ratio, but Michael, you should comment on that.

**Michael Chae:** I think that's really all that needs to be said. The payout ratio will not change in connection with this deal. It's not something we considered or needed to consider.

**Robert Lee:** Thank you.

**Joanna:** Thank you. Our next question comes from the line of Patrick Davitt with Autonomous Research. Please proceed.

**Patrick Davitt:** Good morning, everyone. The AIG revenue guide seems to suggest an increase in the fee rates to something around 43 bps in year six, which is well above other relationships we've seen. So, could you explain what about the AUM mix shift is driving that increase? And then, longer term how we should think about the risk to that fee agreement through the lens of L&R probably being an independent public company at that time?

**Michael Chae:** Sure, Patrick. I think on the sort of fee rates that you're inferring or implying from the numbers we provided. I think what's important to underscore is versus some other agreements or partnerships in the market that involve both the base IMA and then also a series of SMAs, this is – there's not an IMA here. It's SMA-focused around a portfolio of certain asset classes where we have high expertise and where sort of the return in yields profile is higher, and that's critical to the relationship. So, it's a bit of an apple and an orange to compare that maybe to some other relationships on a total blended basis.

On the term, as I mentioned, there is an initial six-year period and then it's subject to renewal based on long-term relative performance measures.

**Jon Gray:** And I would just add to Michael's comment to reinforce what he said, what AIG did here was retain us on the private assets. And they also left themselves the flexibility to do what they want on their liquid fixed income assets. And so, I think to Michael's point it's an apples and oranges to compare it to other relationships because this

is obviously just on those direct credit assets which are obviously more expensive to manage and originate.

**Michael Chae:** And while we won't speak for our friends at AIG – they'll speak for themselves – I think from their point of view they're moving toward trying to achieve a very attractive, low cost overall approach to asset management with obviously attractive yield uplift in return profile.

**Joanna:** Thank you and our next question comes from the line of Glenn Schorr with Evercore ISI. Please proceed.

**Glenn Schorr:** Thank you very much. I'm curious, your previous comments on the call talked about an acceleration approach, which is an amazing comment given how good growth has been, and you rightly upped the guide on \$100 billion to \$200 billion rate given the insurance deal. So, my question is on FRE specifically – it was up 30 percent year-on-year. With all that momentum behind it and capital raising, do you have any thoughts to hold our hand on what we should expect out of FRE over the next, say, couple of years?

**Michael Chae:** Glenn, I think we'll just stick to our normal policy of not giving guidance on that and just, I think, reinforce the – our sense of optimism around it that you're probably picking up from our remarks.

**Glenn Schorr:** Fair enough. Then I'll squeeze a little one in on secondaries. You didn't give much color on – when you were talking about the performance numbers, but the performance is up 17.7 percent in the quarter. That would be a pretty good year in any period of time. How much of that is the lag catchup from previous good quarters? But again, this was a good, strong quarter in the open markets. What should we be expecting out of secondaries on the go-forward?

**Michael Chae:** Yeah, Glenn, you – thanks, Glenn. You got it. It's a – that reflects the historical, traditional two-quarter lag relative to the underlying GP marks in return. So, that's Q4 of last year, and we know that was a strong quarter across the industry. I will note that we're actually – more on this next quarter – moving, endeavoring to move to a more – closer to one-quarter lag in terms of the reporting at that business. So, we'll hopefully narrow that gap. And I think you can look whether publicly-traded Alts managers and the returns they reported in Q1 and now Q2 to see where that will go on a secondaries basis.

**Jon Gray:** Yeah, it bodes well, obviously, since the private equity space was up a fair amount industry-wide in Q1 and I think will do like we've done well in Q2. So, our secondaries business has a lot of momentum and I think can grow to be significantly larger given what Vern Perry and the team have done for investors.

**Glenn Schorr:** Okay. Thank you.

**Joanna:** Thank you. Our next question comes from the line of Arnaud Giblat at Exane BNP. Please proceed.

**Arnaud Giblat:** Good morning. Thank you for taking my question. Can you talk about the potential capital gains tax changes in the US and how that's impacting your deal flow? Are there many private companies seeking to take advantage of the lower tax rate before that changes? Thank you.

**Jon Gray:** Yeah, it's a good question. I think it has impacted deal flow this year. I think there are owners, both family owners of businesses and private equity firms who see the potential increase in capital gains and have accelerated their decision-making. I don't know where it ultimately lands but I do think it's been a factor in the uptick in deal activity. Obviously, the growth of our platform and all these different costs of capital and the scale of what we can do has certainly helped. But there's some element – it's hard to quantify – of some people pushing forward some sales.

**Arnaud Giblat:** Okay. Thanks.

**Joanna:** Thank you. Our next question comes from the line of Devin Ryan at JMP Securities. Please proceed.

**Devin Ryan:** Great. Thanks very much. Good morning. Just a question on realization activity. Clearly, a lot of momentum right now so I just want to dig in on a couple of the businesses. So, within real estate really nice to see the acceleration in the quarter. If you could talk a little bit more about the trajectory or the momentum there that would be helpful. And then within private equity, also really favorable backdrop at the moment. I know you guys don't necessarily think like this but are we moving maybe towards peak realizations in that business? Or how would you frame private equity as well? Thanks.

**Jon Gray:** So, we obviously have a constructive market environment and that is helpful for realizations. Michael talked about the accrued carry receivable rising to a record level. We also have record investment performance revenue eligible AUM – one of my favorite terms – which is another forward indicator.

I would say real estate has lagged a little bit the private equity world because it was more impacted by Covid. But as the world reopens we're seeing strength in real estate, and particularly in the sectors that we were focused on. So, more than two-thirds of our portfolio in real estate is in logistics, life science office buildings, and rental housing. All of those areas are doing quite well. And we've begun to see, as we talked about earlier, snap back in some of the hospitality and leisure assets.

So, I think you will see more over time in real estate. I think you'll see more gains and more realizations. We're most – we're focused of course on exiting at the optimal moment, so it's very hard to say when it will happen. But we're seeing sort of a step function increase in values in private real estate markets, particularly in some of our most favored categories and that bodes well.

In private equity – Michael commented on this, but a third of our corporate private equity portfolio is public. That's obviously helpful for – as a forward indicator of realizations. There's strength in the marketplace for private businesses we own. Again, we'll do it at the optimal time. I think what's changed versus the past is just the breadth of the businesses we're in. We now – two years ago we didn't have a growth business. We didn't have the life sciences business. The scale of our secondaries business has gotten much bigger. Even our credit business, which 12 months ago didn't have the kind of performance when we marked things down, has seen a real recovery and I think will begin to see some realizations. That's more of a European-type waterfall.

So, I see this broad base. It's obviously connected to markets. But I would say we're pretty optimistic across the whole firm as it relates to realizations.

**Michael Chae:** Yeah, Devin, I'd just add – I mentioned in my remarks we've had since the beginning of the year something like 20 sort of listings of public companies across the firm. Another way of saying that is we've created a lot of public market cap out there. It's something like \$17 billion associated with those 20 transactions. And in aggregate that's significant unrealized gains relative to the sort of prior marks as private companies. So, that's what you're seeing fueling in part the growth in the net accrued and that's obviously a reflection of the strengths of the company and also of the markets. And I think in terms of peak, we'll see, but I think when you see the carry receivable elevated as it is right now and the scale and breadth of the platform and the growth in it, as Jon said, the realizations come subsequently. And so, we – if markets hold up and hang in there, that's a forward indicator, not a lagging indicator of the future trajectory of realizations.

**Devin Ryan:** Yeah. Really appreciate it. Thank you.

**Joanna:** Thank you. Our next question comes from the line of Chris Kotowski at Oppenheimer. Please proceed.

**Chris Kotowski:** Good morning and thank you. I guess a question for Jon. I know that office hasn't been a focus of yours in real estate for the last couple of years, but I'm curious if you have an early read on how kind of the post-vaccine reopening is impacting usage patterns. And I guess in particular I'm wondering are white collar employers, to the extent that they're negotiating their space needs now, are they taking down more space, less space, the same amount? Are the shops, restaurants, and center office districts around the world reopening in anticipation of full occupancy? Or is that not happening?

**Jon Gray:** So, I think it's a – it varies by region. Just to frame things, you were right: Office for us has not been a big component. Traditional US office represents four percent of our overall real estate portfolio. I would say in places like China employees have gone back to the office. Europe, certainly the UK we're seeing more of that. The US, I would say, has been the slowest, particularly in the large markets, the coastal markets, New York and San Francisco. Vacancies are elevated – so, in places like New York, vacancy I think is 15 or 16 percent, San Francisco as high as 20 percent, and that obviously gives

tenants more leverage. I think a lot of tenants are being cautious because they're not sure about their space needs. But we are seeing some upticks. Technology firms are definitely out there. And I think a lot of companies are concluding that ultimately they need to have people together and that they will return to the office even if there's more flexibility.

So, I think our forecast is a challenging near-term environment until we get through Covid. There will be probably more vacancy, as we've seen. But ultimately, markets will recover. There will be a lot less building. But it is definitely a sector that is facing some near-term headwinds, particularly in the US.

**Chris Kotowski:** Okay. Thank you. That's it for me.

**Joanna:** Thank you and our next question comes from the line of Bill Katz. Please proceed, Bill.

**Bill Katz:** Okay. Thank you for taking the follow-up question. Maybe a little bit more of a modeling question, just for Michael, just to sort of try and triangulate your commentary around your FRE margin for this year versus maybe some of the quarter-to-quarter swings between base comp and the G&A line. How do you sort of see those going forward? How much was maybe seasonal in 2Q versus more exit run rate levels? Thank you.

**Michael Chae:** Yeah, Bill, good question. I mentioned in my remarks it's sort of best to look at margins over multiple quarters and really on an LTM basis. And the LTM margin of 54.4, a similar comment as last quarter, is a reasonable sort of proxy or reflection of what we think the run rate for the full year will be. Obviously, there are variables, including a non-comp operating expense, sort of the pace and timing of the rebound from Covid and resumed spending on T&E and so forth. So – but when you step back, again, on a sort of trailing 12 month basis our fee-related revenues as a firm grew at 30 percent and our sort of total fee expenses grew at 20 percent, and that's really the dynamic you're seeing and the operating leverage dynamic you're seeing in terms of revenue growing and excess expenses. And so, I think focus on that sort of LTM margin, and that's a good sort of baseline starting point from here.

**Bill Katz:** Okay. Thank you, Michael.

**Joanna:** Thank you. Our final question comes from the line of Robert Lee with KBW. Please proceed.

**Robert Lee:** Thanks for taking my follow-up. And Michael, I have another kind of modeling question for you. So, taxes and related payables, I know it kind of bounces around. It jumped about \$60 million this quarter. I don't know if that's related to TRA payments. But is there any kind of color or maybe guidance you can give us on how we should expect that line to behave and maybe some broad commentary around kind of the migration of the tax rate going forward?



**Michael Chae:** Yeah, I think I got the question, Rob. There is – I'll give a similar answer in terms of looking over a 12-month period, but there is seasonality intra-year in our tax rates with the second and fourth quarters being seasonally higher, the first and third seasonally lower based on really the timing of deductions throughout the year. So, if you look at our Q1 DE for common effective tax rate it's about 9.9, 10 percent, this quarter 18 percent– averaging about 14 percent for the first half. Again, that's more or less in line with our full year expectation. So – and if you step back at the time of conversion we talked about over the near to medium term sort of a low-to-mid-teens effective tax rate for common. And so, that, call it that 14 percent first half baseline is in line with that. So, just to connect those dots for you.

**Robert Lee:** Great. Thank you very much.

**Michael Chae:** Thanks, Rob.

**Joanna:** Thank you. And now I'd like to hand it over to Weston Tucker for closing remarks. Please proceed.

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

**Joanna:** Thank you. And that concludes your conference call for today. You may now disconnect. Thank you for joining and have a very good day. Thank you.

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