BLACKSTONE First Quarter 2022 Investor Call
April 21, 2022 at 9:00 a.m. ET

Moderator: Good day and welcome, everyone, to the Blackstone first quarter 2022 investor call hosted by Weston Tucker, Head of Shareholder Relations. My name is Kristoff and I'm the event manager for today.

During the presentation your lines will remain on listen only. If you'd like to ask a question, press star one on your device. But if you require operator assistance at any time, please press star zero and a coordinator will be happy to assist you.

I would like to alert all parties that this conference is being recorded. And with that I'll hand it over to Weston. Please proceed.

Weston Tucker: Great. Thank you. And good morning, and welcome to Blackstone's first 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 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. And 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 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.

On results, we reported GAAP net income for the quarter of $2.5 billion. Distributable earnings were $1.9 billion, or $1.55 per common share, and we declared a dividend of $1.32 per share to be paid to holders of record as of May 2nd. With that, I'll turn the call over to Steve.

Steve Schwarzman: Thanks a lot, Weston. And good morning and thank you for joining our call. Blackstone reported an exceptional start to the year, with the first quarter representing one of the two best in our 36-year history. This was despite increasing interest rates and ever-higher inflation driving major declines in equity and debt markets. Distributable Earnings, as Weston mentioned, in the first quarter rose 63% this year over last year to $1.9 billion, while Fee Related Earnings increased 55% to $1.1 billion. Inflows, capital deployed and realizations all set new records for the firm for any twelve-month period. Most importantly, our investment performance was outstanding, dramatically outperforming public indices – another example of why alternative assets continue to grow rapidly in a risk-off world.

These results are highly atypical in money management. But greater than a single quarter, they represent further “proof of concept” of Blackstone's position in the financial sector, in which I believe we are uniquely placed. So, what differentiates us? There are certain attributes that characterize a great financial firm, including strong investment performance over long periods of time; significant growth in assets while maintaining that performance, the ability to continuously innovate; a trusted brand; loyalty from customers who themselves are healthy and growing, wide geographic and product reach; a distinctive high-performance culture; the ability to attract and keep great talent, and the capacity to identify and act upon paradigm shifts before others. It is rare, even for a great firm, to possess several of these pillars of success. At Blackstone I believe we’ve demonstrated we have all of them.

As the largest alternative manager in the world we've built leading businesses across all of the major asset classes with uniformly outstanding returns. Our flagship strategies have significantly outperformed the comparable public indices, including 16-17% net returns annually in corporate private equity and global opportunistic real estate for three decades – beating the indices by approximately 5-9% per year. As we've grown larger we have not sacrificed returns – quite the opposite in fact. In the first quarter while nearly every major asset class outside commodities declined, our funds delivered strong performance. This is best highlighted on the one hand by our real estate business, our largest business, where superior sector and asset selection led to our flagship strategies appreciating 8-10% just in the quarter, compared to a 4% decline in the REIT index. On the other hand, in liquid markets, our hedge fund solutions delivered a positive composite return in the quarter compared to a 5-9% percent decline in the major global equity indices.

Strong performance over decades has given us the confidence and ability to innovate. While most companies struggle to build a great business outside of their original success, innovation itself is a core competency at our firm. Today, we have approximately 60 strategies and we're constantly developing more – increasingly in the form of perpetual capital vehicles. As we deliver for our clients across more and more strategies, it deepens our relationships with them and creates a powerful network effect, leading to a greater share of wallet. That's why our inflows reached $50 billion in the first quarter alone and $289 billion for the last twelve months. Over the past three years, our limited partners have entrusted us with $500 billion of inflows – which is greater than the total AUM of any other alternative firm.

Above all else, people and reputation are the absolute necessities for finance success. At Blackstone, these are our most important assets and the foundation of everything we've been able to achieve. We have more talented people at the firm today than ever before, operating at the highest level of excellence, and we are reinvesting significantly in our capabilities and people in order to expand our leadership position in every area and further widen our competitive moat. As the gold standard in financial services, Blackstone is a magnet to the industry's best talent, as evidenced by 35,000 unique applications for fewer than only 200 positions in our most recent analyst recruiting class. And we've also been named consistently as one of the best places to work in finance.

Taken together, these pillars of success are why Blackstone has continued to post strong results and why we have extraordinary forward momentum despite the current backdrop of rising rates and higher inflation. While no investment manager can be totally immune from these headwinds, we believe the unique balance of our firm and positioning of our portfolio will enable us to mitigate the adverse consequences of these factors. As we've highlighted previously, in our $200 billion corporate credit business, virtually all of our investments are in floating rate debt, which provides a better return for our customers as interest rates move higher. In our nearly $300 billion real estate business, approximately 80% of the equity portfolio is in sectors where rents in the U.S. are growing significantly in excess of the rate of inflation. Owning hard assets has historically provided a strong hedge for inflation, which favors our $27 billion infrastructure business as well.

For our $125 billion corporate private equity platform our operating companies grew revenues a remarkable 22% year over year in the first quarter, partially benefiting from reopening tailwinds. But we're seeing the impact of inflation on some of our companies, which we expect to continue. We believe investing in companies with strong revenue growth is the best protection to generate outperformance in the future. And in our $83 billion hedge fund solutions platform we expect volatile liquid markets to advantage our downside-protected strategies, which we saw in the first quarter.

Overall, the transformation of our firm continues, which we first outlined at our Investor Day in 2018, with our AUM rapidly shifting to its perpetual strategies and our earnings towards more recurring FRE. Over this three-and-a-half-year period, perpetual AUM is up over five times and annual FRE has more

than tripled. This transformation makes us more resilient to market cycles and provides additional opportunities to create value for our limited partners.

In closing, I've never been more pleased with the positioning of our firm or more optimistic about its prospects.

Now I'll turn it over to our television star, Jon Gray.

Jon Gray: Thank you, Steve. And good morning, everyone. It's one thing for an investment firm to achieve strong results when markets are all going up. It's quite another to do so in a challenging environment like Q1.

Over the past several years we've been fortifying our business model to deliver for investors in good times and bad. This applies to the way we've deployed capital as well as the businesses we've entered. The power of that model was on full display in the first quarter.

Starting with the portfolio and investment performance, we've been mindful of the prospect of rising interest rates and a normalization of market multiples for several years. This informed our investing, as Steve noted, and we concentrated our deployment towards hard assets and the businesses where revenue could grow faster than inflationary pressures. These include global logistics, life sciences, rental housing, enterprise software, and digital and energy infrastructure. Today we're benefiting from extraordinarily positive fundamentals in these areas and they remain significant drivers of appreciation in our funds. After the start of the pandemic we also ramped up deployment in the travel sector, including investments in Bourne Leisure, Signature Aviation and Extended Stay Hotels, along with pending commitments for Crown Resorts, toll road operator ASPI and visa services firm VFS. We are now seeing a robust recovery in global travel.

The tremendous value of what we own today is further highlighted by our realization activity. Nowhere is that more apparent than in logistics – our largest investment theme, comprising 40 percent of the global real estate portfolio. We first started investing in this sector at scale in 2010, given the expected explosion in e-commerce, and today we own approximately $170 billion of warehouses. We're also now seeing a surge in corporations increasing inventory holdings to mitigate supply chain issues. We have harvested gains along the way, including Indcor in 2015 and Logicor in 2017, two of the firm's most successful investments. And the largest realization in Q1 was the refinancing of a portion of our U.S. logistics portfolio.

Moreover, in our European portfolio we expect to complete the €21 billion recapitalization of Mileway, the largest last-mile logistics platform on the continent, in the next few weeks. We built this platform through 220 separate acquisitions over 5 years. After a fulsome market check process, the portfolio is being acquired by a new perpetual capital vehicle managed by Blackstone along with existing Core+ vehicles with an aggregate €10 billion of equity commitments.

Turning to our business expansion, we've been talking about moving into more open waters in terms of broadening the clients we serve and the investments we can make. This expansion with an emphasis on perpetual strategies has made our business more durable in difficult markets. Last quarter we highlighted four key engines of growth and I'll briefly give you an update on each.

In retail, investor demand for our products remained strong, despite market headwinds. We've continued to raise a total of $4-$5 billion per month of equity capital for our three retail perpetual vehicles – BREIT, BCRED, and BEPIF - including the most recent monthly subscription on April 1st. Investors recognize our products are well-positioned for the inflationary environment ahead, given BREIT's focus on hard assets with short-duration leases, while BCRED is a floating rate vehicle with an average loan-to-value of 43 percent. BREIT more than doubled in size year over year to $63 billion, generating 5.8% appreciation in the first quarter. We have the most powerful brand in the retail channel and an enormous first-mover

advantage, selling our products today through a broad network of distribution partners. We are in the early innings of our build-out in this vast and under-penetrated market.

Our institutional perpetual capital platform also continues to grow rapidly, approaching the $100 billion milestone. In infrastructure we raised $2.5 billion in the quarter and over $9 billion since reopening the vehicle in Q4, bringing the strategy to $27 billion. We've been actively deploying this capital, and given the opportunity set and our performance we expect this business to grow significantly over time. In real estate, our institutional BPP strategy grew 30% year over year to $66 billion, with an additional step-up coming this quarter from Mileway.

Turning to insurance, AUM on this platform has more-than doubled year over year to $155 billion. We believe we're uniquely positioned in our sector as an asset-light investment manager serving multiple insurance clients. We are focused on delivering for them and expect to find additional growth opportunities over time, on a balance sheet-light basis.

Moving to our drawdown funds, where we've spent the last 36 years building what we believe is the best platform in the world: Last quarter, we highlighted moving into a new flagship fundraising cycle, targeting approximately $150 billion in aggregate. Despite the more crowded fundraising environment in the private equity area today, our confidence in this target remains extremely high. This is reflective of the strength of our brand, track record, the breadth of our platform, and the geographic reach of our capital raising. In fact, we expect significant closings for our two largest flagships – global real estate and corporate private equity – in the next few months. Our third largest, private equity secondaries, has closed on $14 billion today and is on track to reach approximately $20 billion later this year, which would be the largest secondaries vehicle ever raised.

Fundraising momentum has never been stronger at Blackstone. The firm's breadth also positions us well to deploy capital, as illustrated by the nearly $150 billion invested over the past 12 months. Major new commitments in the first quarter were in some of our favorite neighborhoods – rental housing, logistics, life sciences and software. Looking forward, we have an active pipeline, and the market volatility is creating opportunities, including several public company situations. Earlier this week, we announced the $13 billion total enterprise value take-private of the largest student housing platform in the United States. And last week, in partnership with the Benetton family, we launched a tender offer to privatize Atlantia, one of the largest transportation infrastructure companies.

In closing, we expect the move into a higher-inflation, higher-rate environment will create challenges, but the fundamentals at our firm remain exceptionally strong. Investors continue to look to alternatives, and Blackstone in particular, to deliver the investment solutions they need. And we are building simple, repeatable, scalable businesses to serve them. For our shareholders, we've continued to grow earnings rapidly while remaining true to our capital-light model. This has allowed us to return 100% of earnings over the past four years through dividends and share buybacks, while keeping the share count flat and incurring virtually no net debt and no insurance liabilities. This highly attractive model gives us great confidence in the future.

And with that, I will turn things over to Michael.

Michael Chae: Thanks, Jon. And good morning, everyone. Two key dynamics have underpinned the evolution of our business over the past several years. First, the development of an entire platform of perpetual capital strategies, and the scaling of those strategies has fundamentally transformed the firm's FRE trajectory. Second, the growing breadth of our business and "ways to win" overall is fueling an expansion of the firm's store of value and performance revenue potential. The net result is higher earnings; higher quality earnings; and greater resiliency through market cycles. The firm's outstanding first quarter results perfectly illustrate these dynamics.

First, with respect to perpetual capital and FRE: Perpetual AUM more than doubled year over year to $338 billion across 18 vehicles. These strategies now comprise 43% of the firm's fee-earning AUM, and their impact on the repeatability of our capital metrics and earnings can't be overstated. In terms of capital metrics: over half of the firm's record LTM inflows and record deployment was from perpetual strategies. It was only four years ago that we first surpassed $100 billion of inflows in a single year. The firm is now raising that, or more, from our perpetual strategies alone. Moreover, nearly all of these vehicles continuously fundraise, creating much more consistency of inflows from quarter to quarter.

In terms of earnings – the "perpetualization" of our business is similarly driving a meaningful step up in the magnitude and resiliency of earnings. As we've outlined before, these strategies generate management fees that compound with both inflows and NAV appreciation, which set a higher and higher baseline for fee revenues as we go. The combined Fee Earning AUM of four flagship perpetual capital strategies – BREIT, BPP, BCRED and our infrastructure platform BIP – nearly doubled in the last 12 months to over $160 billion, including a $27 billion increase from appreciation. In addition to NAV-based management fees, ten of the firm's perpetual vehicles generate fee-related performance revenues, which by definition crystallize on a recurring basis without asset sales. Importantly, in the first quarter, BREIT moved from its prior annual crystallization schedule – occurring in the fourth quarter each year – to a quarterly crystallization similar to BCRED.

The combination of these factors and the exceptional range of growth engines firing across the firm overall is powering continued robust increases in total fee revenues and FRE. Management fees rose 25 percent year over year to a record $1.5 billion. Fee-related performance measures more-than tripled year over year to $558 million, and even if you were to adjust the prior period for the BREIT change, they more than doubled. FRE rose 55% year over year to $1.1 billion on the quarter, or $0.95 per share. We are now approaching a quarterly-run rate of $1 per share in this high-quality earnings stream, which is in the area of full-year FRE at the time of our Investor Day.

Moving to performance revenues and the growing store of value: in the first quarter net realizations increased 73% year over year to nearly $1 billion. Fund realizations reached a record $23 billion and included the refinancing of our U.S. logistics portfolio, the partial sale of fintech company IntraFi, and the modernization of stakes in various private and public holdings across the firm.

The dramatic expansion in the number and scale of the firm's strategies and commensurate increase in aggregate deployment has led to a record $481 billion of performance revenue eligible value in the ground, up 50% year over year. At the same time, sustained investment outperformance across the platform on this growing base of investment capital has driven a continued expansion of the firm's "store of value." In the first quarter, $1.9 billion of net performance revenues lifted the balance sheet receivable 9 percent sequentially to $9.5 billion, or nearly $8 per share – the highest level in our history. On a year-over-year basis the receivable increased 84%, notwithstanding $4.3 billion of net realized distributions.

Taken together, remarkable growth in both FRE and net realizations drove a 63% year-over-year increase in Distributable Earnings in the first quarter to $1.9 billion, or $1.55 per share. For the LTM period, DE reached $5.36 per share – a record for any 12-months in our history. Looking forward, strong FRE momentum coupled with a robust near-term realization pipeline gives us great confidence in the outlook.

In closing, I'll go back to where I started with the ongoing transformation of the firm. We are on a path characterized by rising AUM milestones, a path to $1 trillion this year and ultimately well beyond – with commensurate significant elevation in earnings power and earnings quality each step of the way. We have four robust growth engines driving us forward and in all of them we continue to deliver outstanding results and have the full support of our LPs. Despite the uncertainties of today's world, we feel great about Blackstone's future.

With that, we thank you for joining the call and would like to open it up now for questions.

Moderator: Thank you, Michael. Everyone, if you would like to ask a question, please press star one on your device. If you would like to withdraw your question, just press star two. Please be advised to keep your questions one per person with a follow-up. Thank you.

The first question is coming from Glenn Schorr from Evercore ISI. Glenn, please go ahead.

Glenn Schorr: Okay. Thank you. My gut is you have about 50 billion answers to this, but there's been plenty of conversation for the industry that LPs have some cash flow constraints. As recent vintages, money was put to work at a record pace and now there's less exits, so cash flow coming back to them. So, that – logic would say that would either elongate capital raises, reduce capital raises, make LPs choose. Clearly, it didn't affect you, but I wonder if you could talk to that issue in the market. Thanks.

Jon Gray: So, Glenn, that's a really good question. By the way, I would point out another factor in the private equity challenge is just how well the sector has done, and so the appreciation has meant also that they're above their targets. But I guess I'd start with the comments from the remarks. As you heard, our fundraising momentum has never been stronger. And I guess I would point to a couple things as to why this is the case.

First off, in general, there's this continued movement into alternatives. It has not stopped. And these challenges you described are more focused, I would say, in the private equity market and amongst U.S. pension funds. I think for us what we've got is this really great reservoir of goodwill from our clients because we've delivered performance over a long period of time. We're also raising capital very broadly at Blackstone in real estate, in secondaries, in credit, in infrastructure, in life sciences, growth and that platform helped. We also raise capital all over the world – so, not just in the U.S., in Europe, in Asia in the Middle East. And we also raise capital not just from institutional clients but also from retail clients, insurance clients and we have both drawdown funds and perpetual funds.

And then, the other point I'd make is lots of our products are really well positioned for the environment we're going into, which would be – if you think about owning hard assets like infrastructure, real estate owning floating rate debt like we do in our direct lending platform, that's really attractive. But I would really say – and this applies even in the most challenged sectors like corporate private equity and growth – the goodwill that we have from our customers is very strong. And that's why we believe the vintages of our – both our next private equity fund and our next growth fund will be larger than the previous, despite this challenging environment.

Glenn Schorr: All right. Thanks very much.

Moderator: The next question is coming from Craig Siegenthaler from Bank of America. Please go ahead.

Craig Siegenthaler: Good morning Steve, Jon, Michael. Hope you're all doing well.

Michael Chae: Morning, Craig.

Craig Siegenthaler: We have a big picture question on FRE. The macro backdrop has changed a lot since 4Q. We have higher inflation, less economic growth, and an emerging denominator effect with institutional allocations, which, Jon, you just referenced in the last response. How has all of this impacted your fee-related earnings growth trajectory, if at all?

Michael Chae: Thanks, Craig, and nice to hear from you in your new spot. I think the headline here, Craig, is notwithstanding the backdrop, which is dynamic, the structural and fundamental upward trajectory we're on as it relates to FRE just continues to be robust. And I'd sort of step back and say looking forward, this year and the years beyond, we're really looking at sort of a one-two punch in a good way, and that is the continued scaling of perpetual capital strategies, and second, the cycle of flagship fundraising, the $150 billion across 18 strategies that Jon referenced.

So, you take those sort of one at a time. In perpetual capital, which is really in 2022 kind of the main event on FRE growth, in the first quarter – and we mentioned this in different ways – we had almost $300 billion of fee-earning AUM in perpetual capital. That's up 124 percent year over year. And in that BREIT, BPP, infrastructure, BCRED areas, those four sort of flagship funds, almost double year over year. And we'll also have the full-year effect of the insurance partnerships we entered into in Q4 for the full year.

So, what you have right now – let's call it a doubling of that base of fee-earning AUM in perpetual – we expect that to continue to scale as we add platforms, as we obviously fundraise continuously in many of these areas, and with appreciation and income. And so, that is a really significant story for this year and beyond.

Second, on the drawdown side, as Jon mentioned, as we mentioned, that flagship fundraising cycle over the next 12 to 18 months, which in aggregate that $150 billion, which we've expressed great confidence in achieving, that will be – as we said, I think, last quarter – about 25 percent larger than the predecessor funds before them.

So, that from a timing standpoint, between fee holidays, the pace of fundraising, and when we actually light the funds and start investing them, as you know, that's not so much a 2022 event as a 2023 and '24 event, but that is coming. That is structural.

So, those two things are really powerful, a really powerful one-two punch, I would call it, but the punches sort of repeat themselves. They're not one-time events. And even though in any given quarter some subsection of FRE, as we all know, is mathematically affected by NAV in some cases and fundraising in a given quarter, the underlying trajectory and the fundamentals are very, very positive.

Craig Siegenthaler: Thank you, Michael.

Moderator: Great. The next question is coming from Alexander Blostein from Goldman Sachs. Please go ahead.

Alex Blostein: Good morning. Thanks, everybody. I was hoping we could talk for a couple of minutes about opportunities you guys might see to recycle assets from some of the opportunistic strategies into core and perpetual strategies like you potentially could do with Mileway in Europe. I think, Jon, I think you mentioned it's about a €10 billion commitment in equities from other LPs in a separate account kind of format. So, it's a compelling transaction obviously to crystallize the gains but more importantly create additional perpetual FRE stream. How are you thinking about that across both real estate and private equity? Are there other opportunities like that on the supply side? And I guess on the demand side from a structure, how is the demand from LPs for kind of these type of vehicles, kind of single-asset SMAs? Thanks?

Jon Gray: So, Alex, what I would say about this is the first order of business for us is to deliver maximum returns for our investors in those strategies in private equity and real estate private equity. And what's nice about these outcomes for them is if we do it, they're able to get all cash, as opposed to doing a listing and waiting a number of years to get out and the overhang issues. That's, I think, really important. We also have done on all of these some level of market check. We've done just a handful of these because we do think that it's really only for special long-term assets, but the process has to be handled in the right way. That's something really important to us.

What I would say is I think the interest from investors is high if it's in the right segment. So, it's got to be something like life science offices, last-mile European logistics. So, in those cases it's very big platforms that are hard to exit other than through the public markets. And then, on the buy side they're investments where our clients want to be invested long term. The other positive for the existing investors is they roll over. And in these we've done the existing investors have ended up being the majority investors.

So, I would say it's an opportunity but it's selective. It's for very large platforms that are harder to exit from and also are long-term attractive for new investors who want to deploy capital or the existing investors.

Alex Blostein: Great. Thanks so much.

Moderator: The next question is coming from Michael Cyprys from Morgan Stanley. Michael, please go ahead.

Michael Cyprys: Great. Thanks. Good morning. I want to come back to a point that Steve made about paradigm shifts and a point that Jon made about moving into a higher inflation environment creating challenges. So, I guess the question is just curious what paradigm shifts you're seeing take hold today in the midst of rising rates, inflation, supply chain challenges, geopolitics, and the return of great power complex. What are the implications that you see for investing from all of that? What new risks and challenges does that create? And if you could talk a little bit about how you are evolving and positioning Blackstone to capitalize on all of that but also manage through what appears to be a higher-risk environment?

Jon Gray: That's a big question, Mike, but let me take a shot at it. I think, as you know, we've been talking about inflation for a long time. We were actually talking about rising rates even pre-Covid period. Certainly, we've been talking about it more for the last 15 months with concerns about inflation. And so, this is something we're really mindful of.

If you think about overall investing, there are only two things that drive asset prices higher. It's either rising cash flows or rising multiples. And in an inflationary, rising rate environment multiples tend not to go up. And so, the importance of owning things where cash flow will grow is super important.

And so, if you look at our portfolio in the quarter, it was not a coincidence, as Steve laid out, why we performed well and better than the markets. In credit we've really focused on floating rate debt. In real estate 80 percent of our portfolio is in sectors with really good fundamentals and short duration leases. In private equity we've made a big focus in areas like travel, technology, energy infrastructure that have done quite well. And in infrastructure itself, it's been energy, transportation, and digital infrastructure – hard assets with pricing power.

And so, to us, you have to think about how you deploy capital in this changing environment. And particularly if you think about the retail channel, what we're doing there, it's very reflective of that. The two main products are really positioned to be inflation protection products. In BREIT, what you have is logistics and rental housing representing more than 80% of the portfolio. And in BCRED, you're 99% floating rate debt, so as the Fed raises rates, you get to reprice.

So, I think you have to assume that we are in a higher inflationary environment, that rates will be moving higher, but in that environment if you can own businesses where cash flows can reset higher and outrun that inflation, you can still deliver positive performance. That's what we've been doing. That's what we'll continue to do. And if you look at the big deals that we've done since the beginning of the year, be it the casino deal in Australia, last mile logistics in Europe, transportation infrastructure in Europe, student housing this week in the U.S., they all fall into that bucket. We're mindful of costs, focused on good fundamentals, and not owning fixed income-oriented assets or businesses without pricing power and a lot of exposure to input costs.

So, this is clearly as an investment firm top of mind for us. It has been for a while. I think that's why we've performed so well. And back to the earlier question about fundraising, when you perform well in this business it leads to flows, which is why we always talk about performance first.

Michael Cyprys: Great. Thank you.

Moderator: The next question is coming from Gerald O'Hara from Jeffries. Gerald, please go ahead.

Jerry O'Hara: Great. Thank you. So, perhaps a question on retail. Investment and hiring in this in the sector has clearly been a theme across the peer set and Blackstone has clearly been out ahead on this opportunity. But perhaps you can give us a little bit of an update on how you're thinking about this strategically and sort of what investments might still be out there on a go-forward basis. Thank you.

Jon Gray: Sure. So, what I would say on retail is we really entered this space, as you know, much earlier than others. And having a first mover advantage is really important. I also would say the brand – which, I think it's sometimes hard financially to analyze the value and power of a brand, but in a channel like this the Blackstone brand means a lot. So, what we did was design products – we've been selling drawdown funds into this channel for a long time, but in the last five-plus years we've moved to these perpetual products that provided 1099s on the tax front, a greater yield, greater liquidity. And we brought the cost down pretty significantly. People haven't really focused much on that, but retail customers generally when they were exposed to alternatives were charged much, much higher than institutional clients. And it generally ended up with the investors taking too much risk to get over what they were charging and the outcome was poor for investors. And we really changed that: bring Blackstone quality at institutional sort of pricing to individual customers and create products that work.

And what that's led to is really great performance in the case of the individual products we have, and we've gotten on the shelf. And I would point out unlike the institutional market where there can be thousands of private equity managers, it's more challenging for our distribution partners. They really want to work with two or three different products in this segment, and we expect to be on the shelf for each of these. And that is all why I think today we're running at about ten times our nearest competitor in terms of monthly sales. So, we're obviously operating in a different space today. We acknowledge we compete with some amazing firms. We're sure they're going to come up with products. But if we continue to deliver given the strength of what we've invested in, our push globally – by the end of the year we'll have 300 dedicated people in private wealth – and the products that we can create given the scale of our platform, I think there's more to do. We just started with our European real estate platform. I think there are other spaces we could move into. But it all starts and ends with performance. We have to create products that work. If we do that, we can deliver for these customers. And I would just say overall this is an $80 trillion market that I think is one percent penetrated in alts today. It feels to us like a very large market and we're in a unique position today to capitalize on that.

Steve Schwarzman: Yeah, the other thing I would add to that, we've been doing this for ten years. So, it sort of leaves us alone. And the reason why that's important, it's more than just having a product. It's how you deliver it with these large salesforces and how you have an organization that's coherent, that can service individual comments and questions that owners have, which is really important in that channel. And we've done a huge amount of, what we call BX Universities, is teaching individual FAs at all of the major institutions how these products work and why they should have confidence in it. And we're the source of that kind of information. It's turned out to be a fantastic asset allocation for them. And so, sort of ten years of good works basically alone in the whole alternative business is now enabling us to dramatically expand what we're doing with the current products. So, I think as you think through where people are positioned in this, there's a reason – supplementing what Jon said – in terms of the great performance. But why people turn to us it is not like a foreign exchange trader bidding for money, where the rate, it just sort of moves and happens. It took a long time to develop this type of trust with customers.

Jon Gray: Thank you.

Jerry O'Hara: Great. That's helpful. Thank you.

Moderator: The next question is coming from Brian Bedell from Deutsche Bank. Brian, please go ahead.

Brian Bedell: Great. Thanks. Good morning, folks. Just to stay on the retail theme, a two-part question. The first – Michael, I think you were talking about the recrystallization of BREIT to a quarterly level. If I heard you right, I think there were ten vehicles within that perpetual capital base overall – and correct me if I'm wrong – at $160 billion of AUM. And the question is are all they all on a quarterly crystallization or are there still some more vehicles to change?

And then, the second part of the question on that retail theme broadly is can this become a much larger asset class of funds in this quarterly performance fee style? And I believe you're working on a retail private equity product as well that will have some liquidity features. So, I just wanted to get an update on that, if that's coming soon.

Michael Chae: Brian, on the first part the $160 billion actually referred only to those four sort of flagship products – BREIT, BPP, BIP, and BCRED. Perpetual capital overall, as we mentioned, is $330 billion of AUM. BREIT and BCRED and some other direct lending products are sort of the main ones with a quarterly crystallization now, and that's obviously where the biggest growth trajectory has been. Funds like BPP and BIP maintain sort of those every-three-to-five-year anniversaries around the crystallization.

Jon Gray: The only thing I would add to that is as we raise more of those it's like a layering of a cake. So, you'll see more and more of those institutional ones coming along at each quarter. It's probably going to be a little tricker to model as we build more and more of these products over time. So, in the retail area I think this is a pretty substantive change we've made that will allow for BREIT to be paid quarterly.

Michael Chae: I would say this move is – just stepping back – a big positive and I think will make us less tricky to model around this important area.

Brian Bedell: Right. Right. Yep. And then on the private equity side on retail?

Jon Gray: On the private equity side what I'd say is we're not ready to comment on that publicly. It's obviously an area where investors would like more exposure, individual investors. I think the idea if you did something would be to create something broad-based that included the whole range of sort of private equity, capital P, capital E, including secondaries, more structured equity, growth, and having a really broad platform, I think, would be helpful. But at this point we don't have anything to say. Hopefully, in the future over this year we'll have something to talk about.

Brian Bedell: Got it. Got it. Great. Thanks very much.

Michael Chae: Thanks, Brian.

Moderator: The next question is coming from Robert A. Lee from KDW. Robert, please go ahead.

Rob Lee: Thanks. Good morning. Thanks for your patience and taking my question. So, I guess this is really mainly for Michael, but – and maybe it's getting a little bit in the weeds, but on the BREIT recast of the crystallization to quarterly, is there high water marks or anything that we should be kind of thinking about as we model it going forward, that it's such extraordinary performance in Q1, up almost eight percent, if the next quarter is more subdued – just trying to think that through.

And then, the second part, maybe, if there's any color you can maybe provide as we think about the Mileway impact, Atlantia, how we should think about that maybe from the financial or FRE impact.

Michael Chae: Yeah, Rob, first on the BREIT change and really asking about mechanics, I mean, overall it's the same terms as we started with from inception. The same annual hurdle rate. It's now just calculated still annually but crystallized quarterly. So, and from a mechanical standpoint, in the sort of unlikely or uncommon event that on an intra-year basis performance fees that are crystallized quarterly but not ultimately earned against the annual calculations, then that initial crystallization amount will be recouped by investors through an offset to future performance fees with a long period of time to do that. So – but

the bottom lines from a sort of economic standpoint and a preferred return standpoint, same terms as before on an annual basis.

Rob Lee: Great. And then maybe just – the second part was if there's any way to kind of think of quantifying the Mileway, Atlantia kind of net impacts going forward?

Michael Chae: Yeah, I think on individual deals, Rob, we stay away from that obviously. Should both deals happen, on day one the NAV will reflect the equity invested by our LPs and our funds in both those deals and as perpetual capital will add to the fee-earning AUM.

Rob Lee: Okay. Thanks for taking my questions. I appreciate it.

Michael Chae: Sure, Rob.

Moderator: The next question is coming from Adam Beatty from UBS. Adam, please go ahead.

Adam Beatty: Thank you and good morning. I wanted to ask about the secondaries business. Obviously strong overall momentum and you just did some more fundraising. An earlier question talked about potential liquidity constraints among LPs, and I was just wondering if maybe that's even had the effect of accelerating some activity around secondaries or if you would expect it to do so in the future. And then, maybe overall on the mix of GP- versus LP-led secondaries and whether that's changing at all. Thank you.

Jon Gray: You're right in your question, Adam. What we're seeing is LPs who want to stick with managers but may be over their allocation targets because of strong performance in private equity saying, "I'm going to sell some of my older vintage private equity funds." And we have seen an acceleration of deal flow in the secondaries market, which is why having a large fund for Vern Perry and our team in secondaries is very important. We like this space because as alternatives grow the need for liquidity grows. And it's a difficult business to invest in. You need a lot of knowledge, particularly once you move beyond the 10 or 20 largest funds. And so, we think the dynamic for investors is quite favorable.

In terms of the mix of GP-, LP-led, clearly now there are more GP-led deals than there were in the past. We expect that to continue. We've raised and are in the process of raising a small GP-led fund that will coinvest with our main secondaries private equity fund. And we think that's an interesting area as well. And so, I think it's, again, one of the great strengths of our firm, that in an environment where there may be some headwinds around private equity fundraising it benefits another part of our firm, our secondaries business, which has, again, delivered really great performance over time because of the structural inefficiencies in the market. So, this is a business unit that I think that has a lot of growth potential for us.

Adam Beatty: Excellent. Thank you. Much appreciated.

Moderator: The next question is coming from Patrick Davitt from Autonomous. Patrick, your line is now open.

Patrick Davitt: Hey, good morning, everyone. Insurance regulators are increasingly focused on the relationship between alternative managers and insurance companies, potential conflicts of interest, and I think making sure the assets are getting the proper capital treatment. Some observers have suggested that an outcome of these reviews could be a requirement of more skin in the game for the managers, particularly those that aren't consolidated with their insurance counterparties. So, first, what is your position on this focus? Do you think there's a risk that regulators will require more skin in the game? And last, would you be willing to reevaluate the balance sheet light approach if that is the outcome?

Jon Gray: What I would say on this is we are an investment manager. And when I look at the regulatory framework, being a third party investment manager, there's a long history of that in the insurance business. If you look at large firms like BlackRock, PIMCO, Goldman Sachs, they manage enormous

amounts of capital for insurance companies. And I don't foresee regulators requiring that they essentially make investments in order to be investment managers.

From our standpoint as a third party investment manager, we think the relationship is sound. In some cases we do have minority investments here. But we think the framework that has worked over a long time for insurance company third party managers should work going forward. And so, I don't really see it – and by the way, I would not envision a world – just a short answer – on us becoming balance sheet-heavy and taking on hundreds of billions of insurance liabilities. That's not something we would be willing to do.

Michael Chae: I'd add on to that further, and stepping back, we feel even better about our third party asset-light approach to the insurance opportunity than ever and I would say including in the context of appropriate regulatory focus on this area. And we have arm's length arrangements, contracts with very large, sophisticated, great partners in this area. And in the industry overall what you're seeing increasingly in life and annuities is a recognition that the asset management capability part of the equation is essential to having – to being competitive in the marketplace day to day. So, in that context, in that environment we feel like we're a terrific competitor, a great solutions provider for these clients.

Patrick Davitt: Makes sense. Thanks.

Moderator: The next question is coming from Brian McKenna from JMP Securities. Brian, please go ahead.

Brian McKenna: Thanks. Good morning, everyone. And just to follow-up on the secondaries business, I'm curious how much of the business is tied to private equity specifically, and then what's the opportunity longer term to further expand into additional asset classes?

Jon Gray: Today I would say it's about 80 percent of our business. We've got a real estate secondaries business. We have an infrastructure secondaries business. I think both of those areas have the opportunity to grow over time. There are sectors that are tougher. Credit, because you don't end up having longer-duration vintages. But you could see in areas like growth more of this continuation activity grow over time. But the main event today is primarily in private equity. And I don't really envision that changing. But these other areas will grow, I think, as well as those markets grow.

Audience: Got it. Thanks, Jon.

Moderator: Next question is coming from Bill Katz from Citigroup. Bill, please go ahead.

Bill Katz: Thank you very much for taking the questions this morning. Most have been asked and answered, but just circling back to maybe retail, just a two-part question, one tactical, one structural. In terms of BREIT, the move to the quarterly crystallization, how should we be thinking about any kind of shift in the comp payout or FRE margin? And the bigger picture is – I certainly appreciate you having a dominant and early mover advantage here. Are you seeing any pricing pressure at the product level given a ramp of competition? Thank you.

Michael Chae: Yeah, Bill, the short answer on your first question is we don't see any shift in that, in relation to this quarterly change.

Jon Gray: And the second question was on pricing pressure. I would say the short answer is – particularly on our established products – no, we don't. Where we've gotten to, how we're delivering for financial advisors and their clients is greatly valued. It's possible over time in newer products there will be a little more competition, but I think this again is the power of the Blackstone brand, something that I think I would just emphasize is underestimated. And it allows us to do things, to be a capital-light manager in insurance, to access the retail channel in a very cost-efficient way. The fact that the world

wants to invest with Blackstone products is very helpful for us. And I think it's a powerful reason why you see us growing at this very rapid rate.

Bill Katz: Thank you.

Moderator: The next question is coming from Finian O'Shea from Wells Fargo Securities. Finian, please go ahead.

Finian O'Shea: Hi, good morning. A question on platform reinvestment and the growth of BCRED. Can you talk about how you're expanding your direct lending origination opportunity set and if you see yourself going beyond middle market sponsored finance?

Jon Gray: We have grown our direct lending capabilities quite a bit in the last couple of years. As BCRED has grown we also have BXSL, a public BDC, that is a source of capital. We have certainly moved beyond middle market. I think in the quarter we committed, as part of a group, to seven deals that were a billion dollars or more direct lending. The greatest area for strength for us is in some of the good neighborhoods we really like, some of the faster-growing technology companies who have a lot of enterprise value but maybe not as much trailing EBITDA. And so, we can use our capabilities of underwriting companies and get comfortable lending, given the strengths of, say, an enterprise software business.

I also think the current market plays well to direct lending platforms. When markets become more volatile, financial institutions who are really important but because they're in the moving business they need to give – the borrowers often say, "Hey, look, I need a lot of flex pricing because I don't know where the market is today." As a direct lender, you can offer certainty to a borrower. And in an environment like that it becomes really important.

So, I do think you'll see us continue to write larger and larger checks. And I think BCRED offers something very valuable to the borrowers and something very compelling to the investors, which is why we think this momentum will continue.

Finian O'Shea: Thanks so much.

Moderator: Our final question is coming from Rufus Hone from BMO. Rufus, please go ahead.

Rufus Hone: Great. Good morning. Thanks for taking my question. I wanted to ask about the private wealth business and the FRE margin. Clearly, you've invested a lot in the product and distribution over the past decade and continue to do so, but I was curious about the margin profile of this business now that it's grown to around $200 billion of AUM. Is it now accretive to your FRE margin or is retail still a drag on your margins? And as retail becomes a larger piece of the business, is this going to provide long-term upside to your FRE margin? Thank you.

Michael Chae: I think you really have to think about it holistically. And the margins we show in our businesses are reflected in our "burden" by our investment, the substantial investment we've made over the years in our PWS distribution capabilities. And so, it is overall a very much profitable, healthy margin endeavor. And I think the overall – I think when you look holistically at the trajectory, the margins of the firm, which are up a thousand basis points over the last six or seven years, a big driver of that is this effort.

Rufus Hone: Great.

Weston Tucker: Thanks, Rufus.

Moderator: Thank you. And with that, I would like to hand it back to Weston Tucker for some closing remarks.

Weston Tucker: Thank you, everyone, for joining us today. And I look forward to following up after the call.

[End of Audio]