

**BLACKSTONE Third Quarter 2019 Earnings Investor Call  
October 23, 2019 at 9:00 a.m. ET**

**Weston Tucker:** Good morning and welcome to Blackstone's third quarter conference call. Joining today's call are Steve Schwarzman, Chairman and CEO; Jon Gray, President and Chief Operating Officer; Tony James, Executive Vice Chairman; Michael Chae, Chief Financial Officer; and Joan Solotar, Head of Private Wealth Solutions. 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 next month.

I'd like to remind you that today's call may include forward-looking statements which are uncertain and outside of the firm's control and may differ from actual results materially. We do not undertake any duty to update these statements. For discussion of some of the risks that could affect results, please see the risk 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 of \$1.2 billion for the quarter. Distributable earnings were \$710 million, or \$0.58 per common share. And we declared a dividend of \$0.49 to be paid to holders of record as of November 4<sup>th</sup>. With that, I'll turn the call over to Steve.

**Steve Schwarzman:** Thanks, Weston. And thank you for joining our call. Blackstone's powerful momentum continued in the third quarter. As a clear leader in the rapidly growing alternative sector, we achieved industry record AUM of \$554 billion, up 21 percent year over year, as well as record fundraising and deployment for the first 9 months of the year. And our fee-related earnings rose to a record for both the quarter and year-to-date period, which Michael will discuss later.

We are the partner of choice for limited partner investors around the world and have earned their trust by delivering extraordinary investment performance over decades with very minimal loss of capital. We are incredibly proud of what we do at Blackstone and the vital role we play in society. For example, the very strong returns we generate, particularly in the current low interest rate environment, enable teachers, police officers, firemen, and other public and corporate sector employees to retire with sufficient savings and secure pensions. Our funds protect and grow school endowments in support of their students' educations. And we help many other institutional and individual investors realize their financial goals.

We achieve these results for our LPs by improving the companies and assets in our portfolio and making them better places to work. We invest capital and apply our operating expertise to create healthier companies that grow faster, which in turn are in a better position to hire and invest in their businesses.

The results of our ownership are clear both in terms of investment performance we generated for LPs as well as the impact we've had on our companies and the communities in which we operate. Our private equity portfolio companies added over 100,000 net jobs during our ownership in the past 15 years, underlying their good performance. In fact, of over 700 control investments we've made during this period across the firm there has been only one bankruptcy filing, a rate of one-tenth of one percent, and no liquidations. That's a pretty remarkable record. Our largest investment ever, Hilton Worldwide, which we owned for 11 years and just exited last year with a \$14 billion profit, was very positively transformed during our ownership. To give you a sense of our commitment to our companies and their people, Hilton was recently named by Fortune magazine as the number one company in America to work for, as well as the best workplace for women.

We also actively use the scale and reach of our portfolio to support initiatives of national and global importance. We made a commitment to the Obama administration in 2013 to hire veterans, and since then we've hired 75,000 veterans and veteran spouses across our companies, with the goal of reaching 100,000 in the next few years. We are driving best practices in terms of sustainability and ESG throughout our portfolio, and our charitable foundation has committed over \$100 million globally, primarily in support of entrepreneurship development for nearly 250,000 college students. Our firm is truly and engine of economic growth globally and a force for positive change.

We have an extraordinary story to tell at Blackstone, and I feel privileged personally to be associated with our outstanding people and the work we do. Our people operate with the highest standards of ethics and social responsibility. And everyone is instilled with our core values: meritocracy, entrepreneurialism, excellence, integrity, and teamwork. Even as we've grown we've worked hard to keep the firm integrated and maintain our strong culture. This includes our Monday investment committee processes, in which our various offices are video-conferenced together for collaborative discussions and everyone can learn how we analyze investments and evaluate risk.

We also move our people around the world to work and train new hires in those geographies. We've successfully built a great and unique culture over the past 30 plus years, and we are committed to preserving it for the next 30. I recently wrote a book – hopefully you've bought it – if you haven't, there's still time.

[Laughter]

It's called *What It Takes: Lessons in the Pursuit of Excellence*, which details how we developed Blackstone's distinctive culture. You can get it on Amazon.

Our shareholders are increasingly recognizing Blackstone as the enduring institution it is. While we were focused on building a world-class company we also did a great job creating a security which was simply too hard to own. We finally fixed that with our corporate conversion in July, and we've been pleased with the positive market response, with the stock up significantly since our announcement. With a market cap of nearly \$60

billion, Blackstone is now the 105<sup>th</sup> largest US public company. Many new long-only managers have initiated positions in our stock, and Blackstone was also added to several market indices, allowing index funds to own us for the first time. With the restraints of our former structure now removed, we believe the stock will continue to re-rate higher over time to reflect the trajectory of our business.

And with that, thank you for joining our call. I'll turn things over to Jon.

**Jon Gray:** Thank you, Steve. And good morning, everyone. Blackstone continues to deliver. At our Investor Day last Fall we outlined several targets for the firm, and I'm pleased to say that we are meeting and in many cases outpacing those objectives. We've raised more capital, including faster growth in our perpetual vehicles, successfully launched multiple new business lines in the areas we outlined, and advanced against our financial targets. We described the line of sight on \$150 billion of capital inflows for the second half of 2018 and full year 2019. We now expect that number to be approximately \$190 billion.

Our four largest flagship funds, totaling \$67 billion, have essentially been raised with demand beyond the caps we placed on them. Importantly, the majority of our inflows over this period came from other strategies around the firm, including a growing mix of perpetual capital vehicles, which typically raise capital on a continuous basis. This highlights a powerful trend in our business, that the firm has diversified far beyond the more episodic nature of our traditional draw-down funds.

We now manage \$97 billion of this perpetual capital, up from \$64 billion at the time of our Investor Day. Our Real Estate Core Plus platform has grown to \$42 billion, up 25 percent over the past year across four perpetual capital vehicles, including BREIT, our non-traded REIT. Influence of BREIT reached \$2.4 billion in the quarter, and AUM now exceeds \$10 billion, up two-and-a-half-fold in one year. Demand is growing as we add new distribution channels and partners. This reflects a potent combination of retail investors' desire to access private real estate, the strength of the Blackstone brand, and our differentiated investment approach. We believe BREIT has the potential to become one of the largest economic contributors to Blackstone as a firm.

We are also adding other products to what is already the deepest and most diverse menu available to retail investors from any alternatives firm. We remain on track to achieve a record \$25 billion of inflows from retail this year.

Other emerging areas of the firm are ramping nicely as well. Our secondaries business is up a remarkable 60 percent year-over-year to \$34 billion of AUM on the back of strong performance: 14 percent net returns annually since inception. We continue to expand from private equity secondaries into complementary adjacencies such as infrastructure secondaries, and now our new impact business. There is a structural shortage of capital in secondaries, creating enormous opportunities for deployment. In fact, our new flagship fund launched earlier this year is already over 40 percent committed.

We've also talked about pushing into faster-growth areas, like life sciences, growth equity, and Asia. I'm pleased to say we've now launched fundraises for dedicated vehicles in both life sciences and growth equity, and we expect to be back in the market next year with our successor Private Equity Asia Fund. Overall, the fundraising pipeline remains very active.

Turning to investing, the scale of our capital puts us in a differentiated position as we deploy globally. In real estate, with our new European fund largely complete, along with our Europe and Asia funds, we have nearly \$40 billion of opportunistic investment capital, by far the largest in the world. In private equity we have over \$30 billion with our new global fund, Asia, and our energy business. Unlike in public markets, scale in private investing is a key advantage. Our size and reach allow us to better navigate a challenging investment environment. We deployed \$16 billion in the quarter and a record \$62 billion over the last 12 months, with an additional \$13 billion committed to pending deals.

Our real estate business was particularly active in the quarter, and our new global fund is nearly 20 percent committed only 4 months after launching. Global logistics remain a key theme, with the GLP and Colony transactions. We also agreed to privatize a Canadian public company that owns German office buildings, kicking off the investment period for our new European Real Estate fund. And just last week for BREIT we announced the sale-leaseback on the iconic Bellagio hotel in Las Vegas, another great example of how scale and conviction set us apart.

All of this deployment is planting the seeds for future performance revenues, and with nearly \$150 billion of dry powder we have significant firepower to find and create value for our limited partners.

In closing, the firm is in terrific shape. Investor affinity for the Blackstone brand is stronger than ever. For our shareholders the conversion has made the stock much easier to own. We remain committed to zero share count dilution, and with no net debt and virtually no need for capital we can continue to pay out essentially all of our earnings through dividends and share repurchases. We believe this represents a highly attractive value proposition. And with that, I will turn things over to Michael.

**Michael Chae:** Thanks, Jon. And good morning, everyone. Total AUM rose 21 percent, or nearly \$100 billion, year over year to new record levels, as Steve mentioned. Fee-earning AUM grew 15 percent to \$394 billion. Along with the sustained pace of rapid growth, the quality of the firm's AUM remains exceptional. The vast majority is locked up under long-term contracts, including the growing base of perpetual capital that Jon discussed, with recurring management fees that unlike traditional asset managers are not subject to daily movements in liquid markets. The average remaining contractual life of our locked-up capital exceeds 12 years, which is key to our ability to identify and create value around the world on a long-term basis.

Fee-related earnings increased 27 percent to a record \$440 million, reflecting strong double-digit growth in every segment. For the last 12 months FRE totaled \$1.7 billion, or

\$1.39 per share, up 21 percent, trending well above our long-term trajectory of mid-teens growth in this ultra-high quality earnings stream.

As the firm expands into new business lines we remain highly focused on profitable growth. Indeed, despite launching numerous strategies recently, third quarter FRE margin expanded year over year to 48.2 percent, and we expect the full-year 2019 margin to be in this area. I'll discuss the FRE outlook in more detail in a moment.

Distributable earnings were \$710 million in the quarter, or \$0.58 per share, underpinned by the strong growth in FRE. Realizations were nearly \$10 billion in active pace reflecting a diverse number of public and private sales across the firm. Realizations in our opportunistic real estate and private equity business were completed at an aggregate multiple of 2.1 times invested capital, consistent with the strong long-term historical performance of these platforms.

Turning to investment performance, in real estate, the BREP opportunistic funds had another excellent quarter, appreciating 3.8 percent, with strong performance in the private holdings, combined with significant gains in the public holdings. In private equity, the Corporate PE funds appreciated 2.6 percent, with healthy overall performance in the private portfolio, partly offset by a slight decline in the public. In our secondaries area the SP funds had a standout quarter with appreciation of 9.6 percent. This is reflective of the positive underlying fundamentals that Jon described, as well as the market rebound that occurred in this year's first quarter, given the two-quarter lag in the reporting timeline of SP's underlying investments.

In credit against a more muted backdrop, the Performing Credit funds reported a gross return of approximately one percent in the third quarter. The distressed credit cluster declined 3.9 percent, largely due to decreases in certain upstream energy positions. It is worth noting our long-term performance in energy credit has led to an ability to raise one of the largest dedicated capital pools for this strategy at \$4.5 billion, putting us in a very favorable position to pursue opportunities in years ahead in an environment where capital is scarce.

For the firm in total, positive fund appreciation in the quarter drove \$377 million of net accrued performance revenues and pushed the balance sheet receivable up to \$4.2 billion, the highest level in over 4 years, and up 18 percent year to date. Fund appreciation, along with our sustained record investment pace, resulted in performance revenue AUM in the ground of \$236 billion, up 13 percent year over year, and boding well for future realizations.

Moving to the FRE outlook, we continue confidently on the path toward our previously outlined targets of greater than \$1.70 a share in 2020 and \$2.00 per share thereafter. At Investor Day we talked about two key drivers underpinning these targets: first, our four new flagship funds, and second, continued growth in the scale and contribution from Real Estate Core Plus, including BREIT. With respect to the flagship funds, we've raised \$65 billion of the expected \$67 billion, or 97 percent, with the balance to come from a few

outstanding retail closings over the coming months. We've now launched the investment periods for three of the four funds. PE Secondaries and Global Real Estate are earning full fees. The third, European Real Estate, was activated earlier this month and is now on its fee holiday and will earn full fees in February. We expect to light up the fourth fund, Global Private Equity, in the coming quarters, dependent on the deployment pace of the predecessor fund, BCP VII. It is then also subject to a four-month fee holiday.

With respect to Core Plus, the platform continues on its sharp, positive trajectory, as Jon described, with base management fees benefitting from both accelerating inflows as well as appreciation in NAV. These funds also generate fee-related performance revenues that crystallize on a known timetable without asset sales – in the case of BREIT, every fourth quarter annually, and for the other Core Plus funds, on every third anniversary of each LP's initial investment in the fund, or every fifth for certain co-investments. In summary, we have excellent line of sight to delivering on our FRE targets.

I'll close my remarks today with a comment on our balance sheet and financial condition. Last month, we issued \$900 million of 10-year and 30-year notes with coupons of 2.5 and 3.5 percent respectively. We used a portion of the proceeds to retire our 2021s, resulting in a \$10 million charge to interest expense in the third quarter and \$12 million in the fourth quarter. These actions further reduced the firm's weighted average after-tax cost of debt to below 3 percent and pushed out the average maturity to nearly 15 years, with no maturities before 2023. With zero net debt and our ample liquidity position, our balance sheet remains a source of strength for the firm to continue to drive shareholder value.

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

**Moderator:** If you wish to ask a question, it's star then one on your telephone. If you decide to withdraw your question, simply key star 2. All questions will be answered in the order they're received, and you'll be advised when to ask your question. Just to remind you again, it's star then one on your telephone.

First question comes from the line of Craig Siegenthaler. Please go ahead. You're live into the call.

**Weston Tucker:** Morning, Craig.

**Craig Siegenthaler:** Hey, good morning, everyone. So, one difference, I think, right now between Blackstone and your peers is your fairly robust new investment pipeline. And that's even after you just closed the GLP logistics portfolio. So, when you look in the future here, we're tracking deals like Merlin, Dream Global, Great Wolf, Colony Capital logistic portfolio. So, my question is a lot of this activity looks to be more in the real estate side, but can you comment on current valuations, investment themes, and maybe how your targets are differentiated from what your competitors are looking at?

**Jon Gray:** Good question, Craig. Hello. Good morning. So, I would say a couple things. First, it's obviously not an easy investment environment, and I think our biggest advantage in many cases is our scale. The ability to do very large transactions is helpful. And in all of those deals you listed, I think the smallest of the group was probably \$3 billion. And so –in an environment where it's hard to find interesting opportunities, focusing on larger ones, particularly given the scale of our funds, is very helpful.

The other thing I would say is we are increasingly thematic in the way we're deploying capital. So, in a world where economic growth is pretty muted and multiples are high, what you want to find is sectors you have real conviction around. For us, global logistics has been a major theme. We've talked about it at length. We've bought more than a billion square feet around the world over the last nine years. And we continue to like that area, and you saw two big transactions.

We're also a big fan around live entertainment, because even though many things are moving online people still need physical activities, things they want to do. And so, you see that with Great Wolf and the waterpark space, you see that with Merlin as the second-largest theme park operator, and even the Bellagio, which we did in BRIET. So, I would say it's a smaller number of big themes we're believing in. It's an emphasis on scale and, as always, businesses where we think we can intervene to make a difference.

And I would finally say that the expansion of sort of breadth of the platform puts us in a unique position. If you're just narrowly focused in private equity or in certain parts of the credit universe, you can't do as much. But because we have capital that sort of runs up and down the risk-return spectrum – BREIT's a great example: two years ago we could not have done the Bellagio sale-leaseback. So, as the platform broadens it gives us a broader universe to invest in.

So, overall headline: we're still finding interesting things, but it's not an easy environment to find them.

**Craig Siegenthaler:** Thank you, Jon.

**Moderator:** Thank you for your question. We do have another question, and it comes from the line of Chris Harris from Wells Fargo. Please go ahead, sir.

**Chris Harris:** Thanks. Good morning. Some recent IPOs have been having some challenges here in the US. I think you guys know what those are. Can you talk about whether you view this as a risk to your ability to successfully exit investments as you look out over the course of the next year or two?

**Jon Gray:** What I'd say is it's becoming increasingly a story of sort of haves and have nots. And it's not only in the equity market IPOs. We're seeing the same thing in the debt markets as well, which is investors are now taking a closer look at underlying business models. Particularly in the equity markets, businesses that do not have a near-term path to profitability and consume a lot of capital are facing headwinds. And if you look at other

faster-growing companies that are profitable, actually the market response is pretty good. We were able to get some secondaries done in the last quarter in some healthy businesses we own. I would say the equity markets are still in pretty good shape. Investors are receptive to good companies. But the idea you can sort of show up with a business and say, "Look, I'll start making money six or seven years from now," that's becoming increasingly difficult.

I think for market participants that's a healthy sign. I think the danger in markets is when you get excesses, when you get bubbles. The fact that stock market investors are saying, "Deliver and I'll reward you," it's not going to be just a "Trust me" environment with excesses building up, I think that's good for the markets overall.

**Chris Harris:** Great. Thank you.

**Weston Tucker:** Thanks, Chris.

**Moderator:** Thank you for your question. We do have another question and it comes from the line of Michael Cyprys from Morgan Stanley. Please go ahead, sir.

**Michael Cyprys:** Hey, good morning, guys. Thanks for taking the question. Just with the low rate environment that we're in today that increasingly seems like it's going to be lower for longer and a lot of parts of the world with negative rates, it would seem like it's the perfect storm for the growth in private markets. So, I guess I'm just curious: Where do you see the biggest risk to the private market growth to the industry if you look out over the next couple years? Is it the opportunities on the deployment side that are maybe too few? Or is it more regulatory and political? Just curious how you're thinking about the risk to the sort of growth outlook in private markets.

**Jon Gray:** Mike, I think you're right about the headline. What we're seeing globally is the low rates in the US, Europe, Japan – frankly, all over the world – the Koreans lowered their rates a week and a half ago as well – is people are looking for higher returns. And we're seeing more capital flows into alternatives, and as the market leader in this space we're seeing the biggest flows. So, that is the positive backdrop.

In terms of the challenges, yeah, I think obviously deployment is a question. The good news is it is a big, investable world. We have lots of pools of capital. We have lots of geographies we can invest in. But that's always a challenge, and particularly in things that are more fixed income-oriented. So, infrastructure and real estate– it makes it a little bit harder to deploy capital at times. Although, as I said earlier, our scale has proven again and again to be a real advantage for us.

And then, I think in terms of economic growth it could be as a result of geopolitical factors, trade factors. A slowdown obviously makes it harder to deploy capital, although it impacts your current values. Dislocation with our \$150 billion of capital could reset prices, so that could also be a positive for us.

But when we look at the overall market, privates are still, I think, a relatively low percentage, particularly in the corporate world of the investable universe. So we don't feel like we've sort of penetrated and therefore we're limited in what we can invest in. And back to this point of raising perpetual capital, which in many cases has lower return expectations, longer hold periods – could be core private equity, could be some of our direct lending platforms and credit, Core Plus Real Estate – that makes it easier. As you persist in a lower-for-longer environment, if there wasn't an economic downturn, yes, it gets harder to produce the highest returning strategies. But overall today, this sort of low-growth sort of environment we've been in has been pretty good for the business. And if it continues, I think we'll continue to be able to deploy capital and obviously continue to be able to raise a lot of capital.

**Tony James:** Mike, I might just add that – remember, we're not buying hundreds of companies in markets and indices of economies. We're buying a few idiosyncratic companies where we can intervene operationally and create our own value, and that allows us to get returns even in an overpriced market. So, we decouple our results from the big indices in that way. That's one of the core drivers of our business. And there's always undermanaged or undercapitalized companies out there or pieces of real estate where there's value to be created if you have good management. So, that's a really key driver to our being able to sustain activity and earn returns even in an overpriced environment.

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

**Weston Tucker:** Thanks, Mike.

**Moderator:** Thank you for your question. We do have another question, and it comes from the line of Mike Carrier, Bank of America. Please go ahead, sir.

**Mike Carrier:** Good morning and thanks for taking the question. It looks like realizations and performance fees have ticked up a bit but still seem a bit muted for Blackstone and the overall industry despite market levels. I realize timing, it's tough to predict on these things, but has anything changed when you think about the typical exit strategies?

**Jon Gray:** No, I would say nothing's changed. I think the hard part, as you know, on realizations is they can be a little bit lumpy. I mean, the good news is the net accrued carry, as Michael pointed out, is at the highest level in four years, which is a very good forward indicator. But predicting the timing is tough because what we're focused on is maturing these investments, maximizing value for our investors, and when it's the right moment, exiting. And therefore, you can have individual quarters that are very strong.

So, nothing has fundamentally changed in terms of our approach to how we think about realizations. We're always thinking about our investors and generating the most favorable return for them, and when the time is right we exit. And so, I think over time we'll continue to produce nice realizations. Just predicting that timing is not easy.

**Weston Tucker:** Thanks, Mike.

**Moderator:** Thank you. We do have another question. It comes from the line of Bill from Cap City Group . Please go ahead.

**Bill:** Hi, good morning. [Inaudible]

**Moderator:** We seem to have lost connection. Just checking now. I'll just remind everybody if anybody would like to ask a question, it's star then one on your telephone. Thank you.

**Weston Tucker:** Julie, if we have a few more in the queue, we can just pick up at the queue. Or maybe we should re-prompt here for everyone to give them another chance to dial in.

**Moderator:** If anybody would like to ask a question, it's star then one on your telephone. And if you decide to withdraw your question, simply key star 2.

Thank you. We do have one question and it comes from the line of Alex Blostein and it's from Goldman Sachs. Please go ahead.

**Alex Blostein:** Hi. Good morning, everybody. Question for you guys around the opportunities you see in the secondaries business. So, it sounds like the latest fund, I believe was around \$11 billion, is about half committed. So, maybe talk a little bit about how you're thinking about timing and more importantly sizing that business for Blackstone going forward. What does pricing look like? I don't know if you guys can talk about sort of cents on the dollar in terms of commitments that you're purchasing. And most importantly, just what's changed in the marketplace today to make it a more attractive opportunity for growth for Blackstone? Thanks.

**Jon Gray:** What we've seen in secondaries is directly related to the growth in alternatives. The market is growing at high single digits, as all of you know, and at the same time you also have relatively limited liquidity. Historically, it's been about two percent of the market that trades hands. And I think there are more participants who would like liquidity. So, you have that two percent growing and then the overall market growing.

And there's a relatively small number of scale players, and in the case of our SP business they have a really unique footprint owning interest in thousands of funds, which gives them a real competitive advantage, particularly on larger scale transactions where there's a large range of funds. So, this is really part of this megatrend of growth in alternatives. SP is uniquely, I think, well-positioned here. And as LPs say, "Hey, I want to sell older vintage funds," a new CIO is hired who wants to change their strategy and they say, "I want to clear out these forty fund interests with a weighted average, seven-year vintage,"

that creates an opportunity because there's a small number of competitors and we're seeing a growing volume of sellers.

I think this business has the potential to continue to grow. As I mentioned, infrastructure is growing; we're raising our next vintage there. We're just completing raising our real estate secondaries platform. We have impact, and the mainline private equity vehicle has deployed quickly and I think could continue to scale as alternatives scale.

It's similar in our stakes business, which we have in BAAM where we buy stakes in alternative managers. Again, the growth in alternatives is we see this really large shift where capital is moving increasingly to ETF managers and the liquid markets and passive strategies, it's also at the same time moving into alternatives. So, for us, secondaries stakes are beneficiaries beyond our core business where we get direct inflows.

**Michael Chae:** And Alex, you asked about pricing, and our team in SP would say basically pricing and discounts to NAV have been stable relative to history. So, they've been able to deploy a lot of capital into that pricing environment, and they do it, as Jon mentioned, both by having the capability to do larger deals, which are somewhat less efficient, and then also a high volume of smaller deals, which has really been their calling card for years. They really have a high throughput in that respect and are very efficient transactors.

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

**Moderator:** Thank you for the question. We do have another question and it comes from the line of Glenn Schorr from Evercore ISI. Please go ahead, sir.

**Kaimon Chung:** Hi, this is Kaimon Chungin for Glenn Schorr. You flagged some had some negative energy marks in energy again for credit again, so it's not or not inhibiting your delivery capital, but the last quarter was negative energy and also your products in upstream positions and large public holdings. Can you [audio drops out]

**Michael Chae:** Yeah, we lost the end. I think you wanted sort of color on energy and our credit business. Look, overall, energy in our credit segment is – it's about 15 percent of the overall portfolio, and for the firm as a whole around the high single digits. The majority of our overall energy portfolio is in the midstream sector, which is a very healthy area; it has great fundamentals. The part that we talk about more that's been more challenge is upstream, but that is a relatively small percentage, low single digit for the firm overall, and for GSO sort of a mid-single digit percentage of their whole portfolio.

Now, the distressed cluster we talk a lot about and we highlight energy as part of that. That's because energy sort of definitionally and structurally is a big part of the distressed market. I do want to highlight, though, as much as we talk about it, the distressed cluster within GSO is only about 10, 11 percent of the overall business. And so, we need to sort of put that in context.

We did mention that both last quarter and this quarter – sort of all of the return to traction in those results last quarter and this quarter were from upstream and from certain discrete upstream energy investments. And overall, we think our energy business in GSO as well as in private equity is terrifically positioned, as I mentioned. We are sort of the firm and the guy with money in a market that doesn't have – that's out of it, and we substantial opportunities ahead in the environment of great dislocation.

So, we're highlighting that as a driver of performance in the distressed cluster. That's a relatively manageably sized portion of the overall GSO business, and the performance challenges have really pertained to a couple discrete investments.

I also want to mention that we are focused on monetization in the GSO upstream portfolio. Two of its portfolio companies announced in the last week asset sale transactions that actually fully repaired debt in those deals with a Q4 close. We're in advanced discussions on another de-leveraging transaction in that upstream portfolio in GSO. So, there's positive momentum as well within the portfolio.

**Moderator:** Thank you for that. We do have another question from the line of Gerald O'Hara from Jefferies. Please go ahead, sir. You're live into the call.

**Gerald O'Hara:** Great. Thanks. You touched on the launch of the life sciences fund and growth equity fund, but I guess specific to the life sciences – I know this is something that was discussed on the Investor Day, but perhaps you could give a little sense of how – it may too early – demand is shaping up. And also, anything around sizing – I know there was kind of a highlight of a large capital pool kind of necessary to address the funding gap there, but any kind of – any color you might be able to provide on that initiative would be helpful. Thank you.

**Jon Gray:** I would say the market response to the team and the strategy has been quite good. We expect to have a first closing in this fourth quarter. I just think it's something that investors like because it's differentiated and not correlated with many other things in their portfolio, and we have a terrific team executing the strategy. In terms of size, I think I'll probably stay away from that. But this is a business that I think over time could grow to be very large, with the opportunity to generate high multiples of invested capital, just because the life sciences area is such a big space and there's relatively little private capital and scale. Most of it is in the very early stage VC area. So, we're quite excited about our life sciences business.

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

**Moderator:** Thank you, Gerry. We do have another question, and it comes from the line of Craig Siegenthaler, Credit Suisse. Please go ahead, sir. You're live into the call.

**Weston Tucker:** Hey, Craig, you're live on the call.

**Craig Siegenthaler:** Thank you. So, yeah, you guys hear me okay? Okay. So, now that you spent the last 12 months meeting with a large number of long-only investors, I just wanted to see if you have any updated thoughts on migrating to a fixed dividend that tracks FRE, has roughly no downside risk, and also provides more capital flexibility?

**Michael Chae:** Hey, Craig, it's Michael, and we've had this conversation in the past and I think our perspective is consistent, which is we're happy with and committed to our current dividend policy. As Jon mentioned, our balance sheet light model and our cash flow generation allows us to dip in basically 85 percent of our DE and also use the balance to repurchase shares. So, I think overall the market is happy with that right now and we have no plans to change at this point.

**Weston Tucker:** Thanks, Craig. Julie, I think we're ready for, it looks like, one more question.

**Moderator:** Certainly. And the final question comes from the line of Jeremy Campbell from Barclays. Please go ahead, sir.

**Jeremy Campbell:** Great. Thanks. Just getting your commentary back at your Investor Day that inflows through 2019 would be about \$150 billion. Right now, given your commentary, you're running around \$190 billion. Just trying to map that to your FRE target and think about if it's actually going to go higher than what you guys had previously put out there.

**Michael Chae:** Jeremy, this is Michael. Great connecting of the dots. And I think we'll just refer you back to my comments on the call, which are we're quite confident about that target that we set out, better than the \$1.70. And so, the outperformance on inflows over that time period that Jon alluded to, \$190 billion versus \$150 billion, is supportive of that confidence.

**Jeremy Campbell:** All right. Thanks, guys.

**Weston Tucker:** Great. Thanks, Jeremy.

**Moderator:** Thank you. And now I'd like to turn the call over to Weston Tucker for any final remarks. Thank you, sir.

**Weston Tucker:** Great. Thanks, everyone for joining us this morning. And if you have any questions, please call me after the call. Thank you.

[End of Audio]