

**BLACKSTONE Second Quarter 2020 Investor Call
July 23, 2020 at 9:00 a.m. ET**

Weston Tucker: Great. Thanks, Joanne, and good morning, everyone. 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 10Q report early next month. I'd like to remind you that today's call may include forward-looking statements which are uncertain and outside of the firm's control and may differ from actual results materially. We do not undertake any duty to update these statements. For a discussion of some of the risks that could affect results, please see the risk factor section of our 10K and most recent 10Q. We'll also refer to non-GAAP measures on this call and you will 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 \$1.4 billion. Distributable earnings were \$548 million, or \$0.43 cents per common share, and we declared a dividend of \$0.37 cents per share to be paid to holders of record as of August 3rd. With that, I'll turn the call over to the Steve.

Steve Schwarzman: Thanks, Weston. And good morning and thank you for joining our call. The second quarter saw an extremely strong rebound in virtually every liquid asset class from their March lows as governments around the world implemented unprecedented fiscal and monetary stimulus to counter the economic impact of the COVID-19 pandemic. In the United States, fiscal support has equaled to approximately 15 percent of GDP and will likely exceed 20 percent with the expected passage of a fourth bill by the end of the summer, as we estimated for you on our April earnings call. In addition, the Federal Reserve has increased its balance sheet thus far by \$3 trillion dollars, supporting new credit and liquidity facilities with potentially trillions more at their discretion, if needed.

The global economy has started to reopen, but as we discussed previously, the road to recovery will be uneven, with divergent trends across regions and sectors. Asia is clearly further along, as is Europe, both of which were impacted by COVID-19 first. In the US the economy was surprisingly strong in terms of employment gains in May and June, with 7.5 million jobs added and a reduction in the unemployment rate from 14.7 percent to 11.1 percent.

We've learned that people are anxious to re-establish their lives on a personal level and in terms of their work. However, with persistent or accelerating infection levels in many states we're seeing some reversals of reopening plans, which will likely reduce the pace

of future employment gains. While no one knows the exact course of the US economy, it is likely to be slower than anticipated over the next several months as a result. However, once infection levels subside, a stronger economic recovery should occur.

On a positive note, a large number of vaccine candidates are in development, with several demonstrating strong efficacy in early trials. Some of the vaccines will move into phase three trials soon, which will provide better insights, not only into effectiveness but also any side effects. To the extent side effects are not a significant factor, I would anticipate having a vaccine in large-scale production within a year.

Against this backdrop, Blackstone remains the partner of choice in the alternatives world and an anchor of stability for our investors. Our LPs entrusted us with over \$20 billion dollars of inflows in the second quarter, driving AUM to \$564 billion dollars. We have a remarkable \$156 billion of dry powder, by far the most in the industry, uniquely positioning us to deploy capital.

We successfully completed the major fundraising initiatives we discussed at our 2018 Investor Day, and as a result, fee-related earnings grew 28 percent for the quarter. The valuations of our investments rebounded strongly from the unrealized marks experienced in the first quarter which, as we said at the time, represented a point-in-time valuation and not the ultimate outcome we expect to achieve.

In private equity, credit, and hedge fund solutions our returns have already retraced much of those declines. In fact, BAAM, our hedge fund solution unit, reported its best composite gross return in 20 years.

In real estate, where we are the global leader, our performance remains highly differentiated – positively so – as our investors have come to expect. In the first half of the year our opportunistic BREP funds outperformed the public REIT index by 1,100 basis points, a good reason to invest with Blackstone. Our performance and our platform overall continues to benefit from superior sector selection and asset quality, and is not overly concentrated in shopping malls or hotels like many other real estate funds, which has negatively impacted their performance.

In our BREIT vehicle, the largest non-traded REIT, approximately 90 percent of our real estate investments are in the well-performing asset classes: logistics, multifamily housing, and net leased assets, which are performing extremely well, relative to other sectors in this environment. Michael will discuss our portfolio and returns in more detail.

Throughout this challenging period, our employees have been working remotely and have continued to operate with the same level of quality and intensity. Our culture, where teamwork is paramount, is built on many core principles, including communication. Each of our businesses is fully integrated with a global investment committee that has utilized video conferencing for over 20 years in order to remain connected across all of our offices. This model helped us transition seamlessly to a remote work environment.

That said, we believe it is important to be together physically to train new people and reinforce our culture. To that end, our offices in New York and London began a careful and voluntary reopening last week. It's wonderful to see many of our senior people back in the office, smiling and not looking like they just came back from a four-month campout in a national park.

In order to work at Blackstone you must embrace the core values that have distinguished us for 35 years. The firm was built on the idea that by having an inclusive environment and embracing diversity of ideas and perspectives we can create better outcomes. We've been deeply disturbed by the terrible acts of racial injustice that have been observed in recent months. We believe it is imperative to speak out against discrimination of any type, and we have repeatedly done so. And, we are redoubling our efforts, both internally and externally, to support diversity and equality of opportunity. Blackstone remains committed to be a force of positive change in our society.

In closing, I'm extremely proud of our Blackstone family and the spirit of perseverance they've shown during these difficult times. We remain alert and hardworking, with unwavering dedication to serving our investors. Whatever course the world follows, our firm is exceptionally well-positioned to navigate the road ahead. And with that, I'll now turn things over to Jon.

Jon Gray: Thank you, Steve, and good morning, everyone. The power of our business model delivered again in the second quarter. We've been consistently emphasizing the foundational elements of this strategy over the last several years, which include a number of pillars. First, if we produce strong performance, our investors will allocate more capital to us for both existing and new strategies. Over the past few years since our Investor Day we've reported nearly \$250 billion of inflows and launched several new businesses in the areas we outlined. Our momentum remained quite positive even during the most abrupt market correction in modern history, with \$48 billion dollars of inflows in the first half of the year, including over \$20 billion in the second quarter, all while our LPs are operating with few people physically in their offices, a testament to the significant trust they place in us.

Specifically, in the secondaries area we finished fundraising both SP's new real estate and infrastructure funds, bringing AUM on that platform to nearly \$40 billion, up over four-fold since we acquired it in 2013. Both funds were meaningfully larger than prior vintages, including nearly doubling the infrastructure strategy to \$3.8 billion. Several weeks ago, SP acquired a billion dollars of infrastructure secondary interests, which we believe is the largest ever transaction in the sector and a classic example of the advantages of Blackstone's scale.

We also raised additional capital for our fourth real estate debt fund in the quarter and post-quarter end, bringing it to \$7 billion dollars, significantly larger than the prior fund. And in our corporate credit segment inflows were nearly \$7 billion in the quarter, across multiple areas, including liquid strategies, direct lending, and our fourth mezzanine fund.

LP demand for credit products in this environment, coupled with the Blackstone franchise, have been a powerful combination.

In Growth Equity, post-quarter end, we closed on approximately \$1 billion and have strong momentum. In Life Sciences our new fund hit its cap, raising \$4.6 billion with significant excess demand. Blackstone Life Sciences V is the largest of its kind ever raised and five times larger than the predecessor fund, launched before the team joined Blackstone. We are excited about the compelling deal pipeline in this space and we have already committed 26 percent of the new fund. Looking forward, we now have fewer flagship funds in the market, but longer term, investor demand for our products remains extremely high.

Number two: With respect to investing, we've spoken regularly about our thematic approach, emphasizing faster-growing parts of the global economy, which now have accelerated in the post-COVID world. These include life sciences, last-mile logistics, e-commerce, content creation, cloud migration, and telecom infrastructure. In the second quarter we announced three deals in life sciences that will advance life-saving treatments, including RNAi therapies, medicine for kidney disease in children, and next generation diabetes management devices.

In our BPP Core Plus real estate vehicle we committed to a \$1.7 billion dollar transaction in film studios and offices in Hollywood, anchored by Netflix and Disney, global leaders in content creation. This complements our significant media-related holdings of over half the class A office space in Burbank, California. In our private equity segment, we closed on a healthcare software business and a stake in a data center operator in China. We also created one of the largest cloud-enabled software companies through a merger of our portfolio companies, Ultimate Software and Kronos. And just last week, we announced the second investment in our Growth Equity business: Oatly, an emerging leader in the plant-based dairy alternatives category.

We also talked last quarter about pursuing opportunities created by the dislocation, having purchased \$11 billion dollars of public equities and liquid debt in March and April when markets were at their lows. We focused on areas we knew well, such as REITs, MLPs, and leveraged loans, and these have been successful investments for us. Our credit team was also involved in a number of rescue financings and we expect to see more in the months ahead. But regular-way control deals in private equity and real estate do take time to play out, particularly in periods of uncertainty.

Third, we've been reminding investors about the importance of staying power and firepower to navigate difficult periods. Our model, based on long-term commitments from investors, is designed to withstand a storm. Last quarter we described the unrealized markdowns in our funds as temporary, reflecting a moment of great dislocation, and said they should reverse given time. You can see that recovery underway in our second quarter returns, including double digit appreciation in Corporate Private Equity, Tactical Opportunities, and Credit.

We feel quite good about the positioning of our portfolio, which is concentrated in sectors that are resilient to COVID-related headwinds. In fact, the firm's four largest investments consist of real estate logistics platforms in the US and Europe, our Refinitiv data analytics business, and our BioMed life sciences office company, all of which continue to perform very well.

For investments in sectors more directly exposed to COVID, in a number of cases we are encouraged by the green shoots we're seeing, but the recovery path will be choppy for these most impacted areas. In terms of firepower, our fundraising success has lifted our dry powder to a record \$156 billion, as Steve noted, providing us enormous flexibility to deploy.

Fourth, we've been describing the ongoing transformation of our firm, in which a shift towards greater perpetual capital would grow and improve the quality of our earnings. We now manage \$110 billion of perpetual AUM, up from \$64 billion at the time of our Investor Day. We outlined a path to \$2 per share of annual fee-related earnings, which have since grown nearly 50 percent on an LTM basis. The more recurring and predictable nature of FRE should serve as a meaningful ballast for our shareholders.

In terms of performance revenues, we stated last quarter that more volatile markets would mute our realization activity, something we expect to continue in the near term. That said, with the recent market recovery we've been able to restart some sales processes. If markets continue to be supportive, it should be positive for realizations over time. Importantly, in our business, we are able to control when we exit in order to maximize value for our investors.

Fifth, we've said that the limited need for capital in our model would allow us to keep delivering for our shareholders. We've continued to operate with virtually no net debt, approximately \$150 million versus our \$70 billion market cap, and no change in share count over the last several years, while paying out approximately 100 percent of earnings through dividends and buybacks. We are very focused on driving shareholder value.

In closing, despite a challenging environment we remain extremely optimistic about our future prospects. And with that, I will turn things over to Michael.

Michael Chae: Thanks, Jon. And good morning, everyone. I will first review the firm's financial results, highlighted by the continued robust growth in fee-related earnings. I'll then discuss the key drivers of investment performance and the outlook.

Starting with results: Fee-earning AUM continued on its trajectory of strong double-digit growth, up 12 percent year-over-year to a record \$436 billion, with positive growth in every segment. Total AUM, which includes the impact of market appreciation or depreciation, rose 3 percent to \$564 billion, with \$94 billion of gross inflows over the last 12 months, despite \$35 billion of realizations.

Management fees increased 16 percent year-over-year to \$977 million, also a record, on higher AUM and the onset of full fees for several new funds. Fee-related earnings rose a remarkable 28 percent to \$541 million or \$0.45 cents per share, powered by the growth in management fees and expanding margins. For the last 12 months, FRE rose to a record \$2 billion, or \$1.67 per share, up 27 percent year-over-year.

Distributable earnings were \$548 million for the second quarter, or \$0.43 cents per common share. Strong growth in FRE was offset by a decline in net realizations, as the market environment muted activity levels. That said, positive returns across the firm drove a 24 percent sequential increase in the net accrued performance revenue receivable on the balance sheet to \$2.7 billion. And at the same time, invested performance revenue-eligible AUM grew to a record \$249 billion, up 10 percent year-over-year. These are both important indicators of realization potential over time.

Turning to investment performance, Steve and Jon highlighted the strong rebound in our fund returns in the second quarter, including double digit appreciation in Corporate Private Equity, Tac Opps, and Credit, and a record quarter for BAAM. I'll provide more context.

While the impact of COVID has been broad-based across the economy, there has been notable dispersion in performance across sectors and regions. In our own portfolios we have remain well-positioned overall, resulting from careful sector and asset selection. The firm's key investment themes are benefiting from strong fundamentals, leading to healthy value appreciation in those areas. For investments in sectors most directly impact by COVID, our valuations continue to reflect a cautious outlook, recognizing the ongoing uncertainty around the timing and shape of recovery curves for individual assets.

In Corporate Private Equity, funds appreciated 12.8 percent in the quarter, driven by a sharp rebound in the publics, and with gains in particular in our technology-oriented, consumer finance and midstream holdings. Travel, leisure, and events-oriented businesses remain under pressure given the environment. With two significant fully-invested global funds in private equity, BCP VI and VII, both posted strong gains in the quarter, and their combined performance revenue receivable more than doubled from the first quarter to \$828 million dollars.

The Tactical Opportunities Funds appreciated 10.8 percent in the second quarter. In credit, the composite increased 10.1 percent gross, reflective of the significant improvement in the credit backdrop. The leveraged loan market, where average loan pricing had fallen to \$0.76 in relation to par at the lows in March, recovered to \$0.90 in the second quarter, while high-yield spreads tightened by over 700 basis points from the lows. And in BAAM, the BPS composite rose 6 percent gross in the quarter, and is now down 3.1 percent year-to-date, outperforming global equity market benchmarks, with significantly lower volatility.

Turning to Real Estate, I'll provide a more detailed review of our positioning and how that has translated to investment performance. The opportunistic funds appreciated 1.6

percent in the second quarter and are down 7.6 percent year-to-date compared to the public REIT index, down nearly 20 percent. The core plus funds appreciated three percent in the second quarter, largely erasing the declines in the first quarter. As we discussed in last quarter's call, approximately 80 percent of the total real estate portfolio is in sectors showing strong resiliency to COVID-related headwinds, including logistics and most of our residential and office holdings. More exposed investments include hospitality, retail, and a smaller proportion of our office and urban residential holdings. I'll break that down further.

Logistics is the firm's largest exposure overall and comprises over one-third of the real estate portfolio. These investments continue to benefit from growing e-commerce demand, which based on our internal data analysis, is up over 60 percent year-over-year in the US since the onset of the crisis. Indeed, market pricing for warehouses today is higher than it was pre-COVID, reflective of these positive trends. In office, approximately 90 percent of our holdings are in very resilient areas, including life sciences office, our fast-growing India platform focused on global tech company tenants, assets in select markets such as Berlin, where there's healthy tenant demand and vacancy is low, and West Coast office, where we're one of the largest landlords to content creators and tech companies. And in residential, our US multifamily portfolio is more concentrated in suburban, garden-style apartments and attractive sun-belt markets. Occupancy in this area has remained stable in the mid-90s with steady rents and increasing leasing activity.

Hospitality and retail, the two areas most impacted by COVID, together represent 13 percent of the real estate portfolio. In hospitality there has been encouraging early demand of certain key assets that have reopened. But corporate and group business travel will likely remain depressed for some time and we're preparing for a long recovery.

Finally, within retail, approximately two-thirds of our holdings are in more resilient grocery-anchored assets or high-quality Asian malls where trends are more favorable, and indeed, we don't own any enclosed malls in the US.

In summary, the firm's investment performance reflects two overarching dynamics. First, the significant rebound in public markets in the second quarter. And second, in terms of fundamentals, the dispersion and performance across industries where our thematic approach in sector-selection has been a source of resiliency for our portfolio.

Finally, in terms of the outlook, while the market volatility has impacted near-term realization activity, our momentum in FRE and the earnings ballast it provides, remains robust. All four of the flagship funds have been activated and are now earning full-fees, including BCP VIII, which exited its fee holiday at the end of June. We previously discussed a path to \$2.00 dollars per share of FRE and we remain firmly on this path.

In closing, the firm continues to operate from a position of great strength and we believe our value proposition remains highly compelling in all environments. And with that, we thank you for joining the call and would like to open it up now for questions.

Moderator: Thank you. Your question and answer session will now begin. If you decide to ask a question, please key * and then 1 on your telephone. And if you decide to withdraw your question, simply key * and 2. All questions will be answered in the order received, and you will be advised when to ask your question. All other lines will remain on listen only. Just a quick reminder, to ask a question it's * and then 1 on your telephone. Thank you.

And our first question today comes today from Craig Siegenthaler from Credit Suisse. Please proceed.

Craig Siegenthaler: Thanks. Good morning, everyone. Just given the strong returns in your hedge fund business and also attractive yields available in the private debt markets today, relative to the really low yields we're seeing in the public fixed income markets, what are your thoughts on the future migration to both the hedge fund segment and also private credit and out of traditional fixed income?

Jon Gray: Well, Craig, I think that's a very important question. Everybody, you know, naturally has been focused on the impacts and the dislocation in the short-term and what it's meant for the economy. I think the longer-term impact is that we are in an extremely low interest rate environment everywhere in the world, and if you are a large pool of capital or even an individual investor you are willing to trade some liquidity in order to generate higher yield. So, the idea that folks will make choices to allocate more to private credit, potentially as well to hedge funds, we think that makes a lot of sense. We think there will be more of a move towards private assets overall. That's what we'd been seeing prior to this recent stepdown in rates. We expect to continue to see that. And that's what really underlies our business, this megatrend and movement towards alternatives, and private credit is no exception.

Craig Siegenthaler: Thank you, Jon.

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

Adam Beatty: Good morning and thank you for taking the question. I just wanted to ask about the outlook for FRE margin. It looks like a healthy expansion in the quarter and particularly well-controlled FRE comp expense. So, just wanted to know if there were any particular drivers in the quarter that we should be aware of and how we should think about that going forward. Thank you.

Michael Chae: Thank you, Adam. This is Michael. So, it's a good question. And just stepping back, I think as we've said on prior calls, first of all, just in terms of the numbers it's best to look at margins and expense growth we think, over multiple quarters and really the whole year, as we do have a degree of intra-year movement in our expenses. But with that said, obviously over the first half as well margin is up significantly.

The two key drivers of that that I would highlight are first and primarily, basically strong operating leverage with, simply put, revenues growing well in excess of expenses, and particularly in our real estate segment where you can see fee-revenues are up over 40 percent and fee compensation is up 11 percent. So, that really is the first headline.

And then, second, you know similar to other companies we are seeing some margin benefit from lower discretionary expense such as T&E related to the current period and COVID, which is more of a temporary impact. But overall, we feel confident, as we said before, in our ability to drive operating leverage across the firm. I think this quarter has shown that and we're certainly pleased with the result.

Adam Beatty: Great. Thank you, Michael. I appreciate it.

Moderator: Thank you, Adam. Our next question comes from the line of Chris Harris with Wells Fargo. Please proceed, Chris.

Chris Harris: Thanks. A question on BREIT. I'm guessing the fundraising there may have slowed down a bit in the quarter, but are you starting to see a fundraising recovery? And related to that, how is the investment performance at BREIT holding up? It sounds like it's holding up quite well, but a little bit of more color there would be appreciated.

Jon Gray: Sure. So, you're right in terms of what happened in BREIT this year. We started the year with a lot of momentum on fundraising. When we had the crisis, we saw retail investors pull back like all investors, but I think retail a little more, and we saw a sharp slowdown in fundraising activity. We've begun to rebuild and we're starting to see more positive momentum. What really will drive BREIT over time gets to your point, which is really about performance. So, yes, this year where we are right now, I think, sitting at negative three percent year-to-date, which is pretty strong relative to other real estate indices. But inception to date, a seven percent net IRR, which also has greatly outperformed. But looking forward, back to Steve's comments, 90 percent of that portfolio in logistics, rental housing, and net leased assets, positions it very well.

So, our confidence in BREIT is high. We think investors, as they see the performance even in this challenged economic climate, will start to return in, in a meaningful way. So, BREIT, we think, will continue to be a real engine for the firm over time.

Moderator: Thank you, Chris. Our next question comes from the line of Glenn Schorr with Evercore ISI. Please proceed,

Glenn Schorr: Hi, thanks very much. Wanted to see if you could give a quick comment about your insurance business and what you're seeing in the space. It looks like a lot of your largest peers have made periodic moves. Everybody has got a big platform. It's a huge wide open canvas. I heard your comments loud and clear on rates and the credit opportunities, but maybe you could just talk about your insurance franchise specifically. That would be great.

Jon Gray: Sure. So, as background, we have \$62 billion of assets from that sector today. We strengthened our relationship with our largest clients, Fidelity & Guaranty, in connection with their merger with FNF. We have a terrific leader of our business in Gilles Dellaert. And we're looking at a range of opportunities. There is an enormous amount of assets in this space and low interest rates make it a challenging investment environment. As a platform we think we have fairly unique origination capabilities in both corporate and real estate and other areas of credit. And we think that positions us quite well to serve a range of insurance clients. We're spending a lot of time here and I would just say stay tuned.

Glenn Schorr: Thanks.

Moderator: Thank you. Our next question comes from the line of Michael Cyprys from Morgan Stanley. Please proceed.

Michael Cyprys: Hey, good morning. Thanks for taking the question. I'd just be curious to see your perspective on what, if any, or what sort of lessons learned you take away from the past couple of months with this crisis and how that informs your decision-making process and maybe in what ways does it impact or alter your strategy in any way or approach to execution.

Jon Gray: Well, I think one thing it reminds us is to sort of expect the unexpected. It's hard to anticipate a global pandemic that shuts down the economy, but you want to run your business in a very disciplined way as an investor. So, make sure you have structures that allow you to hold assets, long-term capital commitments, debt structures that give you time. All of that is more important than ever. And we've seen over the last 20 years things happen. This is obviously the largest single event, but it was a strong reminder. And then, the recovery here we've seen in markets quickly shows you again the importance of that staying power, because assets can recover.

I think the other important lesson in my mind is the transformation that's been happening in the global economy driven by technology, which we have been talking about here on these calls the last couple of years in terms of how we position the business, where we invest. That continues to gain momentum, and the crisis has clearly accelerated that. And so, sort of betting against those trends has not been a good decision. We've been fortunate, Michael highlighted this in his commentary around real estate and other areas of the firm, that exposure to those areas, faster-growing areas has made a difference. And we talk about – Steve talks about the importance of good neighborhoods, investing in good neighborhoods. This crisis reaffirmed that, that investing in the right sectors really has been the difference-maker. I think that's reaffirmed, overall.

So, big takeaway, you've got to have a real fortress in terms of how you run your business. That's certainly how we run Blackstone overall. And you've got to be mindful of the transformation that's taking place. Those are both key takeaways, I think, from the COVID crisis.

Michael Chae: And I might just build on that, Mike, that from an internal and operational standpoint we, like other businesses, have talked a lot about how relatively well it's worked sort of remotely. But, the reason why it's worked so well remotely for us and quite seamlessly is because of 35 years of building culture and a very integrated firm and so forth, so we didn't miss a beat when we had to go remote. So, that's been a critical thing and sort of we've benefited from that history, as well as benefiting from 35 years of building relationships and trust and a brand and a franchise with our clients, which has allowed us to seamlessly continue to obviously raise capital and continue to win the trust of clients in this – even in this environment.

Steve Schwarzman: Yeah, I – we're doing a pile-on, Mike, on this thing. But it's an important question. This is Steve. And, one thing we've also learned through the crisis is the reemphasis on outstanding management, because in a time where there are winners and losers and enormous dislocation the managers who are tens on a scale of ten will find a way to be in the right place at the right time with the right emphasis, the right capital allocation. It's hard to micromanage everybody's behavior from afar, if you will. And if the right people are in the right seats, you can get enormously good outcomes. And fragility, in a way, of certain business models – and it's not related to us in particular, but is more apparent than it was. And the needs to manage change are much greater. And I think that's really been drilled into the organization observationally.

And also, we've learned that different parts of our organization can uniquely help other parts of the business, and that we even can combine certain functions, not just to do it more effectively but to add enormous value by doing that. And so, I think we've all found that these types of periods lead to a different type of refocus, if you will, and the potential for value-adds in our different business. So, what I would say is as strong as Blackstone is that we will be stronger coming out of this in terms of lessons we've learned and how we apply them for growth and performance in the future. Great question.

Michael Cyprys: Thanks.

Moderator: Thank you. Our next question comes from the line of Bill Katz with Citigroup. Please proceed. You're live in the call, Bill.

Bill Katz: Okay, thank you very much for taking the questions. Good morning, everybody. Just a clarification and a bigger picture question. On the comp expense, is that a good run rate? I didn't quite hear what you said on that. And the bigger picture is just as you think about the private equity opportunity in retail, just given some of the Department of Labor rulings, how quickly do you think that that could basically kick-in? And how do you think about the economic opportunity associated with those volumes? Thank you.

Michael Chae: Hey, Bill. It's Michael. First, on comp expense, I started by talking about you know, don't look at one quarter; look at sort of over time and really the balance of a year. So, notwithstanding what the growth rates were in the first quarter, first half, I'd also sort of point your towards the LTM, for example, where the LTM comp expense

basically grew at something like 11 percent over the prior LTM period. So, I think that's closer to sort of certainly a very near-term expectation on that.

Jon Gray: So, on the 401(k), I'd say, Bill, this is a very interesting opportunity for us in our industry going forward. There are obviously retirement savings challenges for Americans, and we think this decision by the DOL was a step in the right direction for sure because of the strong performance of alternatives. And the size, you know, it could be in the multiple hundreds of billions of dollars for the industry in terms of additional assets. We as a market leader, we think, would get a healthy, reasonable share of that based on our performance, our track record, and brand. But I want to qualify this by saying we think it's a long journey because there are intermediaries, there's a system that's in place, and we have to work with folks over time to get them to move in this direction. So, we see it as a real opportunity but something that will take time to emerge.

Bill Katz: Thank you.

Moderator: Thank you, Bill. Our next question comes from the line of Ken Worthington with JP Morgan. Please proceed.

Ken Worthington: Hi, good morning. I was hoping you could speak more about your outlook for dislocation-based investment opportunities. So, you mentioned the \$11 billion dollars put to work in public market opportunities brought about by COVID. What is the outlook for dislocated-driven investment opportunities as we look out over the next 12 months and the potential to see accelerated deployment of your record dry powder. And maybe is your thought that the best of COVID-driven opportunities are in the past or is the better opportunity still out there in the future?

Jon Gray: So, I would bifurcate that answer. I think in the public markets there was that brief window which proved to be attractive and we were fortunate to take advantage of it and move a significant amount of capital. And depending on what happens on markets, you know, that seems less likely, I think, to see that kind of dislocation again in the near term, particularly given the fiscal and monetary policies that have been put in place.

In the private markets it takes more time. So, a company that has limited capital will obviously utilize that capital to get through a difficult period of time, and at some point they may hit the proverbial wall. If you have real estate assets, a foreclosure process takes time. So, I think as you think about more distressed opportunities in the private markets, those are ahead of us. In the public markets it's always hard to predict, but I think the serious levels of market decline doesn't – I would not predict that. So, I think that we may see less of it, although there may be industries that come under more pressure, particularly if the virus persists. But I think the real opportunity still lies ahead of us in the private space.

Ken Worthington: Great. Thank you.

Moderator: Thank you. Our next question comes from the line of Alex Blostein from Goldman Sachs. Please proceed.

Alex Blostein: Hi, good morning, everyone. I was hoping to follow back – follow up on some of the comments you guys made around real estate. And Michael, thanks for incremental disclosure there with respect to exposures. But, as you think about the current dry powder within real estate today, how much of that do you expect to support sort of existing assets? How are you thinking about the path to recovery in real estate? And Jon, to the last question, I didn't hear you talk much about opportunities specifically within real estate, and I imagine there could be some meaningful dislocations there as well, so maybe address that as well. Thanks.

Jon Gray: Okay. So, I would start – in terms of protecting the portfolio, I would see that as generally a pretty small percentage of the dry powder we have. Given that we have, as Michael described, just 13 percent of our assets in hotel and retail and some of those are in better position, we don't have a large number of what we think of as deeply troubled assets. There are some additional assets in other sectors, but overall, as a percentage of our holdings it's relatively small. So, we don't expect a lot of dry powder going in that direction.

In terms of the path of recovery, what I'd say about real estate is we have this very wide dispersion in terms of performance post-COVID. So, we talked about logistics and life science offices, garden apartments, all recovering. We're seeing places like China where there's a faster recovery economically. And so, we're seeing areas that have had strength. Then, we talked about hotel and retail where you have significant headwinds. To give you a sense, collections for us in office, apartments, and logistics are running 95 percent of typical levels. Retail, that number is more like 50 or 60 percent. So, that gives you a sense of the challenges in the retail sector.

Office, I would say, is probably somewhere in the middle. We talked about our portfolio having more exposure to places like European office, continental European office, or Indian IT parks, life science office, and even in the US more West Coast sort of content/technology-oriented. We do have some exposures, as Michael outlined, in places like New York and Washington, D.C. and Chicago, but it's a very small percentage of our overall portfolio.

I would expect in urban markets in the US that this is going to be a challenging couple-year period because you've got people working remotely today. You have high unemployment. Companies are going to be resistant to making long-term commitments, and that's going to put pressure on the near-term. Over time we think people will return to office buildings. It's very hard to run businesses remotely. We think there will be less density. There's certainly going to be a lot less new construction. And we think there will be a return.

But turning to the investment opportunity, what that means is if you fundamentally believe this is more cyclical in nature, as we do, in categories like office or in hotels, then

you should have a good opportunity to deploy capital. In retail and closed malls, where we think the challenge is more secular, then we're going to be more hesitant in putting out capital.

Moderator: Thank you. Our next question comes from the line of Rob Lee with KBW. Please proceed, Rob.

Rob Lee: Thank you. Good morning, everyone. Hope everyone is doing well. Thank you. I guess my question is – and maybe this is a difficult one as it is maybe a little more political, but we have kind of in addition to the pandemic and all these difficulties out there, obviously it's an election year. A lot of uncertainty. Certain members of certainly one party are openly hostile to the industry. So, how do you incorporate that into your investment processes? And maybe that's more of a US-centric thing, but how is that backdrop playing into how you are thinking of capital deployment or willingness to deploy capital in certain types of strategies?

Jon Gray: Well, I guess I'd step back and say our business has been deploying capital now for 35 years and we've done it in all different political environments. We've done it in all-red, all-blue, divided government, and we've sort of managed to sort of get through it and grow through all those different political cycles. I also think it's really important to keep in mind that our clients, who are primarily pension funds, believe we provide a vital service to them and we agree with them and that's why they continue to allocate capital. And, we're really an important component in terms of providing retirement security to many Americans and many folks around the world.

We believe regardless of the political environment, we can continue to grow our business and serve our clients. I do think that given the fiscal shortfalls that exist at the city, state, and federal levels, higher taxes are – seem increasingly like a likelihood, and that's something we're thinking about as we deploy capital. But these things are always fluid. It's hard to predict what's going to come. But we feel good about our position and the importance of the role our firm plays.

Rob Lee: Thank you. I appreciate the response. Thanks.

Moderator: Thank you. And our next question comes from Michael Carrier from Bank of America. Please proceed, Michael.

Michael Carrier: All right. Good morning and thanks for taking the question. You guys provided some good color on the real estate portfolio, and I may have missed it, but I just was curious if you can provide some of the similar metrics on the private equity portfolio, whether it's in terms of revenue or EBITDA trends, sector exposures, particularly just given that we're seeing some nuances between the private universe and the public markets. Thanks.

Jon Gray: So, what I would say about the private equity portfolio is, similar to real estate, is we've had this heavy orientation recently in faster-growing industries which

have held up quite well. And we believe about 70 percent of our portfolio is in what we call COVID-resilient sectors. But big holdings like Refinitiv, investments like MagicLab, Blue Yonder, Vungle, what we've done in some of the faster-growing Asian markets, we feel quite good about those. Ultimate, Kronos, similarly. That's been really important. And as a result, when you look at our overall private equity portfolio in the quarter, revenues were basically flat in the quarter, and EBITDA was down fairly modestly, which was better than we certainly would have anticipated 90 days ago.

Michael Carrier: Got it. Thanks.

Moderator: Thank you, Michael. Our next question comes from the line of Jerry O'Hara with Jefferies. Please proceed.

Jerry O'Hara: Great. Thanks. Perhaps a slight pivot on an earlier question, but I think on the prior call, Jon, you may have mentioned that regular-way private equity could probably take up to a year citing experience from the GFC. So, I'm curious if anything would perhaps lead you to believe differently at this point, or is there still that sort of 9-to-12-month runway before activity picks up beyond sort of the distressed situation cited earlier. And, I guess on a related note, are there any particularly follow-ups or risks that you're kind of watching for or see that could prolong that return to regular-way transactions? Thank you.

Jon Gray: Yeah, I think the – when you think about deployment and transaction activity, a backdrop of high uncertainty makes it harder to do controlled transactions, not necessarily on our side as the investor but if you think about sellers. So, given the resurgence of the virus in the United States, that I think has made some sellers a little more cautious. Now, in those sectors that are not COVID-impacted or have been positively impacted – more life sciences, growth equity, technology-oriented deals – we're still seeing reasonable transaction volumes. But in a lot of the sort of traditional economy people are a little more cautious. I would expect that to continue as it relates to larger size control deals. We would be more than willing, and we've shown a willingness to deploy capital even into the most impacted areas. But there tends to be a little more resistance to that, as people want to sell into a little bit of a healthier market.

And so, I would say I think certain sectors will remain active. It will take time. It's hard to say exactly how long. But if you look at M&A volumes, I think they're down since the crisis about 50 percent, which is an indication of what's happening. And most of that is concentrated in those healthier sectors. So, at some point here businesses will transact. Opportunities will emerge. And the great thing about our model is we can be patient if necessary. And then, when the opportunities emerge, we can move very, very quickly. And having that \$156 billion of dry powder is very helpful.

Moderator: Thank you, Jerry. Our next question comes from the line of Chris Kotowski from Oppenheimer. Please proceed.

Chris Kotowski: Yeah, good morning. Thank you. I guess taking off on the political football question [audio drops]

Weston Tucker: Hi, Chris. It sounds like we lost you, your volume there. Can you still hear us?

Weston Tucker: Joanne, why don't we go to the next question and Chris can re-prompt if he's able to get a connection again.

Moderator: Thank you. And our next question comes from the line of Chris Shutler from William Blair. Please proceed. Thank you.

Chris Shutler: Hi guys. Good morning. I'm curious to understand how your approach to valuing assets is changing in this environment, particularly in light of you know, zero interest rates and the potential for those rates to remain very low for some time as indicated by the ten-year. And we all understand the sensitivity of DCF models to the discount rate. So, just curious to get your thoughts there.

Michael Chae: Well, with respect to valuing our existing portfolio as opposed to valuing new investments, look, our approach remains the same in terms of our process. It remained the same in the first quarter at a very challenging, dynamic time in March and it certainly remains the same now. And, in terms of the rate environment, obviously in the context of, say, a DCF, that is generally expressed or impounded in discount rates and indirectly on a second order basis on exit multiple assumptions, which we look at based on historical levels in a way that has the outcome of being quite conservative, which you've seen in terms of the values we've achieved upon exits versus where we carried assets on an unaffected basis, which generally has implied a meaningful discount.

So, we've been through a lot of different rate environments over 35 years, and every quarter we value our assets. And as rates fluctuate, again, those are translated through into our discount rates – our costed debt is part of that; that's embedded in that – and also in exit multiples.

Jon Gray: And I would just say in terms of new investments we have not started expanding exit multiples based on the low rate environment, but it is an interesting question when you get to more stable infrastructure, real estate, resilient corporate businesses. As we've seen in the stock market, it is possible that there will be a re-rating higher for those businesses. And so, we have not adopted that in our models, but it's obviously something we're looking at in terms of the market environment.

Chris Shutler: All right. Thank you.

Moderator: Thank you, Chris. Our next question comes from the line of Devin Ryan with JMP Securities. Please proceed.

Devin Ryan: Great. Thanks for taking the question. Just a follow-up on some of the realization commentary. And I guess the question really is that – it sounds like some sales processes have started back up in certain areas, and obviously valuations in certain areas have recovered quite a bit. I'm curious how critical the ability to meet in person is to sell an asset – meaning, do we really need a broader economic reopening for M&A to really come back here? You know, M&A historically has been a business where people want to see and touch an asset or meet with management or employees in person. So, I'm just trying to think about that.

And on the other side, I'm assuming that the processes today are virtual, just given that dynamic. And so, we've seen record equity capital raising over the past few months. Debt capital raising is incredibly active. So, I'm just trying to think about how much we're learning about what can be done virtually and maybe the benefits of that, either from the ability to sell assets through follow-on offerings or IPOs or even M&A, and kind of the virtual kind of evolution here.

Jon Gray: Well, it's interesting. I do think as it relates to selling securities this world has probably been a tool that is more advantageous – you know, doing an IPO road show, reaching a larger audience. For liquid securities I think it's a positive. But to your earlier comments, it is a headwind. Transactions have gotten done. We announced a number of deals you know, this quarter: Oatly, some of the life science deals we announced, the studio deal we did on the West Coast in real estate. But, it's definitely harder. And I do think it weighs on the transaction environment.

So, as the virus 60, 90 days ago seemed to be receding, it felt like the deal activity was going to really pick up. There was a lot of pent-up demand to do transactions. Now that has made it hard sort of logistically to do deals and obviously it has impacted businesses a bit. I do think, back to Steve's earlier comments, as the virus goes away, once we have a vaccine, I do think you'll see probably a step function increase in deal activity. And so, this is a headwind to that deal activity today. But nevertheless, remarkably, we've done a number of transactions. Others have. People are finding a way to do business. But it's definitely a bit harder.

Michael Chae: There's also a global dimension. That's probably as much as anything a US-centric comment. In Europe and Asia there is more, I think, ability to convene and manage transaction processes. But the overall point stands obviously.

Devin Ryan: Great. Thank you.

Moderator: Thank you. And our next question comes from the line of Brian Bedell from Deutsche Bank. Please proceed, Brian.

Brian Bedell: Great. Thanks very much for taking my question. Most of my questions have been asked and answered, but maybe if I just come back to private equity and 401(k) – I realize it's a very long-term endeavor, but – and working with plan sponsors on this topic already, so maybe if you could just sort of comment on whether you think the

15 percent allocation from the DOL right now is one way to do it, but the potential for direct investments in private equity and 401(k). And then, whether you think it would be – it could be achieved in more core private equity products, like the series of BCP funds, or would that be more facilitated through things like your secondaries business or Tac Opps?

Jon Gray: Yeah. I would say I think it's unlikely that you're going to see direct investments. I think target date funds run by plan sponsors is the most likely vehicle for accessing 401(k) money. And then, I think within sectors real estate is probably the easiest place to start because there is some real estate already in the 401(k) market, private real estate. So, that seems like a logical area.

I think our secondaries business, because of the diversification there and liquidity, is another area. And over time, hopefully we'll move to traditional private equity.

So, as I said earlier, I think it's a journey. We tend to get focused on large market opportunities like this and we work for a long time, so this stuff does not happen overnight. But we think our track record and what we can offer individual investors is compelling, and we're going to spend a fair amount of time trying to figure it out.

Brian Bedell: Good. And you've been working on it, I assume with large plan sponsors? Or, also the small –?

Jon Gray: I'm not going to comment on who we're talking to. But it's, as I said, it's an area of focus.

Brian Bedell: All right. Okay. Fair enough. Thank you.

Moderator: Thank you, Brian. And our final question comes from the line of Chris Kotowski from Oppenheimer Company. Please proceed.

Weston Tucker: Welcome back, Chris.

Chris Kotowski: Hey. Sorry. Thank you. I was having problems with my headset. There was a story in the FT yesterday that the Attorney General of Kentucky joined the lawsuit against you and KKR for excessive fees. And I imagine you can't comment on that directly, but I guess it illustrates the point of the earlier question about how it's become such a political football. And I guess I wonder – you know I mean, private equity started out primarily serving public pension funds, and you know just given the politicization you know does it – is it the riskiness of taking money from that source increased? And does it make it less attractive to you, especially since there are so many other places that want to give you money?

Jon Gray: Yeah. This suit – and I'm limited in what I can say, of course, but this was focused in the hedge fund area, just as background. The suit has already been dismissed once by the Kentucky Supreme Court. BAAM, our hedge fund area, actually beat the

benchmark by threefold in this case and generated more than \$150 million of gain for the pension fund. We think the claims here are completely without merit. And, if the broader question is do we think our pension fund clients appreciate what we do and our performance stands up and we're excellent fiduciaries, the answer to all of that is yes. And we do not see this as an underlying sort of trend in our business.

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

Weston Tucker: Thanks, Chris.

Moderator: Thank you. And I'll turn the call over to Weston Tucker for closing comments.

Weston Tucker: Great. Thanks, everyone, for joining us this morning. And please give me a call if you have any questions.

Moderator: Thank you. That concludes your conference call for today. You may now disconnect. Thank you.

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