Weston Tucker: Good morning and welcome to Blackstone’s first-quarter conference call, which we’re hosting remotely given the office closures still in effect in New York City. Joining today’s call are: Steve Schwarzman, Chairman and CEO; Jon Gray, President and Chief Operating Officer; and Michael Chae, Chief Financial Officer. Earlier this morning, we issued a press release and slide presentation, which are available on our website. We expect to file our 10-Q report 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 Factors" 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 audio-cast is copyrighted material of Blackstone and may not be duplicated without consent.

So a quick recap of our results. We reported a GAAP Net Loss for the quarter of $2.6 billion. Distributable earnings were $557 million, or $0.46 per common share, and we declared a dividend of $0.39, to be paid to holders of record as of May 4th.

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

Steve Schwarzman: Good morning and thank you for joining our call. The COVID-19 pandemic has created a truly unprecedented set of challenges for the global economy, markets and society at large. The human cost of the crisis has been tragic, and our deepest sympathies go out to those who have lost loved ones. We’d also like to express our sincere gratitude to all of the front-line workers – hospitals, EMS, doctors and nurses, fire, police, municipal workers, and everyone else putting their safety on the line to protect others. I would like to convey support for everyone who has been sheltering in place throughout the world, and has experienced the dislocation of relative isolation and its real psychological costs and discomfort.

Economically, for the first time in U.S. history, the country has voluntarily shut much of itself down, creating massive unemployment, which you saw with the numbers this morning continuing. This resulted in some of the largest-ever declines across almost all asset classes, and drove market volatility to an all-time high. The government’s quick action – in terms of fiscal stimulus and support from the Fed – helped stabilize markets. Altogether, stimulus programs could equate to 20% or more of U.S. GDP, and will be critically important in supporting the country as we navigate the path to recovery. At Blackstone, we are hopeful that major advancements in vaccine development and mass testing could accelerate a return to work and normal life, but we are also preparing for what may be a long and gradual process.

Over the firm’s 35-year history, we’ve successfully managed through multiple periods of severe dislocation and learned a lot in the process. Most importantly, we’ve seen how our business model has created the advantage of patience during times of crisis. With an asset-light model and third-party capital typically under very long-term contracts, we do not face the same pressures to sell, as others do, when values are low.
We saw this play out during the global financial crisis, when despite initially significant declines in asset values, we were able to hold assets until things ultimately rebounded and normalized. Our experience with Hilton Worldwide, which we purchased in October 2007, ahead of the market crash, is an excellent illustration. At the worst point of the financial crisis, our $6 billion equity investment was marked down to 31 cents on the dollar. But the firm’s staying power allowed us to focus on executing our operating plan. When the world eventually recovered, Hilton generated 10-times that marked-down value, with $14 billion of profit for our investors, which may be the largest in private equity history. Michael will tell you more about the recovery in values overall that we experienced.

Although the current crisis is much more formidable than the global financial crisis, our firm’s operating and financial position is much more formidable today as well. We are exceptionally secure financially, with over $4 billion of cash and liquid investments. We recently completed the major fundraising initiatives we discussed at our 2018 Investor Day, driving Fee Earning AUM up 20% year-over-year to record new levels, and generating Fee Related Earnings growth of 25%. And we now have $152 billion of dry powder capital – more than anyone in the industry – which uniquely positions us to invest during this period of historic dislocation.

Despite the headline GAAP earnings numbers for the quarter, which were primarily driven by unrealized marks, we generated $557 million of distributable earnings for shareholders in the first quarter, and $2.9 billion over the last twelve months. While we were not immune to the market backdrop in terms of portfolio marks, they are just that – unrealized marks. They reflect a point-in-time valuation, and not an estimate of the value we ultimately expect to realize. In real estate – our largest business, which produces over half of the firm’s earnings – our performance held up quite well, reflecting the superior sector selection of the portfolio, which Jon Gray talked about on television this morning on CNBC. In BAAM, our institutional business largely did its job of protecting capital for our investors. In corporate private equity and credit, returns were basically in line with the S&P 500 and high yield indices, respectively, with our public securities and energy holdings negatively impacting both significantly. Our publics have rebounded meaningfully as you might have expected, since quarter end, although energy of course has remained depressed. Jon and Michael will discuss our portfolio in more detail.

At Blackstone, our people have not missed a beat during this period. All of our groups have been working incredibly hard from home. We have a full team in place that is developing return-to-work plans for our various offices, but in the meantime our technology team has done a remarkable job keeping us all connected despite the physical separation. I’ve never been more proud of our people and the enormous dedication they are showing to serving our investors and shareholders.

I’m also incredibly proud of the important work we’re doing to support our communities and front-line workers. We’ve mobilized the full resources of our firm and portfolio companies to help in many ways, including making an anchor $15 million contribution to the New York State First Responders Fund and other organizations serving first responders and vulnerable populations in New York City; the donation of supplies and housing for medical workers; the rent-free donation of facilities, including our very large NEC conference center in Birmingham in the UK, to serve as a field hospital, similar to how the Javits center is being used in New York City; along with many, many other initiatives.

I’ll leave you with an image, of which we’re particularly proud here at Blackstone. One of our portfolio companies, TeamHealth – which is providing staffing for emergency rooms during this crisis – captured and tweeted a wonderful picture of a husband-and-wife nurse team tenderly embracing in between treating COVID-affected patients. This image has gone viral on the internet and I was amazed to see it featured on the NBC Nightly News a few weeks ago. I think it embodies the spirit of courage and devotion that is helping sustain all of us during these times.
Blackstone remains entirely committed to being a force for good in our society. Together, we will face these unprecedented challenges and emerge from this crisis stronger than ever.

With that – I’ll now turn things over to Jon.

Jon Gray: Thank you Steve, and good morning everyone.

I’d like to reiterate Steve’s sentiments on how proud I am of our people and the dedication they’ve shown through this difficult period. Our mission to serve our clients is most vital in times of greatest stress.

The pandemic has created extraordinary challenges as much of the global economy has been shut down. To effectively navigate a crisis of this magnitude, an investment firm needs two essential qualities – staying power to ride out the storm, and firepower to take advantage of opportunities. Fortunately, Blackstone has both.

First, with respect to staying power. Our model based on long-term committed capital from investors is designed for periods like this. We can focus on doing what we need for companies and properties, without having to worry about being forced sellers.

We’ve also been disciplined with the capital structures of our underlying investments and their debt maturities. Further, our funds are designed with significant reserves which allow us to support investments even in the most challenged sectors today – energy, hotels and location-based entertainment – through additional capital where we believe the risk/return is appropriate. As we have seen again and again through cycles, strong companies and properties recover and flourish given time.

We’ve also been emphasizing deployment in faster growing sectors over the past several years, which are showing great resiliency in this environment. Key themes include logistics, life sciences, cloud migration and online content creation - all of which are holding up quite well and are expected to outperform. In real estate, logistics now represents over one-third of our entire portfolio, positioning us well to benefit from the powerful global growth in e-commerce. In private equity, in partnership with our new Growth Equity business, we recently completed the $3 billion acquisition of MagicLab- the parent of online dating app Bumble, which is showing tremendous revenue growth in March and April.

More volatile markets, nevertheless, do mean that realizations will likely be muted for some time. However, the firm generated $3.6 billion of annual management fees over the last twelve months. The shift toward perpetual capital and recurring Fee Related Earnings should provide meaningful ballast for continuing returns of capital to shareholders.

Moving from staying power to firepower. Over the past two years, we’ve raised nearly $250 billion, including three funds that were the largest of their kind ever raised – global real estate, European real estate and corporate private equity. In the first quarter specifically, gross inflows reached $27 billion, including $12 billion in the month of March after markets began their sharp decline – a testament to the trust our limited partners place in us.

We held the final close for the European real estate fund – the last of our four key flagship funds – which reached an industry record $11 billion. We also raised nearly $5 billion for our second core private equity vehicle, entirely in the last two weeks of March; nearly $3 billion for our fourth real estate debt fund; and our new life sciences fund has closed on over $4 billion of its $4.5 billion hard cap. In real estate, the core-plus platform saw significant inflows in the quarter for the institutional and BREIT retail vehicle, and overall has grown to nearly $50 billion – up 36% year over year.
After reporting greater-than $100 billion of inflows for three consecutive years, on last quarter’s call we said that inflows could approach $100 billion again this year. Given the market turbulence, we expect fund-raising to continue, but now at a slower pace. Longer-term, in a world of lower rates, we believe the secular shift to alternatives – and Blackstone in particular – will continue. Investor desire for better returns should be stronger than ever.

In the meantime, we have tremendous investment capacity across all of our businesses, and are in a truly distinctive position to deploy $152 billion of dry powder. These post-crisis investments should lay the groundwork for attractive future realizations. We are already seeing actionable opportunities appearing from the dislocation, initially in structured credit and liquid markets. Since the crisis began, we bought $11 billion of public equities and liquid debt across the firm, and are well positioned to do more. We’re also starting to see some rescue situations, although distress takes time to play out. What we’re looking for are businesses that are cyclically – not secularly – under pressure. The opportunity to invest in them across various parts of the capital structure should be robust.

The breadth of our platform also creates highly unique deal-flow. Last week, we announced a collaboration of up to $2 billion with biopharmaceutical platform Alnylam to help accelerate the advancement of RNAi therapies, including a highly promising new cholesterol treatment. This was a signature Blackstone deal and represented a partnership between our Life Sciences team, which invested in a portfolio of royalties, our Credit group which provided a senior secured term loan, and other areas of the firm.

As we evaluate investments, maintaining our discipline is imperative. We have to remain clear-eyed about the uncertainties that exist in the world, and underwrite a slow recovery. If things heal more quickly, that is upside. We are also being thoughtful about the changes that are likely to follow from this pandemic. Though much of our lives should revert to normal, there will be broad-reaching implications for areas such as e-commerce, remote learning, streaming media, cyber security, and so on. Technological disintermediation, which was the greatest agent of change before the current crisis, is likely to further accelerate.

In closing, while it would have been hard to imagine the severity of circumstances the world is facing today, Blackstone remains the partner of choice for our investors to help them weather the storm. Our firm is built to not only survive extreme dislocations, but to ultimately thrive.

With that, I’ll turn things over to Michael.

**Michael Chae:** Thanks, Jon, and good morning everyone.

I’ll begin my remarks with a discussion of financial results, and then will review the key drivers of investment performance. I’ll finish with the outlook and a discussion of the firm’s strong financial position.

Starting with results. The durability and exceptional quality of the firm’s AUM and financial profile is perhaps best illustrated by periods of dislocation. Fee Earning AUM grew 20% year over year to a record $423 billion as Steve highlighted. The vast majority of our AUM is under long-term contracts, with an average remaining contractual life of over 12 years.

Total AUM, which reflects the full impact of market appreciation or depreciation, still rose 5% year over year to $538 billion, with $119 billion of gross inflows over the last twelve months, despite $38 billion of realizations.
Base Management Fees grew to a record $910 million, up 20% year over year, in line with the growth in Fee AUM. Fee Related Earnings continued on the strong positive trajectory outlined previously, up 25% year over year to $468 million. FRE margin expanded 70 basis points in the quarter from the full-year 2019 level, and we would expect margins to remain largely stable in this environment. We include all cash operating expenses and fee-related compensation in our definition of FRE — there is nothing allocated against performance revenues—making it a highly transparent measure of the firm’s base profitability. For the last twelve months, FRE rose to a record $1.9 billion, or $1.57 per share, up 27% year over year. I’ll discuss the FRE outlook in a moment.

Distributable Earnings were $557 million for the quarter, or $0.46 per share, up 5% year over year and underpinned by the strong growth in FRE. Net realizations declined year over year, as the market environment muted activity levels.

Turning to investment performance. Steve and Jon both characterized the impact of the historically challenging market backdrop on our first-quarter returns. I will provide more context.

In Real Estate, the opportunistic BREP funds depreciated 8.8% in the first quarter, while the Core-Plus funds, including BREIT, depreciated 3.9%. We’ve been talking for years about the firm’s thematic, targeted investing in real estate, which has resulted in a well-positioned portfolio, concentrated in sectors that have shown greater resilience to COVID-related headwinds. Indeed, approximately 80% of the portfolio is comprised of logistics, high-quality office and residential assets, with logistics being the most dominant theme. Four of the firm’s five largest investments include two logistics deals: Logicor and GLP; and two high-growth office platforms: BioMed in the life sciences space, and our Indian office platform. Investments in the hotel and retail sectors were the most directly impacted by COVID, and we saw meaningful mark-downs in these areas; however they only comprise approximately 15% of the global real estate portfolio.

In Corporate Private Equity and Credit, returns were essentially in line with the S&P and high yield indices respectively, as Steve mentioned. The Corporate PE funds depreciated 21.6% in the quarter, while the credit composite declined 13.6% gross. The impact of COVID on companies and their outlook has been broad-based across the overall economy as well as our portfolios, but energy was by far the largest detractor in both of these strategies, as the unprecedented confluence of supply and demand shocks has created a historic dislocation in the energy markets. For Corporate PE, energy accounted for about half of the negative return; excluding these holdings, the Corporate PE funds declined 11%. Similarly, in Credit, energy accounted for roughly half of the decline in the carrying value of the draw-down strategies. In terms of remaining exposure, energy now represents 7% of the firm’s portfolio, of which the majority is confined to dedicated energy funds. The firm's exposure to upstream specifically – the most pressured area of the energy markets – is now around 1.5%.

In BAAM – the BPS composite declined 8.6% gross in the quarter, compared to the S&P down 20%. Roughly half the decline stemmed from exposure to managers in structured credit and mortgages – one of the most dislocated areas of public markets in March. Against this backdrop, BAAM still achieved positive net flows of $365 million in the quarter.

Overall, the first-quarter marks had the effect of significantly reducing the net accrued performance revenue receivable on the balance sheet. But as Steve said, we can’t underscore enough that the decline reflects unrealized marks, taken at a point in time of severe dislocation. Indeed, at their lows in late March, the S&P was down over 30% for the quarter; high yield debt and leveraged loan indices down 20%; and high yield spreads gapped out 1,000 basis points, representing one of the most violent and swift declines in public markets on record. Our first-quarter results were based on marks taken in the immediate
wake of this. Although markets remain volatile, they’ve rebounded meaningfully off their lows. Indeed, in the first three weeks of April, our public stocks in Corporate Private Equity have increased 20%.

For more context, it is informative to examine our experience during and subsequent to the financial crisis. Our flagship funds at the time – BCP V, BREP V and BREP VI, representing $38 billion of total capital – saw values decline to a range of 0.5 - 0.9x times invested capital – far more severe than the situation today, where all of our flagship BCP and BREP funds still reflect meaningful gains. Long-term fund structures enabled the firm to focus on executing our operating plans, invest additional capital when needed and wait for the world to heal. Within several quarters, all three funds had moved back into a gain position, eventually achieving multiples of 1.9 - 2.5x invested capital – in line with, or better than, the firm’s historical average. While past is, of course, not necessarily prologue, our experience following that crisis was a strong recovery in unrealized values over time.

Turning to the outlook. While the overall effect of the current environment will be to slow realizations, very importantly, our momentum in FRE remains strongly positive. In terms of key drivers, all four of the flagship funds are now raised and activated, producing a 50% year-over-year increase in Fee Earning AUM for Private Equity, and a 38% increase for Real Estate. The final fund to launch – BCP VIII – was activated at the end of February, and is now in its four-month fee holiday, with full onset of fees in the third quarter. In terms of FRE, we previously discussed a path to $2 per share, including achieving greater-than $1.70 in 2020. Despite the significant dislocation in markets, we remain confident in achieving these targets.

I will close my remarks today with a comment on the firm’s financial condition, and our position of strength. Our “capital-light” model results in a highly liquid balance sheet for the firm, with over $4 billion of cash and corporate treasury assets, and a very long-lived capital structure. The average debt maturity is over 14 years, with no maturities before 2023 and an average after-tax cost of under 3% on fixed rate debt. We have minimal net debt overall, representing less than 1% of the firm’s enterprise value. Our version of a “fortress balance sheet” protects the firm in difficult environments like the one we are experiencing – the staying power that Jon described – and provides ample support to the firm’s offensive firepower. Coupled with the upward trajectory of FRE, we are well-positioned to continue returning significant capital to shareholders.

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

Moderator: Thank you. We have a call from Michael Cyprus from Morgan Stanley. Thank you, Michael, you’re live.

Michael Cyprus: Great thank you, morning guys. As you look across landscape today, we have a lot of states that are having some large budget shortfalls – some headlines around potential state bankruptcies, or even at municipalities, the federal government is taking on some very large deficits. I guess, given that environment, how concerned are you with that? What sort of implications can stem from that, and how do you see this all having impact on inflation and tax rates as you look forward in the next couple years, and broadly the investing landscape?

Jon Gray: Hi, Mike. I'd say a couple things. We believe our investors will honor their commitments. The pension funds have large pools of capital. They not only have alternatives, they also have big liquid pools of assets. We saw in the last crisis when equity markets went down 56%, our investors all met their commitments, so that is not something we're focused on.

In terms of the fiscal strains at the state and municipal levels, that does exist and I do think it's one of the things we've been talking about, that tax rates could very well go up in response given the large costs here
and that's something you have to think about in terms of geographic impact. And then on the inflation front, I think that's the unknown. We have globally produced, printed a lot of money, created a ton of fiscal stimulus. Right now in the near term, we're in a highly deflationary environment because there's very little demand for any product other than necessities. But the question is really when you look out over time, will that change as a result of this big stimulus. I think that's hard to say because there are demographic forces. There's an awful lot of debt out there. And so I'm not sure I necessarily subscribe to the idea that we're going to have super high levels of inflation but I think in the near term, what's likely is interest rates and inflation will stay low and one investment implication of that is more stabilized assets could see a stronger bid, just like bonds at very low rates, assets that are perceived as safe could see actual multiple expansions. So, there's a range of factors and I still think we have to digest some of them.

Michael Cyprys: Great, thanks and do I get a follow up or should I get back in queue?

Weston Tucker: Hey Mike, we're going to try to limit it to one question first time around and if you have a follow-up, please come back into the queue just given the number of analysts dialed in.

Michael Cyprys: Great, thanks.

Weston Tucker: Thank you.

Moderator: Thank you. You now have Craig Siegenthaler from Credit Suisse. Thank you, Craig.

Craig Siegenthaler: Thanks. Good morning everyone. I wanted your perspective on how the fundraising function has been impacted by restrictions on travel and also what have you been experiencing from the denominator effect as some clients, not all of them, but maybe some of them have become over-allocated to alternatives with the public equity market correction in March.

Jon Gray: Craig, I'd start by saying the first quarter was pretty remarkable in the sense that we raised $27 billion and $12 billion of that was raised in March, during this sharp decline, which reflected, as we said in the comments, the strength of the relationship we have with our customers. Probably the best example was our core Private Equity business. We were raising our second fund and we raised all $5 billion in the last two weeks of March. So even given the logistical challenges, we were able to get that done.

That being said, not being able to travel, some funds do have an impact here of a denominator effect. I've been talking to all of our big LPs and they do have to pause. Some retail investors, we've seen a slowdown in that channel. So I think overall, we expect a slowing of the level of activity. That being said, a number of our customers are still open for business and that's the reason why I still think we'll have a healthy year for fundraising, but not the pace we were expecting certainly six weeks ago.

Craig Siegenthaler: Thank you, Jon.

Moderator: Thank you. Our next question now from Chris Harris, Wells Fargo. Thank you, Chris.

Chris Harris: Thank you. For your investments that are more exposed to the effects of this downturn, how are you working to bridge the current environment in which revenue is really impaired, to some period in the future when revenues come back, and then related to that question, how are you preparing for the prospect of the shutdown lasting longer than perhaps just a few months?

Jon Gray: That's a great question. As you can imagine, we're spending enormous amounts of time with all our teams looking at the most impacted businesses and figuring out two fundamental questions, which are, what does the liquidity profile look like under a base case and a longer shutdown case, and do we
have enough capital to get to the other side? And then, when do you get back to more normalized 2019 levels of call it revenue and EBITDA? And I would say we're cautious in our underwriting. We're assuming that 2020 for most of the impacted businesses is going to be a very tough year, that they will reopen in the second half of the year, but revenue levels are going to be down pretty significantly. And then we start to have a recovery as we move into '21, '22, and '23 and each business is a little different depending on the geography.

If you think about businesses where people have to get on planes and fly a long distance for a big conference, that type of business may be more impacted than let's say drive to a water park business that we own, and so there's no one size fits all. But this is critical thinking about capital and particularly as we think about in some cases putting in additional capital to support a business, we only want to do that if we think it's a very prudent approach and that the capital structure can make it through this difficult patch.

Michael Chae: Hey, Jon, let me just chime in to add on to that for Chris. Chris, in talking about the bridge to the future and making sure it's as sturdy and as long lived as possible, just a couple of stabs about our position.

For our portfolio companies, private equity, real estate throughout the firm, we've obviously spent a number of years taking advantage of the capital markets to make sure we have the most flexible capital structures and longest lived capital structure as possible. So for example, from a maturity standpoint, and near term maturity standpoint across all of our private equity and real estate holdings, in aggregate, they have in 2020 about 1% of their overall debt structures maturing and only about 2.5% in 2021. So, about 3.5%, a very small percentage of their overall sort of debt capital structures coming due in the next couple years.

Second, and Jon alluded to this, from a fund reserve standpoint, we are very well positioned. And so out of that $152 billion of dry powder, about $30 billion of that or so is really dedicated to support funds that are fully invested out of their investment periods and we have those reserves ready to support companies on defense and then also doing offense where there will be opportunities, which we expect.

Moderator: Thank you so much. And we now have Bill Katz from Citigroup. Thank you, Bill.

Ben Herbert: Hey, good morning. It's Ben Herbert on for Bill. Thanks for taking the question. Just wanted to follow up on the FRE margin discussion. I heard the comment that you expect it to remain stable in this environment, but thinking about kind of the progression with the $1.70 and $2.00 guidance, and then kind of offsetting impacts of slower fundraising, but fewer realizations maybe, just help us bridge I guess kind of that margin progression 2020 into 2021.

Michael Chae: Sure, Ben. It's Michael. Look, you guys have seen this movie before with us. Tailwinds, structural tailwinds in our FRE growth, which we obviously talked about pretty precisely over time leads to compelling growth in that FRE, which leads to robustness of margins. So with 20% fee earning AUM growth in this quarter, 25% FRE growth and that healthy outlook for the year that I underlined, aligned with that will be again, stable margins, and a very good position on that front.

Ben Herbert: Okay, thank you.

Moderator: Okay, thank you. So now we're moving to Alexander Blostein from Goldman Sachs. Thank you, Alexander.

Alexander Blostein: Great. Good morning. Thanks everybody. I wanted to follow up on the discussion around just the valuation of the portfolio companies, understanding there's a lot that goes into it, so it's
kind of hard to generalize, but looking across private equity and real estate, could you guys talk a little bit about what's DCF and more model-based versus kind of comps and the sort of public marks and more importantly, what's sort of embedded in terms of macro outlook in your current marks and any sort of stress scenario analysis you guys could share with us would be super helpful, in terms of if the recession were to last longer or if it was deeper, where the marks could go relative to what's baked in today. I know it's hard to kind of dissect, to be super specific, but hoping to get just some sensitivities. Thanks.

Michael Chae: Sure. Just to frame it and you guys are I think pretty familiar with our process and methodology, which is as you know, longstanding. We generally use DCF valuations across our private holdings, and private equity and real estate across the firm. So, model-based, bottoms up, investment by investment, with a short and medium and long-run view, which we revisit every quarter on a bottoms up basis. We use that process to arrive at fair value for privately-held companies and in accordance with GAAP, we also engage third party firms in the valuation process and then alternatively, our public positions of course get marked according to the screen, so to speak. That process was consistent this quarter, absolutely consistent with our past approach, again, bottoms up investment by investment approach, obviously in a very sort of dynamic environment.

I think it's important and fair to note that historically the outcome of our process has generally been that our private valuations have typically been carried at implied multiples below public comps. That sort of amount of difference has some flex to it depending on the environment, but that remains the case today and the proof in the pudding of that has been that we've seen play out over time again when we have ultimately realized assets historically, we've sold them for a meaningful premium above their prior quarter mark. So, that's a kind of framing of how it's worked in the past and how it's working currently.

Obviously, we had to apply that same very micro, bottoms up, granular approach in the context of this dynamic environment with sort of taking into account what's the outlook. We went obviously sector by sector, as it differs for different sectors, and as Jon said, just to close out the answer, in his remarks about how we're thinking about underwriting deals, with an appropriately cautious view of the timing and shape of recovery. We certainly applied that to our valuation process.

Weston Tucker: Thanks, Alex.

Moderator: Okay, ready for the next one? This is Glenn Schorr from Evercore ISI. Thank you, Glenn.

Glenn Schorr: Hi, thanks very much. Okay, let's go with commercial real estate specifically. I heard your comments loud and clear about logistics and the last mile of e-commerce and apartments and the good stuff across real estate. I'm a believer. Can we talk about how we're going to be in a world that has high unemployment, low GDP or negative GDP for a while, disrupted economies and then of course certain sectors will have bankrupt companies and empty space and the work from home thing. So, I'm curious what goes into your mindset about how that part of the real estate world changes and how your portfolio deals with that. It goes into just how you expect real estate to evolve over the next bunch of years. Thanks.

Jon Gray: I think it's a good question. We talked about the best sectors and the most challenged sectors, let's say being retail and hotel and your question is, as we go into this recession, what happens to real estate? A couple things. One positive thing is that I think we'll see a large decrease in new supply, which helps. That's what always happens in a recession. The other thing is, you can look at the path. So, you know, more traditional asset classes, you know, apartments, warehouses in the last downturn, you know, saw high single digit, mid to high single digit declines in sort of same store cash flows. It's very possible this is deeper, so you could see a little more than that, although I think it's too soon to say and ecommerce
creates a different dynamic, and industrial. In the office markets, your income tends to be steady because of the length of your contract, although the market will weaken as companies pull back.

There's a question you've raised around will people still work more remotely. That's a question. There will also be questions going the other way about will firms have the same density or will they spread out a little bit? I still believe in the fullness of time, I mean working at home, we made it work, but we think it's better and much more efficient when we're together.

So, I guess I would start to think about this, once we get through this very challenging part where so many people are in the sidelines, when we move more into a let's call it a more traditional recession and slowdown, in those areas of real estate, you will see some impacts certainly in terms of occupancy levels and rent, but you will also see the benefit of no new construction and as I mentioned earlier, very low interest rates which will likely I think put downward pressure on cap rates for stable assets.

As an overall portfolio when we look at what we own in real estate, we feel pretty good about it and we're in some particularly strong sectors like India office or Life Science office that are very large holdings of ours. But yes, there's going to be some headwinds in some of these sectors and that will play through and it takes a bit of time for that to happen.

Glenn Schorr: Post last cycle, you were a huge beneficiary of I won't call it forced sellers, but you needed some big assets to move because of companies that were long a lot of real estate that needed to monetize. You were the natural buyer. Have you seen that yet or is that too early, but do you anticipate it?

Jon Gray: Yeah it's too early. What we've done in real estate so far has basically been on the screen. We talked about it. We’ve bought debt at a discount. We bought some public equities. That's really the initial phase. Then the next thing you'll see is some rescue capital needs, and we'll start to address some of that. And then after sort of the weight of this comes through the system, in some cases there'll be special servicers who take over assets, people will run through their reserves, then you'll begin to see assets trading. We saw that happen really it took a year, you know, after the 2001 downturn. It took a year basically after ’08.

That first year after the shock is generally pretty slow in terms of deployment. It can change. And then things start to pick up and to our overall comment, the fact that we have so much capital, not only in real estate, but across the firm, that is a great competitive advantage. We don't need financing to get things done and so I think we're very well positioned, just as we were in the previous two downturns, to deploy capital at scale.

Glenn Shorr: All right, thanks.

Moderator: Thank you. Your next one now, Michael Carrier from Bank of America. Thank you, Michael.

Michael Carrier: Good morning. Thanks for all the color today and taking the question. So you guys had an active deployment quarter and you're in an enviable position in terms of dry powder. Where do you expect to see more opportunities play out? How are the financing markets and I think you had a CLO kind of process during the challenging markets, so just how that process played out as well. Thanks.

Jon Gray: Mike, I would say that the near term opportunities that we talked about were initially on the screen. I think the sectors where you'll be able to deploy capital in scale early on here will be the most impacted sectors. So, areas like lodging, location based entertainment, things obviously broadly in the travel business. There will be opportunities, you've seen some of those deals recently in terms of rescue
financing. We would expect to deploy significant amounts of capital in some of those areas. There are other businesses that are just generally more leveraged and when a storm comes in and the business suffers, they don't have as much margin for error and so I think we'll see some of those businesses.

In the structured credit space, I think some interesting things will come out of the residential mortgage area because we're seeing more forced selling in that part of the market than anywhere else. And just generally broad based economic activity has gone down and again, that will lead to invariably some selling or corporates looking to sell non-core divisions. So, the biggest challenge we faced before this downturn was what were we going to do with this capital, and it was the thing we struggled with in putting out capital, and we lost a lot of auctions. Now I do think though there'll be a pretty broad range of places to deploy that capital, the challenge is to be disciplined, particularly if this recovery is going to take a bit of time.

Michael Carrier: Alright, thanks a lot.

Moderator: Thank you. So Patrick Davitt now from Autonomous Research. Thank you, Patrick.

Patrick Davitt: Hey, good morning, guys. So there's been a lot of anecdotal reporting about PE firms kind of segmenting their portfolios into buckets like green light, yellow light, red light or in other words, companies that are fine, companies that are okay, but might see a little weakness and then companies that are clearly not fine. Have you gone through a similar exercise and could you help maybe frame the exposure across PE and real estate in each of those buckets or similar buckets, however you've thought about it?

Jon Gray: Yeah, we've looked at it. We didn't use the same color coding in every group, but we do have a range of companies. We have businesses like ServPro in Private Equity that is helping clean and disinfect properties all across America. We've got an online ad business that's doing quite well. I mentioned MagicLab. We have some things in the food business that are doing quite well.

So we've got those sort of things and then of course, we own other businesses, as we've talked about, hotels or theme parks, or things like that that have been shut down. I don't know if we've categorized, we certainly haven't done it firm wide on the percentages. We've identified how much we have in the most impacted sectors like energy, which Michael laid out on the call.

And overall, I would say we feel pretty good about our portfolio. We certainly, between the reserves we have and the quality of the businesses we own, assuming the economy starts to reopen here over the next few months, we think we will be fine. And the orientation in our Private Equity business in particular more towards faster growing businesses, particularly what we own and BCP VII, I think that's going to prove to be a very good decision, and that fund I think will weather this storm in particular quite well.

Moderator: Okay, Patrick. Thank you. Thank you, Patrick. So we're now Jeremy Campbell from Barclays. Thank you, Jeremy.

Jeremy Campbell: Hey, thanks. On the credit segment, I think you guys mentioned deploying $3 billion in the quarter and you have about $28 billion in dry powder. Can you just remind us how much of that credit dry powder starts earning management fees on capital deployed and not based on commitments, and then maybe how would you characterize the credit deployment opportunities in this environment in both the public and private markets?

Michael Chae: Sure, Jeremy. I'll take the first one, which is in GSO, most of the business is based on invested capital, so a subset of that is committed capital to drawdown funds, but the management fees are
charged as the money is drawn and invested. And then for the liquid credit segment, a very large segment, that has a variety of vehicles, but in general, there's recurring management fees on pools of capital that can be invested and reinvested and so are a fairly stable pool of assets. Jon, I don't know if you want to talk about the opportunities.

**Jon Gray:** Yeah, on the investing side, it's definitely a better investment environment than it was before, you know, both the leveraged loan market and high yield market sold off. They've recovered a fair amount, but there's still plenty of names that are trading at big discounts, so for our distressed arm, that creates opportunities and then in all of our origination vehicles that we have in Europe in direct lending, in mezzanine lending, even in energy, given the challenges companies face, particularly midsized companies who don't have access to the public markets, banks being more constrained in this environment, that creates an opportunity and spreads have widened considerably. You know, for a 55%, call it direct loan for a midsized company, I would say spreads are probably out 200 to 300 basis points. So the unleveraged rates of return have definitely gone up and this should be a favorable environment for our credit business.

**Jeremy Campbell:** Great, thanks.

**Moderator:** Okay, thank you very much. So this is Gerald O'Hara from Jefferies. Thank you, Gerald.

**Gerald O'Hara:** Okay, thanks. Perhaps this is a tough one, but maybe you can help us think a little bit about the performance fee timeline and I guess maybe we can start with kind of reminding us how – what fund structures have 4Q anniversaries, but also how we might be mindful of or how we should think about what could potentially come through during this time of uncertainty, but I guess this is also maybe a longer winded way of asking how you think the recovery might shape out and when we can start thinking about really kicking, performance fees kind of kicking back in.

**Jon Gray:** Yeah, it's a good question. You know, what's interesting is markets sometimes move much faster, as you know, than underlying economies. So it's possible that markets with all this stimulus, once they start to see a steady recovery, could recover faster. So it's hard to look forward. What we can say is, right now in this kind of environment, it's not a great time to sell assets. As we just talked about, debt funding's hard to come by. There's a lot of uncertainty, so at this point, given our structures, we tend to hold assets and as a result, you will certainly see limited realizations in the near term. When that turns, which gets to your question, is I think when market confidence comes back, when people begin to see light at the end of the tunnel, when markets recover, when you start to see a pickup in M&A volume. That's when you'll start to see a pickup for us in realizations.

And at this point, because there's so much uncertainty around what's going to happen in the reopening of the economy and the shape of the economic recovery, that certainly feels early to call that exactly, but when it does happen, things can turn and then we can start to sell things again. But right now, I think in the near term as we've said, realizations should be fairly limited.

**Gerald O'Hara:** Understood. And just a quick reminder on what some of the fund structures that sort of have 4Q anniversaries or crystallizations?

**Jon Gray:** Oh, Michael, you should talk about that because there’s it’s a different story.

**Michael Chae:** Yeah, Gerald, it's really two main strategies. One is our BAAM fund to fund BPS business which as you know typically has yearend incentive fees, annual incentive fees taken at year end. And then BREIT, part of our Core-plus platform, also has an annual fourth quarter incentive fee.
Steve Schwarzman: Hey, Michael. I have an answer to another question. This is Steve. This is the one question asked to Jon about marketing funds and does it really make a difference if you can't go to places. And I'd like to just suggest that something quite interesting is going on. We had one fund that was supposed to be having a big due diligence meeting with I think it was over 130 or 150 different attendees and it was just done on Zoom. And much like the rest of the way we're all working, everybody was pretty adjusted and cool about that.

And so, we're seeing that throughout our businesses and one of the advantages of being in business for 35 years is that everybody on our side of the table knows everybody well on the other side of the table at virtually every institution in the world. We talk to them with great frequency and we're not always seeing them.

Now, with this whole distance communication, it's quite easy to get somebody on the phone anywhere in the world and talk to them and see them. That bond of trust that you have that gets developed over decades really becomes exceptionally useful in a situation like this. If you were in the position of raising a first time fund as a relatively new firm, I think this would be really almost impossible. But for firms like ourselves, with those natural built-in advantages and relationships, life goes on to the extent that there's capital available. I just got an e-mail I guess it was two days ago that we just got $500 million from an individual account for one of our funds, which to me, at least, is a reaffirmation that life goes on. There are different strengths from limited partners in different parts of the world. In some parts of the world, it used to be very important to have physical presence, but after you've done that for a long time, it's actually easy to get on video with them and talk to them and obtain commitments.

So I realize this is a bit of a non sequitur, you know, with the flow of the call, but I wanted to go back and make sure there was not the impression that because you can't go someplace, that you know, as Blackstone, you know, you're sort of off the screen and really disadvantaged. I don't believe that's the case.

Weston Tucker: Great, thanks Jerry for that question. We can take the next question, Deborah.

Moderator: Thank you. This is Devin Ryan from JMP Securities. Thank you, Devin.

Devin Ryan: All right, great. Thank you. Most questions have been asked here. I just had one on maybe the potential for acquisition opportunities at the firm level. You know, we've obviously seen an abrupt drop in asset prices. I think that's impacting virtually all types of asset managers here and so I'm just thinking that maybe this is a catalyst for firms that had a strategy, were trying to scale as a standalone, just saying, you know, maybe now it's time to throw in the towel, or partner with a bigger, more experienced firm. So I'm just curious if you're seeing anything at this point and whether you would expect that there might be some opportunities that actually come out of this for Blackstone at the firm level?

Jon Gray: That's a good question. I would say the answer is yes. As you know, we're very selective on acquisitions. It has to be strategic for us. It has to hit a very high bar, but we set up the firm, as Michael described, really with this fortress balance sheet so we could do things at a time like this. So the fact that we have virtually no net debt and we have $4 billion of cash and a big revolver, puts us in an enviable spot when it comes to corporate acquisitions. We are looking at some things out there. You never know if you'll make them, but the environment has shaken things up. So, it's a possibility and it's definitely something we're looking at.

Devin Ryan: Great. Thank you.
Moderator: Thank you. So now Chris Kotowski from Oppenheimer & Company, thank you, Chris.

Chris Kotowski: Good morning. Thank you. I guess I wanted to ask you about the, you know, availability of debt financing for your portfolio companies. It seems to me there are two oddball factors this time around. You know, one is that kind of one of the classic opportunities is distressed financing and having companies go bankrupt and being able to, you know, buy companies in distress or repurchase your own portfolio companies' debt at distressed levels.

But now, you have plans from the Fed to buy high yield ETFs and that would seem to kind of distort that whole process. And then on the other hand, it seems like a lot of the stimulus legislation seems to be crafted to try to exclude private equity-backed companies from receiving some of that favorable financing and aid, you know, whereas non-private equity-backed companies have it available to them. So talk a little bit about how does this kind of regulatory and legislative environment impact your ability to finance your companies?

Jon Gray: Yeah. So I'll start with the programs. As you know, there are two main programs out there, there's the PPP program through the SBA and then the Main Street program, which is for midsized companies. At this point, none of the companies that we control have applied for funds under either of these programs, and it's unlikely that I think we'll do that. So, that really, you know, is not really a factor in our thinking.

In terms of access to capital in the more traditional debt markets, the Fed's move helped reopen the high yield market and the leveraged loan market and you saw public companies access it. We've had a couple of our portfolio companies, a number of them, do bond and leverage loans offerings and we think that's a healthy sign. Obviously the costs are higher. The advance rates are lower. But having that capital out there I think is healthy for the system. So, the market is functioning, but it's more expensive and you need to be the right type of company to do it. And as you've seen in some cases, even some large companies, because of either their leverage or the business they're in, have had to, you know, access private market capital. So, I would say it's still a challenged environment but it is not completely shut down and absent the Fed's activities, I think it might have looked a lot worse.

Michael Chae: Yeah, I'd just add on that, you've obviously seen sort of the fund flows reverse for the better in the past few weeks and spreads coming in significantly and I'd say Jon's getting at the sort of two bifurcations here. One is between the haves and have-nots in terms of their positioning and quality and scale and vulnerability to COVID. And then also existing issuers versus new issuers. And so the haves who are existing issuers who are investment grade or fallen angels or high quality high yield issuers, I think in the last few weeks have had ready access to the markets. It'll still take some time I think the new issue, which is really for new LBOs, new deals, that's the relevant market. It'll still take some time for that to really firm up.

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

Weston Tucker: Thanks, Chris.

Moderator: Thank you. You now have Christopher Shutler from William Blair. Thank you, Christopher.

Christopher Shutler: Hey guys. Good morning. In terms of what could get us out of this crisis, as you mentioned vaccine development, mass testing are probably the two big areas and I certainly realize this is a financial services, not a healthcare call, but what is your base case on each of those and any kind of
anecdotal evidence you're hearing that is particularly encouraging or worrisome, particularly as it relates to testing?

**Jon Gray:** Well, I think on the vaccine front, as you know, I'm not the expert on this, it just takes time to make sure a vaccine works and then obviously make sure it's safe because you're going to give it to tens and hundreds of millions of people. So, we're hopeful that that's out there, but it'll probably take some time. In terms of mass testing, everybody's been pushing in this direction. You know, corporate leaders, everybody recognizes that if we could get more testing, it would be easier to send people back to the office, to go back out. I think it's just a production question and I don't have the exact insights on how long it'll be. Steve, this might be one you could comment on because you've spent some time looking at it.

**Steve Schwarzman:** Yeah. I think because there is no short term solution to this virus and most people believe that vaccines will be available somewhere around a year to a year and a half, and it's a bit of a guess because you need a breakthrough from someone and then they have to be tested, but just say more or less sort of summer of next year as a reasonable case. And so in that, once you get a vaccine that can get produced at mass, then more or less, the situation has reached a huge point of inflection and people can get their vaccine, their shot, and then they're not scared to be interfacing with everybody else and life can normalize very, very quickly.

So in the interim, the best way to make people comfortable is to have testing sufficient so that you know that the person to your left and your right is okay, and you're not going to get sick. And the only way to do that, other than distancing yourself from them, which is a little unpredictable, is to test people sufficiently so that they know that they're okay. And without going into all the medical types of stuff of how long the incubation periods are, because just testing sick people is one way to go, but you know, there are many people who are asymptomatic who can infect you anyhow. And they will test positive if you test them.

So when you talk about mass testing, you're moving into the zone where you're testing lots and lots of people, so that you get that sense. Because it's true that everyone around you is really in the clear and the people who test positive are asked to go home and isolate themselves. It's a pretty simple concept.

And the only question is, how do you stand that up, and who's in charge of that, and how much money does it take, which is a very large amount of money and then to do that with large amounts of money and $25 billion would not do that throughout a country the scale of the United States. That you get your workforce so much more productive, it would actually, I think, pay off and so what you're seeing now is sort of, I think it's fair to say sort of a scramble, with many different types of tests from antibody tests to the regular COVID, are you positive or not, where you have the swab. You have some where people have to draw blood, and then there's a new technology based on just spitting into some kind of tube, a little like 23 and Me. And all of these are rushing ahead and every week, every month there are going to be a lot of developments with more supplies. And so as we watch on television, each new thing happen and people are sort of frustrated that they can't get enough tests. Over time, there'll be more and more. And the question is, how much as a society, do we really want to invest to ramp this up extremely high.

So, that's a bit of a wandering answer, but not really. And that gives you some idea. The more tests we can do, I believe, the happier workers will be, the more self-confident the society will be and the faster the economic recovery will be.

**Christopher Shutler:** Thank you.

**Moderator:** Thank you. And our final question comes from Michael Cyprys from Morgan Stanley. Thank you, Michael.
Michael Cyprys: Great. Hey, thanks for taking the follow-up question. Just maybe on some of the dislocations that we see in the oil market, dislocations come as a big surprise for many, particularly the extent there, just curious of your views on where we could see other dislocations or risks emerge in the coming months and is it negative rates in your view? Is it a depression? What are you tracking in this regard and what are some of the biggest risks out there in your view?

Jon Gray: I think the biggest risks are probably what could be the knock-on effects of significant unemployment and more defaults. You know, I think that creates issues in terms of repayment. It can have issues in the banking system. It can have some issues in structured credit products.

Those things that are sort of the next level when people, are unemployed, and companies get into trouble. And so I would say though, Mike, that once the economy reopens and we're sort of moving back towards business, I think the systemic risk goes down a lot, and so I think it's just more of the normal risk that happens in a recession as you get businesses struggling and large scale job losses. So it puts pressure on the financial system and again, for us, that invariably leads to assets that need to be sold, assets that need to be recapitalized and that creates a place to deploy a lot of capital.

Michael Cyprys: Great, thank you.

Moderator: Thank you and we'll just turn back now to Weston for some final comments. Thank you, Weston.

Weston Tucker: Perfect. Thank you everyone for joining us this morning and look forward to following up after the call.

Moderator: Okay. Weston, everyone, all the speakers, thank you. That concludes your conference call for today. You may now disconnect. Thank you for joining and do all take care.

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