BLACKSTONE Fourth Quarter and Full Year 2020 Investor Call
January 27, 2021 at 9:00 a.m. ET

Weston Tucker: Good morning and welcome to Blackstone's fourth-quarter conference call. Joining today are Steve Schwarzman, Chairman and CEO; Jon Gray, President and Chief Operating Officer; and Michael Chae, Chief Financial Officer. Earlier this morning, we issued a press release and slide presentation, which are available on our website. We expect to file our 10-K report later 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 and 10-Q filings. We'll also refer to certain non-GAAP measures and you'll find reconciliations in the press release on the shareholders page of our website. Also note that nothing on this call constitutes an offer to sell, or a solicitation of an offer to purchase, an interest in any Blackstone fund. This audio-cast 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 $1.8 billion. Distributable earnings were $1.5 billion, or $1.13 per common share, and we declared a dividend of $0.96, to be paid to holders of record as of February 8th.

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

Steve Schwarzman: Thanks Weston, and good morning and thank you for joining our call. Blackstone reported exceptional results for the fourth quarter, including our best quarter for both distributable earnings and fee-related earnings in 35 years. Realizations rose to a record $21 billion as global markets recovered from the trough of the crisis. At the same time, we deployed $25 billion into new investments – also a new record – adding to the foundation of future value. The power of the Blackstone brand has never been stronger, and we achieved nearly $100 billion of inflows in 2020, ending the year with industry record AUM of $619 billion.

While these results would be remarkable in any environment, they are particularly so in a year where the world faced unprecedented challenges, including the steepest economic downturn in modern history. Our business is built to navigate the difficult periods and to deliver for our investors in good times and bad. Limited partners around the world know that by investing with the best alternative managers, they can generate better returns than by investing in traditional asset classes alone. That's why capital flows have increasingly migrated toward the alternatives asset class and to Blackstone in particular. We believe this trend will continue, particularly in an environment where interest rates are expected to remain historically low.

Blackstone is the reference institution in our rapidly growing sector, as regularly acknowledged by third parties. For example, Morgan Stanley published a report titled "30 for 2021" naming Blackstone as one of the best companies in any industry, based on its review of business quality and competitive positioning. We've continued to take market share, raising well over $200 billion over the past two years – comparable to the fund-raising of our next 3 largest peers

combined. We have the most recognized brand among both institutions and retail investors. And our unique culture continues to set us apart, characterized by the highest standards of excellence and an unwavering dedication to serving our clients. We have extraordinarily capable people at every level of the firm, as well as the ability to recruit exceptional talent in the occasional circumstance where we look externally for someone to help us build a business.

Our investment process is highly differentiated, including a rigorous focus on choosing the best sectors and assets, always with a priority of protecting capital. This is evident in the way we concentrated nearly half of our real estate portfolio in global logistics and life sciences office in the years ahead of the recent downturn. Our positioning helped drive 1,100 basis points of outperformance for our opportunistic real estate funds last year, as compared to the public REIT index. That's 1,100 basis points of outperformance. And unlike investing in public stocks, we create value in our investments through our expansive portfolio operations and asset management capabilities. The result is the exceptional long-term investment performance that defines us as a firm, including 15% net returns annually in both corporate private equity and opportunistic real estate for three decades.

The power of our brand has been continuously reinforced by our performance through the market cycles of the past 35 years. This was particularly true during the Global Financial Crisis, when we extended our leadership position in every area and launched multiple new businesses, setting the stage for the next decade of remarkable growth. Since our IPO, which immediately preceded the financial crisis, we've grown our AUM seven times, launched 34 new strategies and significantly expanded our business internationally. We are similarly emerging from this most recent downturn with powerful momentum. Jon will describe the broad range of growth initiatives we have underway across the firm, many of which are in the earliest stages of their vast potential.

As we continue to grow, our capital base is shifting toward perpetual strategies, such as Real Estate Core-Plus, Infrastructure, Insurance Solutions, and private credit. These areas are characterized by large-scale investor allocations as well as a much larger universe of potential deployment opportunities than where we've focused historically. As the nature of the capital we manage evolves, so does our earnings mix toward steadier and more recurring fee-related earnings, which is highly valued by the market. For the full year, FRE reached $1.97 per share, effectively achieving our Investor Day target of $2 per share – but one year earlier and notwithstanding the pandemic. FRE comprised approximately two-thirds of total earnings in 2020, up from only one-third in 2017. Looking forward, we have great confidence in our continued FRE momentum, which should further support the revaluation of our earnings multiple that has been underway since our corporate conversion.

As we move into 2021, all signs point to it being another strong year for the firm. The pandemic will further impact the economy over the next several months, but with the widespread and effective deployment of vaccines, which we anticipate will occur, we expect a robust recovery in global growth later this year. And as the economy accelerates, Blackstone is well positioned to see continued strong growth ahead. I couldn't be more proud of our firm's people, our culture, and the prospects for the future – for both our limited partners and our fellow shareholders.

With that – I'm very glad to turn it over to Jon.

Jon Gray: Thank you Steve, and good morning everyone. We just completed a record quarter. I'll take you through some of the highlights as well as the extraordinary range of growth engines that are firing across every area of the firm, with a major emphasis on perpetual capital.

The foundation of our business of course remains performance. When we deliver great returns, it builds investor trust and leads to further inflows. It's a virtuous circle that also involves attracting top talent, moving into new areas and growing meaningfully. In the fourth quarter, our funds again posted exceptional returns across the board. For the past several years, we've been orienting the firm toward faster growing areas such as life sciences and those connected to the digital economy. These continue to be amongst the best performing sectors of the market and were the largest drivers of appreciation in our funds, including our holdings in global logistics, digital payments, and enterprise software.

Our investment performance is creating very favorable dynamics with our customers and they continue to allocate more capital to us. Inflows were $32 billion in the fourth quarter and reached $95 billion for the full year – the fourth consecutive year approaching or exceeding $100 billion. Last January, before the crisis, we told you we thought we'd reach this level again in 2020. We're pleased we were still able to achieve our original goal – a testament to the confidence our investors place in us. Looking forward, demand for our products remains as strong as ever, including for new areas that represent tremendous potential.

In Growth Equity, we expect our inaugural vehicle to soon reach its $4.5 billion hard cap. Our Life Sciences business is deploying capital at a rapid pace and is well positioned for growth. In Private Equity, we're raising our second Asia fund, which we expect to be meaningfully larger than the first. And in Tactical Opportunities, we've begun raising our fourth vintage in the context of continued strong performance and deployment. In Real Estate, our Core Plus platform has grown to $69 billion, up 50% year over year, across five perpetual capital vehicles. We launched the fifth – BPP Life Sciences – in the fourth quarter with the recapitalization of BioMed, raising $8.4 billion – so far. We've been actively investing this new capital, and in addition to BioMed, committed in Q4 to acquire a large portfolio of lab offices adjacent to MIT in Cambridge, the world's leading biotech hub. BREIT – our largest Core Plus vehicle – now has $22 billion of AUM, up seven-fold since our 2018 Investor Day. On the back of strong performance, fund-raising has reaccelerated meaningfully from the bottom of the crisis, with approximately $900 million of inflows on January 1st. Investor demand for resilient, income-producing assets, coupled with the Blackstone brand, is a powerful combination. As we have stated before, we believe BREIT could become the single largest earnings driver at Blackstone.

Perpetual AUM across the firm has more than doubled since Investor Day to $135 billion, helping drive a 73% increase in fee-related earnings over the same period. In addition to real estate, our perpetual capital vehicles in Infrastructure and direct lending are seeing strong momentum and have grown to leading scale only a few years after launch. In infrastructure, we raised $14 billion initially and are now seeing deal activity accelerate in both the U.S. and Europe, bringing the fund to approximately 40% committed.

In Credit, our global direct lending platform has grown to $22 billion – one of the largest in the world. Our scale allows us to provide bigger and more comprehensive capital solutions to borrowers. And the opportunity is enormous, with sub-investment grade financing markets in the U.S. alone totaling nearly $3 trillion. Post quarter-end, we launched our non-traded BDC – BCRED – with over $800 million of commitments at the first closing. As with BREIT, we anticipate strong monthly demand from individual investors for Blackstone-managed income solutions.

Also in Credit, we acquired DCI in the fourth quarter – a pioneer in systematic investment strategies, which we see as central to the future of liquid fixed income investing. DCI will meaningfully expand our capabilities in the vast high-yield and investment grade markets, and will further differentiate our business as we integrate their technology across the credit platform. In total, the credit and insurance segment reported inflows of $13 billion in the quarter and $28 billion for the full year.

Turning to BAAM, we continue to see strong demand for our various direct investing strategies, including our second GP stakes perpetual capital vehicle, which has raised $4 billion to date. We were excited to announce recently that Joe Dowling, former CEO of Brown University's investment office, is joining Blackstone as co-head of BAAM, alongside John McCormick. Joe is a world-class talent, with proven experience investing and managing risk. In his seven years at Brown, the university ranked #1 amongst peers on 1, 3, 5, and 7 year returns and achieved the highest Sharpe ratio of any major U.S. endowment, driven in large part by their successful hedge fund investment program. Joe's leadership will be a major asset to BAAM as we continue to expand into new areas.

Our secondaries business remains one of the best positioned globally in a sector with huge tailwinds. SP's 2019 flagship fund is over 75% committed and we expect to start raising the successor later this year. We also continue to grow adjacencies like infrastructure and real estate secondaries. And we recently launched a new strategy investing alongside GPs in high-quality assets that they want to continue to own beyond the initial fund term.

Finally, in Insurance, we just announced the acquisition of a life insurance and annuity company from Allstate with $28 billion of long-duration assets. The acquisition will be completed through a new Blackstone-managed vehicle of approximately $2 billion, and our Insurance Solutions team will act as the asset manager, bringing the firm's pro forma insurance AUM to nearly $100 billion. Given insurers' need for better returns and our direct credit origination capabilities, we expect to do more in this sector in support of their policyholders moving forward.

In summary – every business at the firm has terrific growth prospects that we're executing against. We remain extremely confident in the path forward.

And with that, I'll turn things over to Michael.

Michael Chae: Thanks, Jon, and good morning everyone. The fourth quarter represented a remarkable finish to the year, as we achieved record results in nearly every metric – distributable earnings, fee-related Earnings, AUM, realizations, deployment, and total fund appreciation. We

also reported our fifth-best quarter for inflows. This broad-based success, in the same year as one of the most severe market declines on record, is a powerful illustration of the all-weather durability of our business model.

Starting with results, fee-earning AUM increased 15% year over year to $469 billion, while total AUM rose 8% to $619 billion, driven by robust gross inflows of $95 billion for the year, and despite $43 billion of realizations. The strength of inflows in 2020 – despite not raising any of our largest flagship funds during the year – highlights the firm's expansive breadth of product offerings and the ongoing shift toward perpetual capital. Indeed, over a quarter of the firm's fee earning AUM is now perpetual.

Fee-related earnings rose 33% in 2020 to $2.4 billion, or $1.97 per share as Steve highlighted, driven by continued strong growth in fee revenues coupled with significant margin expansion. Management fees increased 18% to $4.1 billion for the year and are up 35% over the past two years, powered by our flagship fund-raising and a doubling of the Real Estate Core-Plus platform in the last two years. BREIT alone increased its AUM by 71% in 2020 and generated strong gross appreciation of 9% for the firm despite the environment. In terms of margins – the firm's overall FRE margin expanded over 400 basis points in 2020 to 52.8% – the highest level ever for an annual period.

Distributable earnings for the full year rose 16% to $3.3 billion. For the fourth quarter, DE increased 60% to $1.5 billion, or $1.13 per share, underpinned by sharp growth in FRE and a doubling of net realizations to $897 million. In addition to strong fund realizations, most of BAAM's liquid strategies crystallize incentive fees annually in the fourth quarter. BAAM's strong finish to the year in terms of investment performance – with a 5.6% gross composite return in the quarter – as well as the growing contribution of its direct investing strategies, generated a 57% increase in the segment's realized performance revenues to $171 million.

Turning to investment performance, it was another excellent quarter for the firm across the board, with record total fund appreciation of $31 billion in the quarter. As Jon highlighted, we continue to see the benefit of favorable sector and asset selection in our funds, against a backdrop of rising global equity and credit markets.

In Real Estate, the BREP opportunistic funds appreciated 4.3% in the quarter while the Core-Plus funds appreciated 5.5%. As has been the case since the start of the pandemic, the vast majority of the real estate portfolio is demonstrating fundamental strength, particularly our holdings in logistics, suburban multifamily and life sciences office. Despite headwinds in certain more affected sectors, the BREP funds appreciated 3.4% for the full year and the Core-Plus funds appreciated 7.9%, as compared to a 7.6% decline for the public REIT index.

In Private Equity, the Corporate PE and Tac Opps funds appreciated 10.6% and 11.3% respectively in the fourth quarter, marking the third consecutive quarter of double-digit appreciation for both platforms. Strength was broad-based across both the private and public portfolios, led by our technology and consumer finance holdings. For the full year, the corporate PE funds appreciated 11.9% while Tac Opps appreciated 14.1%. Life-to-date returns for the most recent vintages of the Corporate Private Equity and Tac Opps funds remain outstanding.

The secondaries funds, which report on a two-quarter lag, started to recognize the benefit of last year's market recovery in their fourth-quarter returns, appreciating 9.4%. We expect strong performance to continue over the coming quarters given the direction of markets in the second half of 2020. And in Credit and Hedge Fund Solutions, we saw healthy appreciation again in the fourth quarter – including a 4.6% gross return for the credit composite.

Strong investment performance across the firm generated $1.2 billion of net accrued performance revenues in the quarter and lifted the balance sheet receivable to $3.8 billion – up 8% sequentially, notwithstanding nearly $1 billion of net realized distributions. At the same time, the firm's invested performance revenue eligible AUM increased to a record $294 billion, up 18% year over year. These are both important indicators of future value.

One last topic of note. Ten years ago, Blackstone made a strategic minority investment in the Brazil-based alternatives manager Patria – a team we had known for many years. Last week, Patria completed a highly oversubscribed initial public offering, marking their transition to a valuable public company and a successful investment for Blackstone. While we partly monetized our stake in the offering, we remain a continuing shareholder.

In closing, the firm's 2020 performance exemplified the power of Blackstone's extraordinary business model: resiliency and staying power during the market dislocation; and the ability to deliver record results in the fourth quarter across almost every metric in the context of the market recovery. Looking forward, we continue to scale existing businesses while also expanding into new areas with deep addressable market opportunities for the firm. The outlook for robust, high-quality growth over the long term is strong, and we believe the future for Blackstone is very bright.

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

Moderator: Okay. Thank you, everyone. your first question comes from Alexander Blostein, from Goldman Sachs. You are now live in the call Alexander. Please, go ahead.

Alex Blostein: Great. Good morning, everybody. Thanks for taking the question. Why don't we start with insurance? I guess, in light of the Allstate acquisition announced last night, maybe you guys can comment on your bigger picture aspirations for the insurance segment – how you've made several hires there recently. Should we expect more deals like this one, I guess, over the coming quarters and years? Or is Allstate meant to be sort of the platform to build off of? And then, secondly, maybe you can comment on the economics as well – so the fee rate on the assets and how you expect that to evolve as well as the funding structure. It sounded like the majority of the purchase obviously comes off the balance sheet, right? So $2 billion, I think you said, is third-party capital, relative to a $2.8 billion purchase price. So, a few questions there, but we can try to hit on all of them. Thank you.

Jon Gray: Okay. Thanks, Alex. I'll start with the big picture. And what's driving what you're seeing us do, and a number of firms in our industry, is the extremely low level of interest rates out there, which is creating the need for greater returns for insurance company assets – and

particularly the ability to have direct origination capabilities. So, our ability to originate corporate debt, structured debt, real estate debt, is quite important, and we think gives us a real strength in this area to line up our insurance solutions business with insurance balance sheets. So, this is an area we've had success with Fidelity Guaranty. We've said on these calls this is something we intend to do more of. It's an area of focus. We're obviously hiring a number of people to help build out this business and capability.

Exactly the format we'll take – I think each of these transactions may look and feel a little different. The underlying sort of path here is the same. The idea of us managing these assets, driving the returns higher – which ultimately helps the policy holders – I think all of that is key. On this particular transaction – and Michael can fill in the blanks – but the $2.8 billion – there are flows related to this transaction, plus a bit of debt. So, the ultimate check size here is a little less than $2 billion of equity. It's more of a typical GP-LP set up, I would say, but we are putting in some capital, single-digit percentage of the total capital needed. So, this is really a third-party situation where we're managing capital, and our compensation will come from managing the assets along the lines of what we've done with Fidelity Guaranty.

Weston Tucker: Great. Thanks, Alex.

Moderator: Okay. Thank you. My next question comes from Sumeet Mody from Piper Sandler. You're live in the call. Please go ahead.

Sumeet Mody: Hey, thanks. Good morning, guys. Just sort of a high-level question here. Creating these new dedicated funds across growing sectors like life sciences and growth equity, some of these flagship funds – the raises are now behind you. The global growth seemingly is concentrated here to areas like technology and healthcare. When you were creating these dedicated funds in some of these areas like you're doing now and down the road, does it kind of crowd out some of these deployment opportunities to the flagship funds or is there just kind of generally a lot of opportunities out there for global private equity funds to take advantage of or kind of along with some of the new, dedicated funds?

Jon Gray: It's a good question. I would say it does not crowd out our dedicated funds – our traditional large-scale private equity funds. And the reason is the mandates here are very different. So, if you look at the two funds to focus on – let's talk about Blackstone Life Sciences – its mission is to invest primarily in phase three trial drugs, something that we would not do in our Private Equity business, have never done before. And so, it's a completely new area and may invest in companies, but again, it's based on drugs that were waiting for FDA approval. This is not something we would do in our Private Equity business. In the Growth Equity business, we're taking minority stakes with founders, which, of course, is very different than our private equity model, which is based on control and being able to intervene in these businesses. In our growth equity area, we're looking to partner and help these young companies, generally working with founders. Again – a very different model. And then, some of our other more geographic strategies are similar to what we've done in the past where we've raised energy or Asia or other funds and we keep a portion of that in the main funds, but we, by expanding with the new fund, we don't have overconcentration in the main fund in a particular geography or sector. So, we're super sensitive to our flagship funds delivering in Real Estate, Private Equity, and Corporate

Private Equity. It's what we built the business on. We want to continue to deliver for those investors. There just happens to be a lot of white space, new areas to go into, that we, as a firm, have not historically been in.

Moderator: Okay. Thank you.

Weston Tucker: Thanks, Sumeet.

Moderator: Your next question comes from Michael Cyprys. You're live in the call. Please go ahead.

Michael Cyprys: Hey. Good morning. Thanks for taking the question. Just looking at the dry powder levels here – about $147 billion looks fairly high here and certainly, similar levels a year ago, too. So, I was hoping you could talk a little bit about how you're expanding your capacity to generate new investment ideas and expanding the capacity to put capital to work – particularly in size and with the new Insurance business or expansion of the Insurance business that you'll be getting more assets. I guess what new sourcing and origination capabilities are you thinking about adding or might be able to add?

Jon Gray: Well, the good news here is we just have a much broader base of capital today. You know, achieving the highest return strategies involves a smaller universe, potentially, of investable assets. As you raise – particularly some of this perpetual capital – longer duration/lower yielding – you can look at a much broader view. So, yes, we're investing in origination capabilities – and particularly in our Credit area and Corporate and Real Estate and structured credit, but also in our equity investing as we move into Core Private Equity or the Real Estate Core-Plus business. We're just hiring more people in these areas.

It gives us more dialogue. But often times, you know, you're not necessarily – using real estate as an example – looking for an empty building or distress situation. You're just buying a leased apartment project that's high quality you want to own at a reasonable return. So, this newer cost of capital enables us to sort of widen the funnel. Then, you take our existing team, you add more people, and it actually makes our original businesses even better, because we're in more dialogue with more sellers, more brokers, more investment bankers. We're just part of the flow. And there's really been a real benefit from expanding our platforms. And if you think about it on the credit side as well – if you went in there and you only had the ability to do higher returning mezzanine, you would only have one discussion. But if you can go in there today and you have a wide variety of capital with different durations, lower loan to values, longer duration insurance capital, what we're getting from our direct lending platform, you have a much more robust discussion. And so, we're finding the ability to deploy more capital, given the range of places, given the opportunities, and yes, to your question, we have to build the organization to meet these needs.

Moderator: Okay. Thank you. Your next question comes from the line of Adam Beatty from UBS. You're live in the call. Please go ahead.

Adam Beatty: Oh. Thank you and good morning. I wanted to ask about the wealth management channel, given the success of BREIT and the promising start to BCRED. In terms of distribution, which sub-segments in the wealth channel do you find attractive and what kind of resources, on the distribution side, are you applying towards that? Also, maybe, what product adjacencies might be attractive at this point? Thank you.

Jon Gray: So, what I'd say about retail is we had a big event here. We had a modest celebration crossing $100 billion of AUM. Joan Solotar and her team have done a terrific job. And it's a mix of the episodic funds that we still distribute, that's generally targeted to the highest net worth investors. As we move into these perpetual capital vehicles, BCRED and BREIT, which do have elements of liquidity to them that are favorable to customers – they come down in terms of the availability and it expands the universe of potential customers who can invest.

I would say, in distribution, we're trying to really cover the waterfront. We're talking in the United States, in Europe, in Asia. We're raising money broadly. It's RIAs. It's obviously the largest distribution firms. It's private banks around the world. It's the IBD channel. It's really broad-based. And what investors are seeking is obviously higher return. They want more yield. They're looking for things done at Blackstone quality, and we're focused on the fees we charge being quite reasonable that we're looking for the customers to have a great experience. And I think, historically, in private assets, distributed to retail, there was a bias, I guess, to try to make short-term money and not necessarily deliver great customer experience. What we're trying to do here is give individual investors the same experience that our institutional investors have. The products may look and feel a little different, but the goal is exactly the same. Obviously, the markets are reacting positively, investors are, the strength of the brand here is very differentiated, and that's why we have so much confidence here in the potential of this. We said BREIT could grow to be the largest product. BCRED has very good momentum out of the box, given people's desire for yield. I think some of these products will be able to move geographically where you raise money in different parts of the world. There's more we can do. We're not ready to announce anything, but what I'd say is our bias is not necessarily to create a massive number of products, but a smaller number of very large products that can scale. And BREIT getting over $20 billion was another big achievement for us. So, as you can tell, we're spending a lot of time in this area. It continues to grow the perpetual capital and we expect good things from retail in 2021.

Adam Beatty: Great detail. Appreciate it. Thank you.

Moderator: Okay. Your next question comes from the line of Craig Siegenthaler from Credit Suisse. You're live in the call, Craig. Please go ahead.

Craig Siegenthaler: Good morning, everyone. For my question, I wanted to hit on Blackstone's ability to expand into newer geographies, including in Asia and South America. And specifically, what are the major economies and market white spaces around the globe today where Blackstone is either not present or is significantly sub-scale? And what is Blackstone's appetite to expand into these geographies, either through M&A or organically over the next few years?

Jon Gray: Well, as you know, we definitely have a global business. I would put Asia at the top of the list, given the scale of the economies there. China and India both have more than a billion

people. And what you see there – in China in particular – is an economy that's growing very rapidly – will grow to be the largest economy in the world at some point in the future. I think there's an opportunity over time for us to offer products that are RMB based.

That would be something that could happen over time. That could be very large scale. I think we can do more in countries like Japan, which may not be fast growing, but there's a strong desire for returns from individual investors and institutions. And India, frankly, has been our greatest strength in Asia, where we've deployed a lot of capital in both Private Equity and Real Estate, and that economy is still early days. I would say, as a caveat, that smaller economies for us are a little more challenging, given the scale of capital we operate at.

Less developed economies – I would say our results in places like South America and in Africa, which have been very small as a percentage of what we do – have been a little more mixed. There could be opportunities in those markets over time, but I think, in terms of geographic growth, I would say Asia and the big economies in Asia are the most interesting. And then, I would say that Europe, despite its slow growth, aggregately is the largest economy in the world if you put all those countries together. There are fewer competitors there and there are more of our products that we can distribute there both raising money, but also deploying capital in Europe for Europe.

So, when I look at one of our great strengths of the firm, it's that we're a global business. And so, if one market around the world gets too hot, we can deploy capital elsewhere. Customers around the world are facing the same challenges, which is they need higher returns, and they want a trusted pair of hands who takes a long-term approach. And that's what Blackstone represents. So, when we look – yes, there's opportunity in retail, there's opportunity in insurance, and there's certainly opportunities outside the United States.

Weston Tucker: Thank you, Jon.

Moderator: Thank you. Your next question comes from Glenn Schorr from Evercore. Please go ahead. You're live in the call.

Glenn Schorr: Thank very much. So, curious to hear your expanded thoughts on the SPAC market – not from the humungous growth, necessarily, that we've seen, but they have at minimum several hundred billion of buying power. And so, I think of them as half friend – where they could, you know, be on the lookout to purchase some of your assets – and half foe where they're competing against some of the same properties you go after. So, just curious to get your thoughts on that environment. Thanks.

Jon Gray: Well, I think the SPAC market – and I commented earlier this morning on TV about this – I think it's a good development long-term to open up access to capital to public companies. We've seen a reduction in the number of public companies by 50 percent over the last 25 years and the SPACs have led to the highest number of IPOs in more than 20 years now.

So, I think that's positive. Now, that being said, I think there are some challenges around alignment of interests, when sponsors earn their economics, what the size of those economics

are, and I think some of that will change over time. As it relates to our business, we've announced, I think, three SPAC sales in the last few months. I think these will all be very good public companies. These are good executions. And so, it's helpful for us, on the liquidity front, but I do think it's fair to say for smaller size businesses, in most cases, it gets a little more competitive with this SPAC money. The good news is, we tend to operate – particularly in Private Equity – at large scale. So, there's not many SPACs that can do the type of deals we do.

And I would also say – not every company wants to go public. Certainly, faster growing companies may want capital to grow – they're not ready to go public. Other businesses may not be. So, it requires a certain type of company, a certain type of exit, and tends to be a bit on the smaller size. So, overall, for capital markets, as I said, I think it's a positive. I think there will be some changes and reforms over time to make it even better.

Glenn Schorr: Thanks, Jon.

Moderator: Okay. Thank you. Your next question comes from Kenneth Worthington from J.P. Morgan. You're live in the call. Please go ahead.

Ken Worthington: Hi. Good morning. With the new administration and one with an aligned White House and Congress, what is top of mind in terms of implications and opportunities here for Blackstone and private markets investing?

Jon Gray: So, you know, in terms of implications, there could be a variety. It's obviously early. It's possible we could see higher corporate taxes, which would impact the entire corporate landscape. We could see more regulatory activity. On the flip side, I think some sectors where we are active investors could really benefit.

I think you could see environmental and sustainability areas get a boost. We're doing a lot in that space across energy and energy credit. We could see more dollars into infrastructure – an area we haven't underwritten a lot of corporate activity or government activity, that could change with a big push by the government. And then, I think one of the benefits people may not focus on is an aligned government here could push more dollars to places like New York and San Francisco – hard hit urban areas during the COVID period – and that would be beneficial for some of the real estate properties we own, because those areas are under pressure.
So, I think there's a variety of things. As a firm, we've operated in all red, all blue environments, purple environments, and we take a long-term approach and we've been able to navigate those issues, and as changes come up. We expect the same here as well.

Ken Worthington: Great. Thank you.

Moderator: Thank you. Your next question comes from Patrick Davitt from Autonomous Research. You're live in the call. Please go ahead.

Patrick Davitt: Hey. Good morning, everyone. So, my sense from investors is they tend to want to discount these big performance related fees you put through fee earnings. So, could you maybe frame or help us separate out how much of the fee-related performance fees in the fourth

quarter was really kind of – what was repeatable each year versus those that are maybe more episodic or based on kind of one-year type of performance fees?

Michael Chae: Sure, Patrick. Look – first of all, in terms of fee-related performance revenues, as we talked about before, we think this is a super high-quality revenue stream. As you know, it's derived from perpetual capital. It's paid on a recurring basis on contractual timetables – well known – and without having to dispose underlying assets.

So, we think it's very much in line with the overall quality picture of FRE. And you've seen it scaling, right, as we've sort of predicted in the last few years – and you saw that step up again. In terms of the composition of it, right now, the majority – the strong majority of the total annual amount – is from the Core Plus platform, and of that, BREIT is really the dominant portion of that. And that, as you know, is – it's recurring. It's annual. It's in the fourth quarter. And as that platform grows – and it grew at 70 percent, as we said, year over year – the fees will continue to scale – both management fees and fee-related performance revenues. A smaller portion of that was from the BPP platform. Those are specific to investments that occur on a several-year basis – three, four, five years.

And so that occurred during the year – both in the third quarter and the fourth quarter – and then, you're also seeing a smaller amount – but over the long-term, it will scale – from our direct lending platform – both our BDC and also, going forward, BCRED or non-traded BDCs. So, it's sort of a portfolio of different products. Core Plus is the biggest part, but not the only part, and BREIT is the biggest part within Core Plus, and that is, to your question, an annual occurrence.

Jon Gray: And the key distinction, Michael, is that we don't have to sell assets to generate these fees. That's the key distinction of what ends up in the FRE.

Michael Chae: That's right. As we talked about – this is not a new thing. I mentioned BDCs – the incentive fee portion of that income in yield in products like that have been, I think, for a long time considered very much part of a sort of metric.

Weston Tucker: Thanks, Patrick.

Moderator: Thank you. Your next question comes from Devin Ryan from JMP Securities. Please go ahead.

Devin Ryan: Great. Thank you. Good morning. I have a question just on the FRE margin – obviously saw some really nice expansion in 2020; over 400 basis points. You had very strong fee growth. But also, the OpEx was decently below the prior couple of year average growth, which we appreciate, especially given the lower T&E in the pandemic. So, I'm just trying to think about some of the moving parts as we look forward – you know, the expectations of the FRE margin from here – as maybe some of those pandemic savings reverse and just, more broadly, how we should think about the FRE margin and T&E and some of the costs that may come back into the system in 2021.

Michael Chae: Yeah, Devin. Thank you for the question. You know, look – the short answer is stepping back on margins and it was a terrific year on that front – as our margins are up significantly because of strong operating leverage. Revenue's currently well in excess of expenses. I know that's sort of a truism.

And you know, you can particularly see that in our real estate segment, which was really the biggest driver, where fee revenues were up over 30 percent with operating expenses – total operating expenses – up 15 percent. And that's why – you know, you can do the math – overall, the real estate segment accounted for around three quarters of the overall margin expansion from a business unit breakdown perspective. As you mentioned, as we talked about previously, as with almost every other business, 2020 did benefit from a substantial reduction in T&E spending and that, to help you out here, accounted for around – call it 100 basis points of that 400 basis point margin expansion. So, look – as we look ahead to 2021, all of us, of course, are rooting for normalization sooner rather than later, and such that the T&E dynamic would reverse. But notwithstanding that, even adjusting for that, we still expect strength in margins.

So, that hopefully will help you on just putting context – the COVID component of that expansion.

Devin Ryan: Thank you.

Moderator: Thank you. Your next question comes from Mike Carrier from Bank of America. You're live in the call. Please go ahead.

Mike Carrier: All right. Good morning, and thanks for taking the question. You guys have had great success in the perpetual vehicles, which obviously provide good visibility and growth in FRE, but it also threw up a lot of performance fees, and I'm assuming that was just BREIT in the fourth quarter having a strong rebound. But just longer term, can you put some context on the type of year maybe 2020 was versus the potential you see for that type of earning stream since it's still fairly new? And then, how can products like BCRED contribute to it longer term? Thanks a lot.

Michael Chae: Sure, Mike. And I think this picks up a bit on, I think, Patrick's question as well. I think the simple answer – and it's a good one – is that over time, those – the growth in those fee-related performance revenues will basically be aligned with the growth in our perpetual capital strategies with, again, Real Estate Core Plus being a huge portion of that right now, but also, as you mentioned, in that direct lending area – a scaling of that source of performance revenues as well over time. So, that sort of – both in the short and long run – is kind of the R squared on this – growth in perpetual, growth in Core Plus, growth in direct lending equals, over time, growth in those fee-related performance revenues, and that is a meaningful tailwind.

Jon Gray: And I would just add that the fact that you don't have to sell assets, as we mentioned, is important. The preferred returns, in these vehicles, tends to be materially lower because they're lower targeted returns, and just as we grow more assets in this space, have more vehicles, this should be a steady source of income for a long time to come.

Mike Carrier: All right. Thanks a lot.

Moderator: Thank you. Your next question comes from Rob Lee from KBW. You're live in the call. Please go ahead.

Rob Lee: Great. Happy belated New Year. Hope everyone's doing well and thanks for taking my question.

Michael Chae: Thank you, Rob.

Rob Lee: Thank you so much. On Hedge Fund Solutions, on BAAM and understanding performance has been good, you have a new co-leader of the unit – but, you know, growth there has been kind of a challenge, kind of I guess more stable. How do you see growth of that business progressing? Do you see any signs – if there's maybe increased demand for more liquid strategies given how the markets have run up of late? What can you do to kind of reinvigorate growth in that business?

Jon Gray: We think that business has tremendous potential. The low-rate environment obviously has investors looking for other liquid alternatives where they can get returns, and then, the run-up in the stock market has investors looking for places to put capital where there's some downside protection. And both of those factors lead you, I think, to our Hedge Fund Solutions business. With the addition of Joe Dowling teaming up with John McCormick, I think that puts us in a really good place. Joe's track record has been excellent.

We are going to be looking to try to drive the returns higher in that space. Joe was outstanding at Brown, finding leading cutting-edge managers, looking at where the economy's transforming – either geographically in some of the fastest growing sectors as well – and we expect he'll do the same here. And as the returns continue to improve or improve, we think we'll see more flows. So, our Hedge Fund Solutions business – which has flattened off in terms of AUM but has actually improved on profitability – Michael can comment on that – I think you grow in AUM and become a growth engine again for our firm.

Michael Chae: And I'd just add to that – I mean, putting some financials around that – first, as Jon said, while AUM was somewhat down this year, revenues are up seven percent. On the AUM side, outflows were actually in line with 2019. And – maybe not surprisingly – inflows slowed somewhat in the wake of the March/April volatility. But revenues were up, which reflects the business mix shift towards higher fee strategies, both within BPS, and also, in the direct investing area. And as a result, you can actually see – the fourth quarter management fee rate was actually up eight basis points year over year. So, the sort of the economics are I think improving, and it's funny – for a business that's been in our hands for 20 years, we've never been more excited about potential.

As Jon said in the context of the rate environment, fixed income market, the search for sort of absolute return replacements with some more upside is deep, and our platform, with its scale and its reach and its access to the best managers doing things with them, allocating capital, as well as

the flow within our firm and the IP – those things combined – along now with additional leadership – alongside John, with Joe Dowling – we're super excited.

Rob Lee: Great. Thank you.

Leslie: Thank you. Your next question comes from the line of Chris Harris from Wells Fargo. You're live in the call, Chris. Please go ahead.

Chris Harris: Great. Thank you. As you guys know, Apollo's looking to move to one share class. What are your thoughts about potentially going down this path? And I appreciate there are pros and cons to consider with that type of a change.

Jon Gray: So, what I'd say is if you look at our firm over 35 years, our governance structure has served our LPs really well, our employees, and, for the last 13-14 years, our shareholders. So, we're really comfortable with it. We're always looking at ways to maximize value for shareholders. We did that in the context of the C-Corp conversion. But we're very deliberate in how we do things.

But I would say, generally, the idea of taking a long-term approach in the management of the firm – how we're structured today – we feel good about that. It's delivered for us in the past. We think it'll deliver for us in the future.

Weston Tucker: Thanks, Chris.

Chris Harris: Got it. Thanks.

Moderator: Thank you. Your next question comes from the line of Chris Kotowski from Oppenheimer & Company. You're live in the call. Please go ahead.

Chris Kotowski: Yeah. Good morning and thank you. I guess I thought the BioMed transaction was really interesting and I – a couple of narrow questions about that. One is – I'm wondering did it all end up in BPP Life Sciences or was it distributed among a number of different vehicles? And then, secondly, you know, what is, I guess, the long-term vision/ambition for BPP Life Sciences?

And then, I guess the more broad question I have is – over time, as you've developed more and more of these permanent or very long-dated capital structures, should we see your strategy in the opportunistic funds kind of morph from the buy it/fix it/sell it to the buy it/fix it/move it into a permanent capital vehicle? Should we see a lot more of that?

Jon Gray: So, there are a number of questions here. Let me go through each one. The first one – I want to back up, I guess, for a second, and just say that the genesis for this transaction was a number of our investors in the BREP VIII fund wanted to continue to own this. And that really was the catalyst. And more than 70 percent of the capital in the BPP Life Sciences vehicle came from the existing investors. So, I think because they were so enthused about this, it made a lot of sense for us. Where it ended up – the vast majority of the capital did come from this new vehicle.

We put some of it into our general BPP fund based on some available capital, but the vast majority ended up in BPP Life Sciences.

No surprise our investors are excited about this new vehicle. I think we'll raise additional capital beyond the $8.4 billion we talked about. There's a potential for this to grow to be, again, quite large. We announced a deal shortly after the initial recapitalization, which I mentioned, where we did a $3.4 billion deal of additional properties in Cambridge, the heart of life sciences, making us the largest owner in Cambridge, which we think is important strategically. So, this is a business that has the potential to grow – not only in Cambridge, but in South San Francisco and San Diego, Cambridge, UK where the business is focused.

In terms of ambition, I guess we've hit that. I think this is an area that has real growth, given the tailwinds we see in life sciences. And one of the things we don't often talk about on these calls is the power of the overall platform. So, the fact that we have Blackstone Life Sciences gives us more confidence here and BioMed allows us to do the Cryoport investment in Tac Opps and frozen logistics. It allows us to do Precision Medicine, which is a company that commercializes and does – runs the trials for life science companies. It was one of our largest investments in private equity in the fourth quarter.

So, we are really building a powerful life science ecosystem here at Blackstone and BPP Life Sciences will be a big part of it. Nick Galakatos – who runs our life sciences business – is actually going to be on the board of the BioMed life sciences fund. In terms of our opportunistic business, no, I don't believe this will be the way the vast majority or whatever of deals will be sold. There was a pretty unique set of circumstances. There may be other situations, but I think it will be the exception.

In this case, the scale argued for it. We also ran a process, a competitive dynamic – brought in outside firms, had a go-shop period. We want to make sure – the most important thing to us, as fiduciaries, is maximizing the return in our private equity and real estate private equity funds. So, I think this was a little bit of a unique situation. We had a great process to vet the values and long-term now, we have a bunch of investors excited about this area and a new vehicle that I think will grow in scale.

Chris Kotowski: Okay. Very helpful. Thank you.

Moderator: Thank you. Your next question comes from Arnaud Giblat from BNP. You're live in the call. Please go ahead.

Arnaud Giblat: Hi. Good morning. I had a question on capital deployment. It's been very strong in Q4, even if you exclude the capital going to the new capital vehicles. How much of this is a function of a good market condition, or should – and how much is a function of just being able to catch up deals that were identified early in the year and you were not able to execute on? And if you could also elaborate on – in terms of outlook for capital deployment in the quarters to come? Thank you.

Jon Gray: So, I think the biggest factor – obviously, deal activity and deployment was slow coming off of March for the next couple of quarters, and so, we saw a resumption. I think, though, again – given the expansion of the firm – if you look at our secondaries business now, where we have large-scale private equity secondaries, real estate secondaries, infrastructure – we're deploying more capital. If you look in private equity, regular way Corporate Private Equity, a larger scale fund – our Asia business is growing, our Core Private Equity vehicle grew from $5 billion to $8 billion in the latest iteration. And you can look across the firm – and then, the expansion in these perpetual vehicles we keep talking about of course leads to the need for greater capital deployment. So, I think a big portion of this is just a function of the engines – there are many more of them and they're larger.

And that's leading to more deployment. I also think we have some sectors we have high conviction around. We're spending a lot of time on some of the COVID-impacted businesses, travel-related, location-based entertainment, hotels. I think we'll see more activity in some of those areas and then, these big secular themes around digitalization, life sciences, what's happening in green energy – those areas, I think, will attract a lot of capital. And we'll continue to invest in Europe and Asia and around the globe. So, this quarter was particularly active because of the large life sciences transaction, but when you looked overall for the year 2020, I think it's $62 billion – was basically the same as it was in 2019.

So, I think that indicates it's likely that deployment probably grows over time or will grow over time, just given the scale of our overall business.

Moderator: Thank you. Your next question come from Gerry O'Hara from Jefferies. You're live in the call. Please go ahead.

Gerry O'Hara: Great. Thanks. Maybe one more on the insurance initiative – clearly a well-documented, total addressable market of material size, but also increasingly more buyers in the market. So, perhaps you could speak to the competitive dynamics you saw during the Allstate process or just even more generally. Thank you.

Jon Gray: Obviously, we'll not talk about particular transactions, but I would concede that the space has gotten more competitive over the last few years. I think our advantage is one – the scale we can do things at, and two – our origination capabilities, I think, are pretty unique and I think give us an advantage in this space for counterparties to want to work with us. So, we like where we sit today, but I do think it's important to keep in mind – beyond, actually, just our capabilities, our brand resonates. So, if you're an insurance company and you're thinking about putting your liabilities in somebody else's hands, you really want to know who that is and so, the scale of Blackstone, our reputation as a fiduciary, helps us. And so, yes, like in all things, there's more competition, but we like our positioning. We think there's an opportunity to really grow here.

Weston Tucker: Thanks, Gerry.

Moderator: Okay. Thank you. Your next question comes from the line of Christopher Shutler from William Blair. You're live in the call. Please go ahead.

Chris Shutler: Thanks. Good morning, everybody. In the Strategic Partners business, I know you're going to be raising a new fund there. I think last time I checked, secondaries transaction volume across the market was something like two or two and a half percent of total private equity NAV. Where do you think that percentage can go over the next handful of years and why?

Jon Gray: Well, I think two things are going to help the secondaries business. One – really importantly – is that the denominator's going to grow. Even if the penetration doesn't grow – I'll come back to that in a moment – but alternatives are growing at high single digits/low double digits across the globe. And, by definition, that means there's a bigger addressable market. People change their investment strategies. They're unhappy with managers. They want to get out of certain spaces. And so, if you believe in the alternative sort of mega-trend – which we certainly do – secondaries is a powerful way to play it.

And then, as a percentage, I just think two percent of a market trading is not a sign of a market that has sufficient liquidity. And so, I think that will lead to higher percentages. This is a business that's grown for us, I don't know, eight-fold or something since we took it on five or six years ago. I think it's a business that can continue to grow at a very rapid rate. Vern Perry and his team have done an outstanding job. The returns have been excellent. We said in here that we'll raise our ninth private equity secondaries fund. We talked about moving into the continuation area. We're having success in real estate and infrastructure. I think, as alternatives grow, this fund continues to grow, this area of the firm continues to grow. And I don't think we're anywhere sort of near the end for secondaries in terms of growth.

Chris Shutler: Thanks, Jon.

Weston Tucker: Terrific. Thanks, Jon. Thanks, Chris.

Moderator: Thank you. Your next question comes from the line of Brian Bedell from Deutsche Bank. You're live in the call. Please, go ahead.

Brian Bedell: Great. Thanks very much. Most of my questions have been answered. Very, very comprehensive answers. Maybe just one on the retail side.

As you said, Jon, you have great momentum in that. Just maybe sort of the outlook over the next you know, one to two or maybe even three years – whether you think that growth can accelerate given your distribution initiative in the wealth management space, and especially the demand for your product on the retail side. And if you can sprinkle in comments on sustainable investing in your ESG initiatives – whether you're seeing a stronger demand for ESG solutions within your products.

Jon Gray: I would just echo my earlier comments that retail remains a very favorable channel for us, given the brand and range of products now. The movement from beyond just the episodic products – which are obviously continued to be offered to the highest net worth people, but the BREITs and BCREDs – their distribution capabilities – the ability to sell those broadly is powerful. And I would just point out – you know, BREIT – it took a number of years to sort of

get to lift off momentum. It feels like BCRED, in the early days, is having more success because we've opened up those channels and we're broadening the number of channels. And so, I think, as we introduce new products in this area, they can continue to grow and have this success.

And as this is all part of this sort of growth in perpetual capital, growth, ultimately, of course in fee-related earnings, and bringing this sort of world-class service and investment discipline to individual investors – we think that trend will certainly continue and we're at the vanguard of that trend. As it relates to ESG, I think there's opportunity there. I think there is more opportunity. We talk about it internally. I think there's opportunity both institutionally and to individual investors.

Going back to one of the earlier questions, we just have to make sure we set it up in a lane that is very defined and a separate area where we can deliver for the individual investors and do something separate and different than we do in some of our other funds. But I think, over time, we'll develop some products in that area.

Brian Bedell: Great. Thank you.

Moderator: Thank you. And your final question comes from Sumeet Mody from Piper Sandler. You're live in the call. Please go ahead.

Sumeet Mody: Great. Thanks for taking the question. I just had a follow-up on the Allstate Life acquisition. It looks like the funds are purchasing about 80 percent at a life and annuity business, just leaving about $5 billion of GAAP Reserves in the New York ALNY on the table. Just – it seems like they intend to sell that as well. Just curious if you've talked about what went into the decision to not acquire that portion of assets as well.

Jon Gray: Well, you know, we make decisions about which jurisdictions and so forth make the most sense for us, and we're obviously engaged in discussions with the seller on what maximizes value for them. And in this particular transaction, that's how we landed on this. We ended up buying the vast majority of the assets and that worked for Allstate. I would say – I think Tom Wilson, the CEO, has done a terrific job here pivoting his company and getting them focused on higher growth businesses, and this was something that made a lot of sense for us and our investors. So, we looked at it as real win/win.

Sumeet Mody: Thank you.

Weston Tucker: Great. Thanks, Sumeet.

Moderator: Thank you. And now, I'd like to turn the call back to Weston Tucker for closing remarks.

Weston Tucker: Thanks, everybody, for joining us this morning. I look forward to following up after the call.

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