BLACKSTONE First Quarter 2021 Investor Call
April 22, 2021 at 9:00 a.m. ET

Weston Tucker: Good morning, and welcome to Blackstone's first quarter conference call. Joining today are Steve Schwarzman, Chairman and CEO, Jon Gray, President and Chief Operating Officer, and Michael Chae, Chief Financial Officer.

Earlier this morning, we issued a press release and slide presentation which are available on our website. We expect to file our 10-Q report in a few weeks. I'd like to remind you that today's call may include forward-looking statements which are uncertain and outside of the firm's control and may differ from actual results materially. We do not undertake any duty to update these statements, and for a discussion of some of the risks that could affect results, please see the risk factor section of our 10-K. We'll also refer to non-GAAP measures, and you'll find reconciliations in the press release on the shareholder's page of our website.

Also note that nothing on this call constitutes an offer to sell or a solicitation of an offer to purchase an interest in any Blackstone fund. This audiocast is copyrighted material of Blackstone, and may not be duplicated without consent.

So, a quick recap of our results. We reported GAAP net income for the quarter of $3.4 billion. Distributable earnings were $1.2 billion, or $0.96 per common share. And we declared a dividend of $0.82 to be paid to holders of record as of May 3rd.

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

Steve Schwarzman: Thank you, Weston, and good morning, and thank you for joining our call.

Blackstone reported remarkable results for the first quarter. Distributable earnings more than doubled year over year to $1.2 billion. Fee related earnings rose nearly 60 percent year over year. And for the last 12 months we are up 40 percent, to a record $2.6 billion.

Investment performance was extremely strong again in the quarter, as it has been for over 35 years, driving the balance sheet receivable to record levels. At the same time, we grew AUM 21 percent year over year to an industry record $649 billion. The firm has exceptional forward momentum, and I anticipate significant continued expansion of our earnings power, particularly in FRE, for the foreseeable future.

This is the result of the new products we're launching and the acceleration of existing ones, which Jon will describe in more detail, and as he did on television this morning.

Blackstone is the clear leader in the alternatives sector. We've also established ourselves as one of the leading public companies in any industry. We've grown from $400,000 in

startup capital in 1985 to become the 87th largest US public company by market cap today.

Our long-term financial performance has been extraordinary. For the past decade, we've grown distributable earnings by 17 percent per year, more than double the median earnings growth of the S&P 500. We rank in the top quartile of this group today, on almost any relevant metric, including revenue and earnings growth, aggregate earnings, profit margins, dividend yields, and trading volume.

Blackstone is also widely recognized as one of the best franchises. Just last month, Morgan Stanley published their biannual list of the 30 best companies in the United States for long-term stock ownership, and again Blackstone made the list. We are in good company with firms like Alphabet, Amazon, Costco, Microsoft, Netflix, Nike, and Visa. Like Blackstone, these companies have built very significant brand equity by offering a distinctive customer experience, resulting in wide competitive moats.

At Blackstone, we're in a unique position in a sector that has tremendous tailwinds. We are in the early stages of an inexorable shift of capital flows towards alternatives, as global limited partners continue to increase their allocations in pursuit of better returns. And the opportunity is enormous. There is an estimated $6.5 trillion of private markets AUM today, compared to nearly $250 trillion of public equity and debt markets globally.

We believe Blackstone is the best positioned firm in the world to benefit from these secular trends as the largest alternative manager with the number one brand. At our investor day approximately 2.5 years ago, we outlined a number of fundraising and financial targets. Since that time, we've grown AUM by nearly 50 percent, and launched over a dozen new strategies, including successful businesses in life science and growth equity. We've significantly expanded our presence in the private wealth and insurance channels, and perpetual capital AUM has more than doubled, led by growth in our Real Estate Core Plus platform. All of this has driven a near doubling of fee related earnings over the period.

As the firm continues to grow, it also creates opportunities for our people to lead. In the past few years, we've promoted or moved approximately 50 of our professionals into key leadership roles around the firm, including to run new businesses or to oversee a sector. As our people advance in their careers, there's a deep bench of talent behind them to step up. This organizational dynamism helps to keep our people motivated, fosters integration, and perpetuates our unique culture.

In the event we look externally for someone to help us build a business, our scale and reputation allow us to attract great outside talent as well. Blackstone is an extraordinary place to work, and we are regularly cited as one of the best places to work in our industry, including most recently by *Fortune* magazine. It also follows that young people want to

build their careers here. We've had more than 19,000 unique applicants for 93 starting analyst positions last year.

Our people, along with our reputation, are the firm's most important assets. Our clients have come to expect from us the highest level of excellence and integrity. Everyone at the firm strives to produce exceptional results. I couldn't be prouder of what our people have accomplished together, and strongly believe the best is yet to come for our employees, our limited partners, and our fellow shareholders.

And with that, I'd like to turn things over to Jon.

Jon Gray: Thank you, Steve, and good morning everyone. It was another tremendous quarter for Blackstone and our investors. The virtuous cycle of strong investment performance leading to further inflows, increasingly from perpetual strategies, continues to drive our firm. This perpetual capital is fueling a powerful transformation in the assets we manage and the earnings we generate. Blackstone is a branded asset light manager with a compelling recurring revenue model.

Moving to the quarter in investment performance, all of our flagship strategies against posted outstanding returns, equating to the second-best quarter for fund appreciation in the firm's history, after Q4. This reflects the way we positioned investor capital over the past several years towards fast-growing areas of the economy, including logistics, life sciences, and tech-enabled businesses. These sectors are benefiting from very positive fundamentals, which have accelerated since the onset of COVID.

Our customers continue to respond favorably to our performance, and demand for our products is stronger than ever. Total inflows were $32 billion in the quarter, with approximately half in perpetual strategies, including Real Estate Core Plus and direct lending. In total, perpetual capital AUM has grown to nearly $150 billion across 15 vehicles, up over 130 percent since investor day. These are the fastest growing areas of the firm today, and it's hard to overstate their positive impact.

Our business has been historically concentrated in long-term but finite-lived corporate private equity and opportunistic real estate drawdown funds. In these strategies, we acquire and improve companies and assets and then wait for the right time to sell and return the capital to our limited partners. This is a terrific business model and will always remain an enormous focus of our firm. I would compare it to planting seeds, which we grow and then harvest, before starting the process again.

With perpetual capital, we're now also planting perennials. Perpetual capital remains in the ground and compounds in value, generating management fees, and in most cases, recurring performance revenues, without asset sales. These strategies are fueling an acceleration in the growth and quality of the firm's earnings, including the powerful trajectory of fee-related earnings that Steve described.

The best example of this dynamic at work is our Real Estate Core Plus business. Only seven years after launching the platform, it has grown to $77 billion of AUM, and it has become the single largest contributor to FRE at the firm. And we are extremely confident in the path forward.

There are five perpetual capital vehicles for this strategy today, and we're working on more. BREIT, our retail-oriented vehicle, has seen fundraising re-accelerate meaningfully from the bottom of the crisis, nearly back to pre-pandemic levels, with $1.7 billion of monthly inflows after quarter-end on April 1st.

Our newest institutional Core Plus vehicle, focused on life science office buildings, reported another $4 billion of inflows in the first quarter, bringing it to $12 billion of AUM in only five months.

Alongside our perpetual strategies, we're seeing continued strong momentum across the firm. Our growth equity fund hit its $4.5 billion cap in the first quarter, with excess demand, the largest first-time private fund ever raised in this area. This is a remarkable achievement, but particularly so during a global pandemic. The fund is off to a very strong start, with investments in Bumble, Oatly, Epidemic Sound, and ISN.

In Asia, our business is expanding further, building on our long-term success in the region. We held a $3 billion first close for the second vintage in private equity, which is already larger than the first. In the next few weeks, we'll also plan to start fundraising the third vintage in real estate in Asia, which we expect to be at least as large as the prior $7 billion fund.

Turning to our secondaries business, our $11 billion SP VIII, one of the four flagship funds we highlighted at investor day, is nearly fully invested after only two years. We will shortly begin raising the next vintage, which we expect to be larger, with a first close targeted for the second half of this year.

In credit, demand for our products remains robust, and the segment reported $13 billion of inflows in the quarter across direct lending, liquid strategies, and our fourth mezzanine fund. Our direct lending business has grown to $27 billion of AUM, including a strong start out of the gates for our new non-traded BDC.

In Tactical Opportunities, we're raising our fourth vintage, and expect an initial close this summer. And lastly, BAAM reached new record AUM in the quarter of $82 billion, up 11 percent year over year, despite the recent volatility in the hedge fund markets.

Overall, the outlook remains quite positive for the firm, following four consecutive years with total inflows approaching or exceeding $100 billion. We are highly confident we'll

exceed $100 billion again in 2021. Investors, institutional, retail, and insurance, want access to Blackstone products more than ever.

Our fundraising momentum has given us substantial firepower to invest, and we remain very active on that front, deploying $18 billion in the first quarter. We continue with our thematic focus, including sustainability and the post-COVID travel recovery. We recently committed to acquire DESOTEC, an environmental services business in Europe, and Sabre, an electrification infrastructure company.

In terms of travel, as the economy reopens, we believe the combination of increased consumer savings, fiscal stimulus, and global cabin fever will be powerful. Recent commitments emphasizing this theme include acquiring a private aviation business, a major holiday park operator in the UK, a hotel portfolio in Japan, and a public hotel company in the US.

In closing, Blackstone continues to deliver. Our shareholders are benefiting from the positive transformation underway in our capital base and earnings, and they will benefit from what is not changing, the same rigorous investment process, standards of excellence, and drive to serve our clients, that have defined Blackstone for over 35 years.

With that, I will turn things over to Michael.

Michael Chae: Thanks, Jon, and good morning, everyone. The first quarter represented a terrific start to the year, characterized by strong momentum in all of our key financial and operating metrics, and a record store of value.

Total AUM rose 21 percent year over year, or $111 billion, to record levels, with every segment reaching a record for both total and fee earning AUM. Fee related earnings rose 58 percent year over year to $741 million in the quarter, or $0.62 per share, driven by strong growth in fee revenues and significant margin expansion. Management fees increased 25 percent year over year to a record $1.2 billion.

Fee related performance revenues were $169 million in the quarter, driven by the crystallization of revenues from our European logistics platform in Real Estate Core Plus. We expect the next significant contribution from Core Plus fee related performance revenues will occur in the fourth quarter.

For the last 12 months, FRE rose 40 percent to a record $2.6 billion, or $2.20 per share, reflective of the continuing positive transformation in the firm's earnings profile that Steve and Jon described.

Distributable earnings more than doubled year over year, to $1.2 billion, or $0.96 per share, underpinned by the growth in FRE, and a nearly fivefold increase in net realizations to $549 million.

In terms of key drivers, we took advantage of strong market conditions to bring multiple companies public, and also execute sales of public positions. These included Bumble, Paysafe, Gates Global, Apria, Vine Energy, and subsequent to quarter end, Finance of America.

Net realizations also included a partial sale of the firm's minority stake in Patria in connection with its IPO, which I highlighted last quarter, reflected in principal investment income.

Investment performance was simply outstanding across the firm, the results of favorable sector and asset selection in our funds against a backdrop of rising global equity and credit markets. Despite the historic challenges of last year's market environment, all of our key strategies have appreciated above pre-crisis levels, in many cases, materially above.

In real estate, the BREP opportunistic funds appreciated 5.3 percent in the first quarter, while the Core Plus funds appreciated 3.2 percent. For the 12-month period, appreciation was 17.7 percent for BREP and 15.2 percent for Core Plus. As has been the case since the start of the pandemic, the concentration of our holdings in logistics, life sciences office, and US suburban multi-family continues to drive our performance.

In private equity, the Corporate PE and Tac Opps funds appreciated 15.3 percent and 15.1 percent respectively in the first quarter, the fourth consecutive quarter of double-digit appreciation for both platforms. Strength was broad-based across both the private and public portfolios, led by our technology-related and energy holdings. Overall, revenue and EBITDA trends for our companies are among the best we've seen. For the last 12 months, both the Corporate PE and Tac Opps funds appreciated approximately 50 percent and are now up nearly 30 percent from pre-crisis levels.

The secondaries funds, which report on a two-quarter lag, also reported double-digit appreciation in the first quarter, up 10.6 percent, and we expect the strong performance to continue over the coming quarters, given the recent direction of markets.

Our credit business delivered excellent results in the quarter. Our private credit strategies reported a gross return of 7.3 percent in the quarter and 37.9 percent for the last 12 months. The liquid credit strategies reported a gross return of 1.6 percent in the quarter and 20.7 percent for the last 12 months. Our portfolio is in excellent health overall, with a default rate in our US loan portfolio of only 0.22 percent for the last 12 months, compared to a rate of 3.8 percent for the market. Demand for our credit funds remains robust, and segment AUM overall was up 24 percent over the past 12 months. We're also seeing record origination activity in credit, with $11 billion invested or committed in the quarter.

In BAAM, the BPS composite return was 2.5 percent gross in the quarter, roughly double the HFRX index, and 18.1 percent for the last 12 months, equating to record fund appreciation for the segment of over $12 billion. BAAM successfully navigated the recent volatility in the hedge fund markets created by certain external events of note, in line with its capital preservation focus.

Overall, strong investment performance across the firm powered $1.7 billion of net accrued performance revenues in the quarter and lifted the balance sheet receivable up 36 percent sequentially to $5.2 billion, the highest level in the firm's history, and nearly 30 percent above pre-crisis levels. At the same time, the firm's invested performance revenue eligible AUM increased a remarkable 40 percent year over year to a record $322 billion. These are both important leading indicators of future value.

In closing, our businesses are firing on all cylinders, and we've never been better positioned as a firm. We have effectively no net debt and fewer shares outstanding than three years ago, despite growing AUM substantially, doubling fee related earnings, and returning over $10 billion to shareholders over the same period, reflective of the exceptional cash generative nature of our business model.

Looking forward, we believe our brand, investment performance, and culture of innovation will fuel sustained, robust growth. We are in the early days of penetrating newer channels with enormous potential, and the firm's earnings power continues to expand, concentrated in the highest quality earnings. As always, we will remain laser focused on delivering for our shareholders.

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

Operator: Thank you. Your question and answer session will now begin. If you wish to ask a question, please key star, then one, on your telephone. Questions are limited to one question. All follow-up questions much rejoin the queue. If you do decide to withdraw your question, hit star and two. You will be advised when to ask your question, and all other lines will remain on listen only. And just a quick reminder. If you would like to ask a question, hit star and then one on your telephone.

Our first question comes from the line of Craig Seigenthaler at Credit Suisse. Please proceed. You're live in the call, Craig.

Craig Seigenthaler: Good morning, everyone.

Michael Chae: Good morning.

Craig Seigenthaler: We had a question on product innovation, and it's impressive to see that you already have $77 billion of AUM in Core Plus, and we've also seen multiple new

product launches at Blackstone over the last few years, and a large increase in perpetual capital strategies with reoccurring fee related earnings, including BREIT and now BCRED. Can you walk us through the newer businesses and help us think about how these strategies will help Blackstone's fee related earnings continue to expand at an attractive growth rate?

Jon Gray: It's a good question, Craig. What I would say is that our customers have enormous confidence in us, and that's where it starts. Because we've done such a good job over a long period of time, it gives us the flexibility to create new businesses, and our brand also allows us to attract talent when we need it to grow some of these new businesses.

And so there's a range of them out there, if I just think – you talked about Core Plus real estate. We introduced the latest product at the end of last year, a life science office product, that's now already at $12 billion. Given what's happening in life sciences, we think there's a ton of potential there.

Over the last few years, we created a dedicated life science business, as you know, that has a lot of momentum. We raised a large fund there, and we think there's a lot of potential to innovate off of that.

Similarly, Growth Equity, which we announced had its final close and is off to a terrific start – great deployment of capital. Our Infrastructure business is just a few years old, and I think has the potential to grow to real scale. We've done a terrific job deploying capital. The results are strong.
And then as you mentioned – by the way, in Secondaries, we're doing a continuation fund, which is a new product, just going in the market now. And then we have some of these perpetual vehicles in the individual investor channel that have a lot of momentum. BREIT is contributing.

By the way, many of those things I described are out there today, but at a scale where they're not contributing a ton of economics, but as they grow, they will add a lot to the bottom line of the firm. They also add a lot to the intellectual capital.

BCRED, which you mentioned, is still in a fee holiday. It's raised about $3 billion at this point. It's a product that is now I think about four months old or so. And investors again are responding to a Blackstone quality product in a world where people are looking for yield.

So, I would say all of these things have the potential to grow to be larger. We have terrific teams. We have a lot of interest from investors. We're delivering strong results. And they'll start to hit the bottom line. I don't know if we have exact financial impact, but I think there's big potential from a number of these new innovations.

Michael Chae: And on the financial impact, Craig, what I'd add is obviously, more established but still quite young initiatives like Core Plus are contributing in a big way, as we've talked about. The AUM of Core Plus is up over 50 percent year over year, on a relatively big base.

But then on the quite new initiatives, Jon mentioned Growth, Jon mentioned Life Sciences, I would say those – and this is I think what you're getting at – have gone from sort of a year ago us being in investment mode from a financial point of view to now those businesses being in positive contribution mode, but they're still early in their ramp in terms of that contribution path.

So, a lot going on, and I think we're very optimistic in the short and longer term.

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

Michael Cyprys: Hey, good morning. Thanks for taking the question. My question is just around democratizing access to the private markets. I guess what opportunity do you see from technology advances and new private market platforms that are emerging to broaden access to the private markets, to make it easier for retail to access? And what opportunity is there, would you say, to create perhaps a more delightful and seamless experience on the way into the asset class and over the life, from a retail customer standpoint? How do you see that evolving?

Jon Gray: It's important, because I do think for individual investors who do not have large finance departments, like institutions, making it easier, the reporting simpler, is important. We work very closely with our distribution partners to try to make the experience better for the underlying customers, and one of our advantages is the scale of offerings, the breadth of products we offer, the number of people we have dedicated to our private wealth solutions area. Joan Solotar and her team have done a great job.

We are spending more and more time on technology to try to make that experience better. We're also doing more in terms of communications, because when you go from having hundreds of customers to tens of thousands of customers, how you reach them changes. And, so I think this is part of the evolution. I think at our scale, given the number of products we offer, we are uniquely set up to do this. It will be done in partnership with the big firms who distribute, who have the financial advisors and relationships. They're critical to our business. But, it's an area I think both sides have to get better, because the customer experience I don't think is good enough yet.

Michael Chae: And I'd add to that, Mike, a couple of things. One, Jon alluded to this in terms of simplifying the reporting, so this is less about technology and more about our own innovations around things like BREIT, versus historically how non-traded REITs I think were more opaque about performance, about sort of the customer experience. So, creating a fee structure that was like our institutional fee structure, attractive to retail investors, easy to understand, making performance reporting more transparent.

And, I'd just say one sort of maybe smaller, more granular technology point. We happen to be a small investor in iCapital, but more importantly, we work with them a lot around sort of partnering to make the retail customer and smaller investor experience better and more transparent, with higher service levels around their technology platform. So, we're pleased to be partnered with them as well.

Michael Cyprys: Great. Thank you.

Operator: Thank you. Our next question comes from the line of Chris Harris at Wells Fargo. Please proceed, Chris.

Chris Harris: Great. Thanks, guys. So really outstanding investment performance in the quarter. We're hearing a lot more from investors who are talking about the prospect for potentially much higher inflation. What are Blackstone's views on this? And how does it guide your investment decision-making process, if at all?

Jon Gray: I think it's the major risk that's out there today. We and I think a lot of others believe the economic recovery will be quite strong, which should fuel positive revenues. We're seeing that in our portfolio, and positive earnings. But, the question is around inflation pressures and multiples.

And so our response to that is to try to buy businesses that are in these good neighborhoods, that have real tailwinds, that can grow to offset what could be some multiple pressures. And you see that in obviously tech and life sciences and global logistics. But, then in this quarter, we talked about a big push into the COVID recovery travel play, which we did in a number of businesses around the world. We talked about sustainability, an area where obviously there's a lot of capital flowing in, and opportunity, as we electrify the grid and try to clean up the planet. Housing is another area we like a lot. We bought a business that does furnishings for single family homes, or finishes, I should say, for single family homes. We've done a lot of rental housing in our real estate business.

And, so what we're trying to do is position ourselves for things that look and feel as least bond-like as possible. People worry at times, real estate, concerns around that. Yes, if you own a 20 year flat leased office building, that could be concerning. But if you own multi-family apartments, where you're resetting the rents every year, and there's a ton of job creation and household formation, you can capture the benefits of growth.

And that's how we're trying to prepare ourselves for what we do think will be a higher inflationary environment.

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

Alex Blostein: Hi, good morning, everybody. I was hoping to build on the topic of growth in perpetual capital products, and obviously Real Estate Core Plus has been an enormous success for you guys. When you look out across the rest of Blackstone's portfolio and the rest of your verticals, which one do you think is sort of ripe to see a similar degree of growth and similar degree of success, given customer demands and your distribution abilities?

Jon Gray: Well, I would say, Alex, there's still a lot of runway in real estate, as a first starting spot, not just in the United States. I think we can do more globally, both institutionally and retail. So, I still think we're early days in the buildout of that.

My next stop would be in credit in the US and in Europe. Obviously, we talked about the early returns in the private BDC in terms of people allocating more capital. In a yield hungry environment, if you can deliver consistent yield without taking undue risk, I think that's attractive. I think that can grow.

As you move into private equity, there are more opportunities. We've grown our Core Private Equity business, which I don't think we deem as perpetual capital, but has 20 year fund life. And I think there could be opportunities with secondaries in some things in private equity, potentially for individual investors.

But the most important thing to us is to make sure the customer has a good experience. So if we design a product, we want to deliver on the promise of that product, and that's first and foremost. We know we can raise capital for lots of different things. What matters is that we deliver.

And, so I do think there's opportunity for more things in a perpetual format. There could be royalty opportunities. There could be other opportunities. But it has to be built for scale and built to deliver for the customer.

Alex Blostein: Thanks, Jon.

Operator: Thank you. Our next question comes from the line of Glenn Schorr at Evercore ISI. Please proceed.

Glenn Schorr: Hello there. Question on the insurance side. Obviously a focus for everybody. You've made some hires to sharpen that focus. Correct me if I'm wrong, my perception is that announced deal activity has slowed a little. I'm curious what you're seeing in say the pre-pipe conversations, and maybe just remind us of how your appetite is focused, and thoughts on sizing – I'm talking on balance sheet investment. Thanks.

Jon Gray: Okay, Glenn. I'd say a few things. First off, what's driving the opportunity is this very low rate environment, which I think makes it important that insurance company balance sheets are able to originate more credit directly. And so insurance companies getting more tied to asset managers makes sense, because they're the ultimate storage care

for that fixed income. It could be real estate, could be corporate credit, could be structured credit. And that's the trend driving this.

For us, pro forma for the Allstate acquisition, which we expect at the end of this year, we'll be at over $100 billion of insurance AUM. We think we are pretty well-positioned in this business because of the breadth and depth of our credit platform across the firm in both corporate credit and real estate credit, and increasingly structured credit.

We're spending a lot of time in the space. Gilles Dellaert, who runs that business for us, is a very talented executive. We think there's a lot of opportunity for us. We think we can help serve insurance company customers.

In terms of use of capital, we have talked about being a balance sheet light company. We will not own a majority of an insurance company. In the case of Allstate, as an example, we took a little less than a ten percent stake in order to do that transaction and bring in outside investors. I think that's a good model for us, where we take a minority stake and engage in a long-term contract and try to maximize the returns without taking on new risk for that insurance company balance sheet.

So, I think Blackstone, because of our scale, how we're positioned, I think we can do a lot to help insurance companies, and we're going to continue to spend a lot of time in the area. We hope to grow it. But, it is chunky, so it's hard to forecast exactly when and where it will happen. But, we will be disciplined around use of capital in this context.

Operator: Thank you. Our next question comes from the line of Robert Lee at KBW. Please proceed, Robert. You're live in the call.

Rob Lee: Great. Thanks. Good morning. Hope everyone's doing well. This may be a follow-up in a way to the inflation question, because with inflation usually comes higher rates. And to what extent – you've seen such strong demand, you and all your peers, certainly low rates have been exacerbating that. Is there a point or at what point do you think that, if you get inflation, if rates do continue to move higher, that that has some knock-on effect of impacting, maybe even at the margin, kind of the very strong demand we've seen for all types of alternatives?

Jon Gray: Well, what I would say is the trend today obviously is strongly towards alternatives, and we've been watching it for a while. It seems to be accelerating, a combination of rates, but also performance. I mean, if you look over long periods of time in Private Equity and Real Estate Private Equity, we've delivered 15 percent net for 3 plus decades, and investors see that.

The other thing I'd say is I don't think a movement of 100 basis points or something in fixed income rates will reverse this. If you think about our clients, oftentimes, big institutions still have targets of seven percent or so, so the absolute level of interest rates

and what they can get from fixed income doesn't meet their targeted returns. They need higher returns, we believe we can generate from private assets.

And the trade – to essentially trade away liquidity for higher returns makes sense. If you look in the credit markets, for instance, I always find it fascinating that high yield bonds today have the same, maybe a little bit tighter spread, than leveraged loans, even though leveraged loans are senior in the capital structure. That reflects, again, the liquidity premium that people demand for leveraged loans relative to bonds. And that really runs throughout the system.

And also, I would say our ability to intervene in businesses when we own real estate or infrastructure or companies, and that consistent return we've been able to generate, and so I think increasingly what you see from investors is this is an accepted asset class. They're almost all moving towards more. And yes, if rates go up, it could impact markets, it could impact this, but I still believe the sort of long-term inexorable trend that Steve described, I think that's likely to continue.

Rob Lee: Thank you very much.

Operator: Thank you. Our next question come from the line of Ken Worthington at JP Morgan. Please proceed.

Ken Worthington: Hi, good morning. So, there were a number of hedge fund events in the quarter. You guys called out GameStop, I think, and the meme stocks early in the quarter, and then there was the impact on hedge funds from the Archegos family office later in the quarter. It looks like BAAM not only was unscathed, but performance was good. Gross redemptions slowed materially. How is the perception of hedge funds changing following the good 2020 for the industry, and what are your thoughts on the potential for more consistent inflows looking forward for BAAM?

Jon Gray: Reiterating what you pointed out, BAAM has had a really solid last 12 months. In the fourth quarter, despite turmoil in the hedge fund industry, our BPS index was 2.5 percent up for us. We were up 18 percent over the last year. And so delivering for the clients is key.

If you look at total AUM, the business is up 11 percent year on year. And I think the BAAM team has done a really good job navigating a difficult environment and delivering.

We've also made some important hires, as you know. We brought in Joe Dowling, who was the CIO, long-time CIO at Brown, and did a terrific job there, to be the Co-Head of BAAM. We recently announced the hiring of Scott Bommer, who was a very successful hedge fund manager, to help launch a new product. And we're adding more investing talent into BAAM.

And I think in a low-rate environment, and I think most of us believe the long end of the curve moves up, but it feels like central banks are going to stay accommodative. People are looking for places to deploy capital, in some cases more liquid, like in hedge funds, but where they also have some downside protection, and they're not correlated necessarily with stock markets or interest rates. So, I think that puts BAAM as an excellent steward of capital, as having a lot of opportunity.

I would also add, in adding this investment talent, what we're looking to do in BAAM is continue our core mission of delivering steady returns, downside protection, but also add some things where there's some upside, where there's some thematic investing, some exposure to tech and growth, China potentially, those areas for different customers, and offer a broader range of products.

So the BAAM business, which has not grown a ton over the last five years, if you asked us, that's a business that we think could grow a lot, could be a bit of a sleeping giant. And, I think as we build out the team there, we'll get to show some positive things over time.

Michael Chae: And Ken, just to add on this, and we've talked about before, I think overall, as Jon said, very good financial performance. I think the net flows in the first quarter showed a quite stable picture. But sort of beneath the surface, as we talked about, there is this growth in higher fee direct investing strategies that's going on relative to the traditional fund to funds business. That portion is almost a third of the AUM overall now. And I think a good reflection of that is first of all, revenues being up 27 percent if you look LTM over prior period. And the average management fee rate, if you look at it, three years ago was about 70 basis points, if you do the simple math of management fee revenues divided by the fee earning AUM, and today, that's about 80 basis points, which is, along with the AUM growth, you've actually had pricing increases, and together, that kind of revenue growth.

So I think structurally, the business is expanding and pivoting in a very attractive way, even as we're also very focused on the traditional BPS business and being all we can be in that area.

Ken Worthington: Great. Thank you.

Operator: Thank you. Our next question comes from the line of Mike Carrier at Bank of America. Please proceed, Mike.

Mike Carrier: Great. Good morning. Thanks for taking the question. Just given the improving economic backdrop, I wanted to try to gauge where things stand across the platform from pre-COVID levels. So, any color you can provide with the PE portfolio companies, whether it's in terms of revenue or EBITDA growth or absolute levels, as well as on the real estate portfolio in terms of occupancy and rental rates. Thanks a lot.

Jon Gray: So, I think it's pretty dispersed. Obviously, the tech related businesses we have, have seen enormous increases, and our tech related, tech enabled portfolio looks like a lot of the world. Our businesses associated with content creation, obviously extremely positive. Demand for life sciences and life science real estate, really strong. So, that area would be quite good.

The overall portfolio in the first quarter in Private Equity was up double digits, the strongest in revenue that it's ever been, and that reflects broader based, things starting to spread out into the broader portfolio now.

What we're beginning to see is growth in the physical world, so record slots activity at the Cosmopolitan. In our Infrastructure business, our ports company saw more volume than it's ever in a month, well up from 2019 levels.

And so some of this in the physical world you'll begin to see in coming quarters. And in real estate specifically, I would tell you that in the logistics and rental housing spaces, which represent the bulk of our portfolio, I don't think we've ever seen fundamentals on the ground better, and that's not yet sort of in the numbers, but it's starting to pick up in a big way. Logistics had been stronger, but rental housing now, with job creation, household formation, is really picking up.

On the flip side, of course, office markets remain weak, retail remains challenged, hotels are just starting to pick up. So, it's still dispersed, but we're seeing a shift here from really strong just in those sectors that did well in COVID, now to sectors that have been on their back, and they're starting to pick up momentum. And so it feels pretty broad-based, more US now, Europe lagging as they've had a slower time getting the vaccines out. Asia, better – they've done a better job.

But I think as you see the vaccines spread, this economic dam is really starting to burst, and it's going to be widespread in terms of an increase in activity and revenues across most businesses.

Mike Carrier: Great. Thanks a lot.

Operator: Thank you. Our next question comes from the line of Devin Ryan at JMP Securities. Please proceed.

Devin Ryan: Great. Good morning. Question just on the SPAC market impact on deployment or realization activity, and clearly, we'll see where we go from here with maybe increased SEC scrutiny. But, there were more SPAC IPOs in the first quarter than all of 2020, so there's going to be a lot of capital looking to buy assets. And, so I'm just curious kind of how you're thinking about competing with SPACs to some degree, and whether that's pushing you earlier into the cycle investing in companies, and also just kind of thinking about SPACs as an outlet for realization opportunities. Thank you.

Jon Gray: So on SPACs, we have not corporately sponsored any SPACs yet, but we have done a number of transactions with them, merging, taking back stock and cash, and for our Private Equity portfolio, it's led to a number of the realizations you've read about in Q1.

In terms of the competitive dynamic, I think in some cases, yes, SPACs are providing some competition to us, but oftentimes, as you know, we tend to focus on larger transactions, which are tougher for SPACs. Many sellers want to sell businesses, and selling outright, they want to get 100 percent cash. Many growth companies don't necessarily want to go public. And, so it works for a certain universe.

So with that more select universe, there can be a little more competition, but overall, we haven't seen it impede our ability to deploy capital. We put out $18 billion in the quarter. And by the way, it's mostly a US phenomenon to date. But we put out $18 billion in the quarter, which was our third best quarter of deployment in our history. So we're still finding areas to invest in. SPACs are out there. It feels like there'll probably be fewer IPOs of SPACs in the coming months, but I don't think they're going away. I think you'll see some changes maybe in terms of their disclosure, maybe some changes in terms of alignment. But I think we'll see SPACs in the market for some time to come.

Devin Ryan: Great. Thank you.

Operator: Thank you. Our next question comes from the line of Bill Katz at Citi. Please proceed, Bill.

Bill Katz: Okay, thank you very much for taking my question this morning. Most of the big picture questions have been asked already, so maybe just a line item question. Michael, for yourself, I wonder if you could comment on maybe the outlook for FRE CAGR, just given the tremendous tailwinds to AUM and the mix shift? And then the FRE margin in Q1, how sustainable is that, and how should we think about that, looking ahead as well? Thank you.

Michael Chae: Sure, Bill. Thanks. On the FRE outlook, it's obviously positive. Stepping back, I think qualitatively, there are four or so key fundamental drivers that most of you are aware of to our FRE momentum.

First, is expansion of our existing strategies to fund vehicles. We continue to benefit from that in the first quarter.

Second, as we talked about earlier, exceptional innovation of new businesses, which are scaling and beginning to contribute to profitability nicely, BXG, BXLS being good examples of that.

Third, perpetual capital, robust expansion, transformational effect on our earnings power, given the perpetual and compounding nature of those assets.

And then fourth, to your point, a strong margin position, which I'll talk a bit more about in a second.

We put out a target once at investor day in 2018 for, as you know, as you all know well, $2.00 for the full year 2021. We achieved that a year earlier than expected. And one quarter into this year, we're at $2.20 LTM, so 10 percent above that $2.00 level. So here we just say that we're very confident in our continued FRE momentum, given the dynamics I described.

And on margins, Bill, just to help you a bit, first quarter – looking at any one quarter, as you know, is – there's always a bunch of different factors. The first quarter had a number of positive factors, strong operating leverage, revenues growing well in excess of expenses. We had comparisons against fee holidays the prior year in Private Equity. The new business is ramping, I mentioned. And then the sort of COVID T&E effect or benefit, which we're all rooting for, expecting to reverse later in the year.

And in terms of the outlook, we don't want to focus on any one quarter, but more over a full year period. If you look in that vein at the LTM margin, it's approximately 54 percent, Bill, and I'd say that's a reasonable reflection of an approximate run rate for the full year at this point. So hopefully that's a bit helpful.

Bill Katz: Thank you.

Operator: Thank you. Our next question comes from the line of Jerry O'Hara at Jefferies. Please proceed.

Jerry O'Hara: Great. Thanks. Maybe actually just dovetailing off of that prior question, Michael, I think if I heard correctly, you mentioned that the fee related performance revenues would – the next significant I suppose event would be 4Q. Can you perhaps just remind us what some of the funds that we should be sort of mindful of, where you can draw those performance fee revenues, and anything else that might help us kind of think about those in other quarters, as opposed to not just 4Q? Thank you.

Michael Chae: Sure, Jerry. Look, I think – first of all, stepping back, in terms of these fee-related performance revenues, we do view these as a very high-quality revenue stream. It's derived from perpetual capital, paid on a recurring basis, on a scheduled and contractual timetable, without having to sell assets. So it's very much aligned fundamentally to our view of FRE.

I think the sort of main component is today Core Plus, as you know. That's both BPP and BREIT. I think sort of modeling BREIT is straightforward. It happens at the end of the year in the fourth quarter. You can actually track throughout the year in our net accrued disclosure in the 8-K, sort of that balance as it grows in the course of the year.

And then there's the BPP portion of Core Plus, which are institutional vehicles, and those

typically crystallize on the third-year anniversary of investor subscriptions. And that performance receivable is also separately disclosed in the release. So, when you saw that happening this quarter, and while there'll be modest amounts in the second and third quarters, the fourth quarter in terms of Core Plus really, as I said, is when you'll see the next significant contribution.

There are also, in terms of other areas of the firm, in the credit area, our BDC area, and there, it's a quarterly fee related performance revenue based on incentive fees. That is contributing each quarter. It's in ramp mode, so those are more modest amounts, but we expect those over time to grow as well.

So those are the two key factors. Infrastructure is also a strategy that will resemble BPP in terms of its FRPR structure. So, a number of different products, Core Plus being the sort of biggest single contributor right now in terms of strategies and platforms. But this is something that if you step back on a full year basis will continue to scale over time.

Operator: Thank you. Our next question comes from the line of Patrick Davitt at Autonomous. Please proceed.

Patrick Davitt: So there's an ongoing shift for the largest alternative managers to a more balance sheet intensive kind of skin in the game book value compounding view of the business. It sounds like from your earlier insurance answer that there really hasn't been any change or evolution in your thinking on that model. But are you concerned that having so many of the largest players hacking in that direction could force the issue and maybe drive clients or even insurance partners to demand increased capital allocations from their managers?

Jon Gray: No. We've been at this for a long time, and over the 35 years, the model has worked. We put capital in, but it's modest as a percentage of the overall size of the funds or the capital we manage. And, people rely on our investment process, the talent we have, to deliver. And that model continues to work.

And there are – these other firms are terrific firms. We have enormous respect for them. But, they've chosen something different strategically. We prefer where we sit today, with a market cap right around $100 billion, and virtually no net debt. We like that model. It doesn't mean we won't use capital. We have, to do some strategic acquisitions, or minority investments in the context of insurance. But we think as long as we deliver for the customers, which is what we've done historically, and did in a big way in Q4, and now again in Q1, that more capital flows will come to us, and it won't require us to invest significant capital.

And so we're going to stick with that model. We feel really good about it. It also allows us to pay out obviously significant dollars to our shareholders.

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

Adam Beatty: Thank you, and good morning. I wanted to follow up on the real estate growth run rate, specifically global opportunity in logistics real estate. Obviously, it's been fruitful here domestically, and I saw something recently about Blackstone potentially getting involved in warehouse development in India, where you're already strong in office. So, I wanted to get a sense from you of – as to how repeatable that might be across the globe and where you're seeing opportunities. Thank you.

Jon Gray: It's super repeatable, and it's being done at scale. I don't have the exact numbers, but I think about half of our warehouse portfolio, which is over $100 billion gross, including the debt on it, is outside the United States. Probably close to that number, Europe is a huge chunk of assets. We're growing in Asia.

The fundamentals, it's the same story everywhere, which is as retail moves increasingly online, there's more demand for warehouses, particularly last mile warehouses. And, so we've been the biggest buyer in Europe. We're active in China. We just sold a platform in Australia that was in our close end BREP Asia fund.

But we like the fundamentals everywhere. And as the economy reopens, I think we'll see more traditional demand, automotive, housing, other businesses, and that'll help. The challenge or concern is will we see a lot of new supply, and so we continue to focus on this last mile. So it's a space we like, and if you think about our real estate portfolio and why we have confidence looking forward, it's because we're 40 percent allocated to the best sector in real estate globally. And, so I think you'll see those same fundamentals. They're a little bit behind the US, other than China, because online is behind, but they're playing catch-up, and so being on the ground in all those markets is really important.

Adam Beatty: Excellent. Thank you, Jon.

Operator: Thank you. And our final question comes from the line of Chris Kotowski at Oppenheimer and Company. Please proceed.

Chris Kotowski: Yeah. Good morning and thank you. I just wanted to follow up on the real estate performance fees discussion that you had a couple of minutes ago. And in the press release, you highlighted the Logicor crystallizations that happen every three years. I'm just wondering, as Core Plus is built, is there a portfolio of those things, of those kinds of assets that we'll see crystallize on the third anniversary of the funds? And how do we assess the size of that? And is that going to start coming in kind of more and more on a sporadic basis, all sprinkled through the year, as you go forward?

Jon Gray: Well, I would say the short answer is yes. We have a variety. We have large open-ended institutional vehicles, BPP US, Europe, and Asia, and now BPP Life Sciences. We did some individual large transactions as funds themselves, Logicor, European logistics platforms, one of them. We own Stuyvesant Town here in New York

as well.

And so – and then the investors in the funds come in at different times, as Michael said. So hopefully, over time, there'll be more of a spreading. A lot of these deals got done at year end, so we tend to have more in the fourth quarter. BREIT is set up in the fourth quarter. But, you're right. We've been planting a lot of these perennials, and they should be blooming more and more in greater amounts and at different times of the year. And this is why you hear a lot of enthusiasm. Something very special is happening at Blackstone. We have – something extremely special is happening in our Core Plus business, and that is growing, and yes, over time, this – not only the base management fees from Core Plus, but these performance-related fees, should come in on a regular basis.

Chris Kotowski: Okay. And just as a follow-up, do we see that on – do we see these accrued performance fees on the disclosure in page 18, or are the performance fees separate from carried interest?

Michael Chae: You do see them. You see it broken out for both BPP and for BREIT separately.

Chris Kotowski: Okay. All right. So it's in there? Okay. Thank you. That's it for me.

Michael Chae: Thanks, Chris.

Operator: And now I'd like to hand back to Weston Tucker for final comments.

Weston Tucker: Great. Thanks, everyone, for joining us this morning, and look forward to following up after the call.

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