

A *Remarkable* Year

ANNUAL CHAIRMAN'S LETTER 2017

Blackstone

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Blackstone

2017 was a remarkable year for Blackstone. Whether measured by our capital metrics like fund-raising, assets under management, capital deployment, and investment realizations, or by the firm's financial results, we delivered one of the best years in our history to limited partners and shareholders alike. Additionally, through expansion into new areas like insurance and a dedicated infrastructure business, we continue our longstanding commitment to constant innovation that has laid the groundwork for growth since the firm's founding.

We continue to execute on our mission of providing best-in-class results for our investors across an ever-widening array of funds and strategies. Because we provide real solutions to help our LPs achieve their goals, they continue to provide us with more capital—driving \$108 billion of capital inflows in 2017, or approximately 30% of the firm's AUM balance at the beginning of the year. This is a record for both Blackstone and the alternative asset management sector, and brings the firm to \$434 billion of total assets under management at year end, up 18% in 2017 and reflecting a nearly five-fold increase since our IPO in 2007.

Our brand remains the gold standard in the alternatives space and is perhaps stronger than ever before. As we raise more capital across an increasing diversity of strategies, regions, and fund structures, we're building an even more diverse platform from which to deploy capital and create value for our investors. The result in 2017 was record deployment across each of our businesses, planting the seeds for future realizations in the years ahead.

This performance translates to outstanding results for our shareholders. Full-year economic net income rose over 40% year-over-year, to \$3.4 billion, or \$2.81 per share. Distributable "cash" earnings increased over 80% to a record \$3.9 billion, or \$3.17 per common share,¹ as the firm achieved \$55 billion in investment realizations—another record. And we returned more aggregate capital to our shareholders than any other public asset manager. Blackstone remains one of the highest-yielding firms of any large company in the world, and we've distributed nearly \$16 per share of total value since our public offering and \$11.42 per share since 2012 alone. Indeed, over the last five years, our stock's total return including dividend reinvestment has been 20% per annum—compared to 14% for the broader market, reflecting outstanding value creation for our shareholders.²

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Record Capital Metrics

\$108 billion
of capital inflows

\$55 billion
in realizations

\$51 billion
in deployments

And I personally believe the best is yet to come. We continue to raise and deploy record levels of capital. Our store of value, in terms of performance fee generating AUM, continues to build. And we have more exciting, large-scale new initiatives today than ever before in our history.

Discipline and Execution

Our firm's success begins and ends with delivering strong investment performance: nothing is more important than the results we produce for our LPs. This is the hallmark of Blackstone's growth—even as we expand our business in pursuit of that mission, maintaining a rigorous and disciplined approach remains our first priority. Our investment performance in 2017 illustrated that discipline as we delivered strong returns across the businesses:

2017 Financial Highlights

Our **Real Estate** opportunity investment strategy appreciated **19%**

Our corporate **Private Equity** business appreciated **18%**

Our **Strategic Partners** business appreciated **23%**

the best year for those platforms
since 2014

With **15%** appreciation, our **Tactical Opportunities** business had its best year since inception in **2012**

Our credit business, **GSO**, achieved composite gross returns of **11%** and **8%** for the performing credit and distressed credit strategies, respectively³

BAAM, our hedge fund multi-manager business, generated a composite gross return⁴ of **8%** while maintaining *volatility of less than one-third that of the S&P 500*

We continue to demonstrate that size is not the enemy of returns. It is, in fact, the opposite. With an expansive and integrated global platform, we can combine intellectual insights from different parts of the firm to make better investment decisions. Two recent transactions exemplify how we use that strength to our advantage:

- We leveraged the scale and insights of our global team to identify logistics as a major investment theme, and over several years and 50 different acquisitions built our European platform Logicor, comprising over 620 assets and 147 million square feet across 17 countries. This investment culminated in the largest private real estate transaction in European history when we sold the asset for €12.25 billion in the fourth quarter of 2017. But the story didn't end there. We subsequently won the mandate to manage the platform for the buyer on a long-term basis, marking the European launch of our Core+ Real Estate strategy.
- Together, with two long-time co-investors, we agreed to acquire a majority stake in Thomson Reuters' Financial and Risk division, which we expect will be the largest private equity buyout in a decade. This is a landmark transaction for Blackstone, and represents a unique opportunity to invest large-scale capital despite a challenging investment backdrop.

These are just a few examples. Across the whole firm, we're able to take on opportunities of size and complexity that most others can't, leading to great outcomes for our investors.

Still in the Innovation Business

Another hallmark of Blackstone's growth is the entrepreneurial spirit embedded in our culture. There are no patents in finance, and we continue to innovate new products and strategies in two main ways: first, by extending our existing businesses, including into new regions and in more permanent capital vehicles further along the risk/return spectrum, and second, by moving into new businesses when we identify a paradigm shift in the market that has created unique investment opportunities.



Across the whole firm, we're able to take on opportunities of size and complexity that most others can't.

In the case of extending our existing business lines, having built out a dominant global franchise in the highest-returning categories, the logical next step of the firm's development is to introduce products deeper in the capital structure. These areas include our longer-dated "core" and "core+" private equity and real estate businesses, where we can leverage opportunities already being identified by our existing global teams but that don't fit into our opportunistic mandates.

In terms of new businesses, we launched our Infrastructure platform in 2017 with up to a \$20 billion commitment from a lead investor. We believe now is the right time to move into this business given the historic need for infrastructure investment, particularly in the United States. The effort is being led by Sean Klimczak, a highly talented partner from our private equity business, and we've hired a world-class team around him.

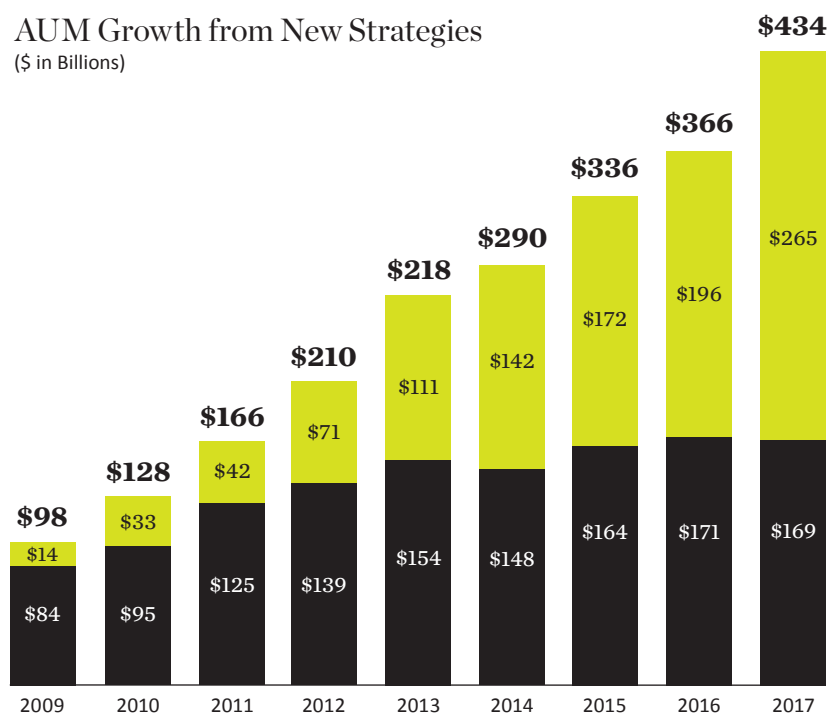
At Blackstone, we don't start a business unless we believe we can be the industry leader and have found a true "ten out of ten" to lead it. In all of our new initiatives, we're highly confident that we have the right people and opportunity to excel. Our track record of successfully launching new businesses and quickly bringing them to scale is quite compelling:

- Tactical Opportunities, launched in 2012, now has \$22 billion in AUM,
- Strategic Partners, acquired in 2013, is now a \$21 billion platform and is adding infrastructure and primary advisory agencies to its buyout business, and
- Our Core+ Real Estate strategy, which we developed in late 2013, continues to scale with \$27 billion in AUM.

Today, more than 60% of the firm's AUM comes from funds and strategies that are "new," having been created since our IPO.

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AUM Growth from New Strategies
(\$ in Billions)



Compound Annual Growth Rate (CAGR)

■ 44% New Strategies ■ 9% Existing Strategies

New Ideas for New Channels

In addition to new products, we're developing distribution channels to better serve certain investor segments. This includes the long-term efforts of our Private Wealth Solutions group, which is a dedicated platform for outreach to the wirehouses, private banks, independent broker dealers, family offices, and others that we believe have been underserved and are substantially underrepresented in alternative strategies today.

We've built out this area as a real business, and as is the case with our institutional investors, the client experience is paramount. We've focused on building the highest-quality infrastructure to ensure full operational support, investing heavily in distribution, technology, and education for the financial advisors with whom we partner. We're also developing new products designed specifically for this channel. For example, our non-traded REIT, "BREIT," has raised over \$2 billion since its launch last January, and in the fourth quarter accounted for more than 50% of all sales in the non-traded REIT market. Our individual investor solutions platform in our hedge fund area now manages over \$8 billion, with both U.S. and European funds. In Credit, we've launched our first-ever interval fund, an income-oriented product that translates some of the benefits of alternative credit to a more liquid vehicle. And we've also begun the process of launching our new, fully integrated, internal direct lending business—combining the firm's superior origination and investment capabilities in this area with our industry-leading institutional and retail distribution channels.

In addition to Private Wealth Solutions, we more recently launched a large-scale dedicated effort in the insurance space. There is an estimated \$23 trillion of insurance assets globally—a vast, largely untapped market for us. Our new effort—headed by Chris Blunt, the former President of New York Life's Investments Group—will provide a range of bespoke investment solutions, from high-grade private credit to traditional alternatives, including the option for full outsourced management of insurers' investment portfolios. Blackstone is exceptionally well positioned to address this market, and I believe we can build a business well in excess of \$100 billion of AUM over time. We're already off to a great start with \$22 billion from our investment management agreement with Fidelity & Guaranty Life.

We've built Private Wealth Solutions as a real business, and as is the case with our institutional investors, the client experience is paramount.

Seamless Transitions

Critical to Blackstone's long-term success is the distinct culture we've built over thirty years, which is deeply embedded in our people and our investment processes. Our truly deep bench of talent means we can plan well in advance for the future. In February, we announced that Jon Gray would succeed Tony James as the firm's President and Chief Operating Officer, while Tony will continue in a full-time role and assume the title of Executive Vice Chairman.

Jon is a truly gifted investor and leader. Like many other senior leaders at Blackstone, he is a homegrown talent and culture carrier, and has spent his entire career at Blackstone. As Global Head of Real Estate since 2005, he grew a business with \$4 billion of AUM into the world's leading real estate platform with \$115 billion of AUM today. I feel confident that Jon's appointment as President and COO lays the foundation for the next generation of senior management at the firm and positions us extremely well for the future.

As of March 1, Jon assumed full management responsibility for running the firm on a day-to-day basis. Meanwhile, in his new role as Executive Vice Chairman, Tony will continue to sit on the firm's investment committees, Management Committee and Board of Directors, focusing on strategic growth initiatives, external constituencies and key investor relationships. Tony has had a bigger impact on Blackstone than anyone in the firm's history, leading numerous growth initiatives and institutionalizing our rigorous investment processes. We are fortunate that he is eager to stay fully engaged at Blackstone and that we'll continue to benefit from his enormous judgment and expertise.

Kathleen McCarthy and Ken Caplan, our real estate business's global chief operating officer and chief investment officer respectively, have been promoted to Global Co-Heads of Real Estate. Both have done an incredible job helping Jon build our real estate business into what it is today. Going forward, Jon Gray will remain intimately involved in that business group, including by chairing the Real Estate Investment Committee.

In our hedge fund business, John McCormick, a long-time partner at BAAM, was elevated to President and CEO of BAAM. John is an accomplished leader who has played an integral role in determining the strategy of the business and has spearheaded multiple new initiatives. He takes over from Tom Hill, who will remain at the firm as BAAM's Chairman and firm Vice Chairman. Since assuming leadership of the group in 2000, Tom grew BAAM into the world's largest discretionary allocator to hedge funds today while successfully navigating the volatility and challenging market backdrop of the past decade, achieving net capital inflows during the financial crisis.

Transitions:



Tony James

Executive Vice Chairman



Jon Gray

President & Chief Operating Officer



Kathleen McCarthy

Global Co-Head of Real Estate



Ken Caplan

Global Co-Head of Real Estate



John McCormick

President & CEO of BAAM



Dwight Scott

President of GSO

And in June, Dwight Scott, who has during his time at the firm built the largest and most respected energy credit platform in North America, was named President of GSO. Dwight is an exceptional investor, manager, and marketer, and will work closely with GSO Chairman Bennett Goodman on further advancing GSO's global platform. GSO and Blackstone are fortunate to benefit from the continued active leadership of Bennett, one of the most successful and well-respected investment managers in the credit markets.

At all levels across Blackstone, the firm's integrated and inclusive culture continues to foster dynamic and long-term careers for our people. In fact, we've been recognized by numerous awards exactly to that effect, and most recently were named *Pensions & Investments*' "#1 Best Place to Work in Money Management."

Finally, earlier this week I was deeply saddened to learn of the passing of my friend Pete Peterson. One could never ask for a better partner than Pete. He was endlessly creative and unafraid of doing new things. He was a source of limitless wisdom and good judgment, and a true entrepreneur at heart. Pete led an incredible life, leaving a lasting mark on both Blackstone and the broader world.

When we founded Blackstone together in 1985 with \$400,000 in start-up capital, we never imagined what the firm would become, or that we would have the privilege of working alongside so many talented people. Today, I believe the best is still to come for the firm and, as always, remain grateful for your support.

A handwritten signature in black ink, appearing to read "Steve". The signature is fluid and cursive, with a large initial "S" and a trailing flourish.

Steve

End Notes

1. GAAP Net Income was \$3.4 billion in 2017. GAAP Net Income Attributable to The Blackstone Group L.P. was \$1.4 billion in 2017.
2. Calculation of distributions and Total Return figures include \$0.59/unit of value distributed to shareholders upon spin-off of PJT on October 1, 2015. Total return assumes reinvestment of distributions, including the value of the PJT spin-off. Past performance is not indicative of future results.
3. Performing Credit Strategies include mezzanine lending funds, Business Development Companies and other performing credit strategy funds. Distressed Strategies include credit alpha strategies, stressed/distressed funds and distressed energy strategies. The composite gross returns represent a weighted-average composite of the fee-earning funds exceeding \$100 million of fair value at each respective quarter end for each strategy. Composite gross returns exclude the Blackstone Funds that were contributed to GSO as part of Blackstone's acquisition of GSO in March 2008. Performing Credit Strategies' net composite returns were 6.2% for FY'17. Distressed Strategies' net composite returns were 4.9% for FY'17.
4. The BAAM composite returns are based on the BAAM Principal Solutions ("BPS") Composite, which includes only BAAM's multi-manager funds and accounts (commingled and custom), and does not include any of the other businesses that comprise the Blackstone Hedge Fund Solutions group. The net return for the BPS Composite for the period was 7.3%. BAAM non fee-paying assets are excluded from the net returns. The funds/accounts that comprise the BPS Composite are not managed within a single fund or account and are managed with different mandates. There is no guarantee that BAAM would have made the same mix of investments in a stand-alone fund/account. The BPS Composite is not an investible product and, as such, the performance of the BPS Composite does not represent the performance of an actual fund or account.

Non-GAAP Measures

This letter contains non-GAAP measures. For a full reconciliation of GAAP to Non-GAAP measures, please see Blackstone's Annual Report on Form 10-K for the year ended December 31, 2017, available at <https://www.sec.gov/Archives/edgar/data/1393818/000119312518067079/d522506d10k.htm>.

Forward-Looking Statements

This letter may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 which reflect Blackstone's current views with respect to, among other things, Blackstone's operations and financial performance. You can identify these forward-looking statements by the use of words such as "outlook," "indicator," "believes," "expects," "potential," "continues," "may," "will," "should," "seeks," "approximately," "predicts," "intends," "plans," "estimates," "anticipates" or the negative version of these words or other comparable words. Such forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. Blackstone believes these factors include but are not limited to those described under the section entitled "Risk Factors" in its Annual Report on Form 10-K for the fiscal year ended December 31, 2017, as such factors may be updated from time to time in its periodic filings with the Securities and Exchange Commission, which are accessible on the SEC's website at www.sec.gov. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this letter and in the filings. Blackstone undertakes no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

This letter does not constitute an offer of any Blackstone Fund.