Performance and Innovation

Blackstone

Blackstone Chairman's Letter 2018

Another Standout Year

2018 was a year of two starkly different market backdrops. The first nine months were characterized by a persistent move higher in U.S. equities following the passage of tax reform, culminating in a fresh peak for the S&P 500 in late September. The fourth quarter, however, brought a sharp reversal in these trends. Investor concerns over global growth, trade and geopolitical issues drove the S&P — along with most other global and regional indices — into negative territory for the year. 2018 became the first in at least 15 years where every major traditional asset class had negative real returns.

Despite the storm, we are pleased to report that Blackstone again delivered outperformance to our limited partner investors across an ever-growing number of strategies. Our private equity and real estate funds, for example, appreciated 10 to 19% in 2018, compared to equity indices which *declined* 4 to 17%.[1] This outperformance highlights our ability to intervene in our investments, and the critical advantages of having long-term capital. Today, I believe the firm is better positioned than ever to navigate the increasingly complex challenges facing investors, and thrive in any market context.

As a result of this performance, our limited partners continue to put their trust in us, and we continue to innovate on their behalf to offer a wider range of investment solutions. The outcome was another year of strong growth in 2018, with over $100 billion of gross capital inflows for the second year in a row. Our total AUM rose 9% in 2018 to a new record $472 billion, despite returning $34 billion to our investors through realizations during the year. This success distinguishes Blackstone in an environment where most traditional money managers faced net outflows and declining AUM. In short, we're able to raise capital and continue building our business when other managers cannot. Strong execution across our businesses translated into $2.7 billion of Distributable Earnings for the full year, while our Fee Related Earnings rose to a record $1.5 billion, or $1.21 per share — up 9% versus 2017.[2]

And the path forward remains bright. With several of our largest flagship funds currently being raised, we expect to exceed our substantial recent pace of fundraising in 2019. At our Investor Day

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A Position of Strength

$101 billion
of gross capital inflows

$472 billion
in AUM

$1.5 billion
in fee related earnings

in September, we described how that fundraising should create a powerful near-term step-up in the growth and quality of our earnings. We discussed a clear path to generating $2 per share in Fee Related Earnings within a few years, in addition to earnings from net investment realizations, which have averaged approximately $1.80 per share over the past five years. The firm's financial health has never been stronger, and our fortress balance sheet affords us substantial financial and strategic flexibility, exemplified in 2018 by the introduction of a $1 billion share buyback program. Over the full year, we returned $3.3 billion to shareholders through our regular and special cash distributions and the repurchase of 16 million shares. We remain laser-focused on creating value for our shareholders and limited partners alike.

Creating Value for Shareholders

$3.3 billion

returned to shareholders

16 million

shares repurchased

Innovation and Growth

At Investor Day, we discussed many of the new initiatives that we believe could form the foundation of the firm's growth in the years ahead. And in the six months since, we've made significant progress in a number of areas:

Life Sciences

In Life Sciences, we completed the acquisition of Clarus — a high-quality investor with deep domain expertise and a compelling long-term track record investing in this space. Clarus manages approximately $2 billion today and, like other Blackstone acquisitions, we envision meaningfully growing its scale as part of our firm. And as we help accelerate the approval of new drugs, we believe these investments can have substantial societal impact. We plan to launch the first dedicated Blackstone Life Sciences vehicle later this year.

Growth Equity

Building on our existing efforts in Growth Equity, we will launch a dedicated platform to provide capital to companies during the phase between venture funding and traditional buyouts. This new business will make all of our investing businesses better as technology continues to transform every part of the broader economy.

Infrastructure

Our new Infrastructure platform has grown to $7 billion, and we've also announced our first two investments: Tallgrass, one of the largest U.S. midstream companies, and Carrix, one of the world's largest marine terminal operators.

Direct Lending

We're making great progress in the build-out of our new U.S. direct lending business in Credit, ending the year with more than $4 billion of available capital to invest. That figure should ramp up to $10 billion in a few quarters' time, and we've already invested or committed nearly $2 billion across seventeen different deals.

Blackstone Investor Day, September 21, 2018

Hedge Fund Solutions

In our Hedge Fund Solutions area, we continue to expand our product offerings, and recently launched our second drawdown fund making minority investments in alternative asset management firms — a space we favor and know particularly well.

Core-Plus Real Estate

And in Real Estate, our Core-Plus platform — which focuses on acquiring high-quality properties with longer-term holds — has grown to $35 billion of AUM across four perpetual capital vehicles in only five years. In total, the firm now manages $73 billion, or 15% of our AUM, in perpetual vehicles.

Expanding Channels, Geographies, and Capabilities

In addition to new products, we remain hard at work expanding our distribution channels. Today, we operate at scale in three major areas — the traditional institutional channel, at over $50 trillion globally; the retail and private wealth channel, at over $70 trillion; and the insurance channel, at $30 trillion. Despite our significant AUM and deep relationships in each, we believe that there is tremendous potential ahead.

In retail, there is an enormous need for access to quality alternatives product. In a sign of the scale of our operations, we're now transacting with more than 13,000 financial advisors each year, which no competitor can match. 2018 was our best year yet for fundraising from this channel, at $15 billion, and we continue to accelerate our efforts.

In the insurance space, our enthusiasm around the strategic importance of our Blackstone Insurance Solutions business also continues to grow. Insurers face increasing regulatory capital requirements, and low interest rates in recent years have squeezed their ability to generate sufficient returns. We believe Blackstone is uniquely situated to meet their needs as the largest and most diversified provider of alternatives.

We also continuously assess our global footprint and consider an ever-broadening opportunity set in emerging geographies of focus. Across Blackstone, we're doing considerably more in Asia, where we believe a significant portion of global growth will be generated in the coming

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years. We now have three dedicated funds and nearly 300 employees in the region across eight offices, including nearly $10 billion of opportunistic capital in BREP Asia and BCP Asia, plus our new open-ended Real Estate Core-Plus vehicle in Asia.

And as we expand our reach, we're constantly refining our approach through portfolio operations, sustainability, and environmental, social, and governance (ESG) efforts. We were pleased to announce the recent appointment of a Global Head of ESG for the firm, working across Blackstone to collaborate with our portfolio companies and coordinating closely with our Chief Sustainability Officer on this important set of priorities.

We also remain focused on diverse hiring and talent development at the firm. Today, half of our largest businesses have a woman or diverse talent as one of its top two leaders, and we've more than doubled the number of women in our analyst class to nearly 40% in 2018. This is a long-term commitment and investment with the full support of the firm's senior management.

Scale-Driven Insights

The scale of our business today is truly remarkable and provides many advantages to benefit our investors. Blackstone's global portfolio now consists of approximately 200 companies employing nearly 500,000 people, with combined revenues of over $100 billion. One of the key advantages of our scale is our ability to aggregate insight across our diverse portfolio and turn it into real decision-making power. This helps us develop strong convictions around sectors and regions. Most recently, this thematic approach has led to significant investments in technology and tech-driven office, global logistics, and in India, where we've deployed more capital than in any other emerging market.

Our scale also allows us to leverage the heavy investment we've made in our portfolio operations capabilities, further enhancing our ability to intervene in our investments and drive value creation. This is a primary driver of our funds' outperformance over time, and in a period where pricing and competition are high, becomes more critical than ever. We continue to grow the team and deepen its engagement across our businesses.

Our scale enables us to aggregate insight across our diverse portfolio.

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And finally, our scale allows us to complete larger, more complex deals, where competition might be thinner, and where the opportunity for value creation is greatest. This was the case with our recent investment in Refinitiv, the former Finance & Risk unit of Thomson Reuters — a $20 billion landmark transaction — and our $8 billion privatization of Gramercy Property Trust, an 85 million square-foot industrial REIT. And in our Credit business, our position as one of the largest managers of leveraged loans in the world gives us great insights and access to deal flow. We continue to see good value in this space amid strong fundamentals, despite the recent negative media focus.

This culture of lifetime learning and relentless innovation is what propels the firm forward.

Powered by Culture

Eleven years ago at the time of our IPO, few people would have believed that we could grow our assets under management five-fold — from $88 billion then, to $472 billion today — particularly across a period that included the worst downturn since the Great Depression. We've done so by delivering outstanding performance for our clients, serving them in a unique way across asset classes and geographies, and thus making it easier for them to invest with one highly integrated firm. Over more than thirty-three years, we've established powerful recognition globally with our limited partners, a deep bond of trust and an enduring sense of partnership.

These positive outcomes are driven by our strong performance and relentless innovation, which in turn is made possible by our most important asset: our people, who strive each day to be the best at what they do, and our reputation, which we will never compromise. This culture of lifetime learning and relentless innovation is what propels the firm forward, encourages so many people to build their careers here, and enables seamless transitions like the ones you've seen at Blackstone recently. Jon Gray, a homegrown leader who previously served as our Global Head of Real Estate, has successfully stepped into the role of President and Chief Operating Officer. At the same time, we've retained Tony James's tremendous talents as Executive Vice Chairman with a continued focus on the firm's new businesses and largest investor relationships.

I’m glad to note that recognition of our culture continues to grow within our industry. For the second year in a row, Blackstone has been named the #1 “Best Place to Work in Money Management” by *Pensions & Investments* and was recognized on *Fortune’s* list of the “Best Workplaces in Financial Services & Insurance.”

Thanks to our people, Blackstone is exceptionally well-positioned by any measure. As I consider the firm’s next few years, I foresee compelling growth in our highest quality earnings, continued product innovation as we expand into new areas, and strong distributions to our shareholders. We are equipped to navigate any environment, and will continue to operate with an unyielding focus on generating exceptional long-term performance for our investors.

Stephen A. Schwarzman

Chairman, Chief Executive Officer, and Co-Founder

End Notes

1. Appreciation referenced for private equity funds represent the flagship global funds (BCP I – BCP VII) and flagship sector funds (Blackstone Energy and Blackstone Communication funds) and does not include, among others, Tactical Opportunities, Asia or Strategic Partners funds. Appreciation referenced for real estate funds represent Total BREP (Pre-BREP – BREP VIII, BREP International/Europe I – V, Asia I – II, and BREP co-investments.) Index returns reference the S&P 500 Total Return Index, the MSCI World Total Return Index, the MSCI All Country Index, the MSCI Europe Index, the MSCI Asia Index and the MSCI Emerging Markets Index. The indices are provided solely as an indication of returns that could be earned by investors by making similar investments in them. Blackstone's funds differ from indices in that, among other factors, Blackstone's funds are actively managed entities that bear fees and use leverage.
2. GAAP Net Income was $3.3 billion, or $2.27 per common unit, in 2017. GAAP Net Income Attributable to The Blackstone Group L.P. was $1.5 billion in 2018.

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, 2018, available at https://www.sec.gov/Archives/edgar/data/1393818/000119312519061011/d663205d10k.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, financial performance and unit purchase and distribution activities. 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, 2018, 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.