Blackstone First Quarter 2023 Investor Call
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Moderator: Good day, and welcome to the Blackstone First Quarter 2023 Investor Call. Today's conference is being recorded. At this time all participants are in a listen only mode. If you require Operator assistance at any time, please press star zero. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you're using the speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. At this time, I'd like to turn the conference over to Weston Tucker, Head of Shareholder Relations. Please go ahead.

Weston Tucker: Great thanks, Katie, and 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. 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 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 on results, we reported GAAP net income for the quarter of $211 million, distributable earnings were $1.2 billion or $0.97 per common share, and we declared a dividend of $0.82 per share, which will be paid to holders of record as of May 1st.

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

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

The first quarter of 2023 represented a turbulent period for markets, with tightening financial conditions and growing concerns of a recession. While the S&P 500 posted gains, they were concentrated in just a handful of large tech companies. Meanwhile, the median stock in the U.S. was flat for the quarter and is down 35% from recent peak levels. Capital markets activity remains muted, with IPOs and M&A activity down 50-60% year over year. To combat inflation, the Fed has increased the fed funds rate by 475 basis points, just in one year, representing the largest increase since 1980. While there is not widespread distress in the real economy, this tightening campaign has led to significant challenges for investors, along with unintended consequences - which we saw with U.K. pensions last summer and more recently in the U.S. and European banking systems.

These challenges once again highlighted the exceptional strength and stability of Blackstone. Our clients and counterparties have learned there is inherent safety in dealing with us. We don't operate with the risk profile of financial firms that have fallen into trouble, almost always due to the combination of a highly leveraged balance sheet and a mismatch of assets and liabilities. At Blackstone, we have neither. We are an asset-light manager of third-party capital, distributed across hundreds of segregated investment vehicles. Our firm has minimal net debt and no insurance liabilities. We don't take deposits. I'll say that one again. We don't take deposits. And the vast majority of AUM is under long-term contracts or in

perpetual strategies. In our funds, we seek to align the time horizon of our investments with the duration of the capital, which positions us to not be forced sellers in difficult markets. This is true of our semi-liquid vehicles as well, such as BREIT, which invests in longer-term assets. We designed this vehicle at its formation in 2017 with predetermined limits for potential repurchases, in order to be prepared for adverse market conditions – creating a level of safety so that it can continue to deliver strong outperformance over the long term, as it has done historically.

The safety of Blackstone's approach extends to the way we invest. One of our core values is to avoid losing our customers' money. Of course, we also seek to significantly outperform benchmarks over time, as everyone knows we have. We've launched nearly 90 drawdown funds in our history comprising approximately $500 billion of aggregate commitments, of which almost all – 98% of them – generated gains for investors, despite adverse investment environments during the lives, at some point, of most of these funds. We have an extremely rigorous process for evaluating risk, with an investment committee framework designed to minimize the prospect of losses and ensure consistency of judgment. And our global scale and reach give us deep insights into what's happening in the real economy, which inform how we position the firm and our portfolio ahead of changing conditions. To paraphrase a quote often attributed to hockey great Wayne Gretzky - "you have to skate to where the puck is going, not to where it is." At Blackstone, we follow the same approach.

In real estate, an area of heightened external focus by the media and investors recently, our equity business has experienced realized losses in only 1% over 30 years - a truly remarkable result. This includes during the global financial crisis, a period which saw most of our competitors collapse or exit the market. In contrast, we bought the right assets and put in place the right capital structures, more than doubling investor capital in that vintage of funds. We emerged from the crisis stronger and believe that this cycle will have a similar outcome.

Today, investor sentiment toward real estate has been quite negative again, largely due to pressures, as Jon explained on TV today, in the U.S. office market. Vacancies in offices have reached all-time high levels, and owners of many of these assets may be unable to extend financing in a more constrained capital environment. At Blackstone, we have minimal exposure to traditional U.S. office, having reduced our holdings from over 60% of the real estate equity portfolio at the time of our IPO in 2007, to less than 2% today. We instead emphasized sectors that are doing very well - including logistics, which now comprises 40% of the portfolio, up from zero in 2007. Our real estate team has done a remarkable job of portfolio construction – in fact, I would call it some of Blackstone's finest work. Our positioning is the reason that BREIT, for example, continues to generate strong growth in cash flows - up an estimated 9% year-over-year in the first quarter - despite market headwinds. We expect our investors to have a highly differentiated experience as a result, as they have throughout our history.

In credit, higher interest rates and much higher available yields have led to significantly more investor capital being allocated to this area. Jon will expand on this opportunity for Blackstone. Simultaneously, there is an increased focus on the potential for higher market defaults in an economic turn down. In Blackstone's credit business, as with real estate, we've delivered excess returns over long periods of time, while protecting the downside. For example, we are the largest manager of leveraged loans in the world, and our historic annual default rate in the U.S. is less than 1%. This record, and our standard of care, should provide comfort to investors who are new to this asset class. Private credit disperses risk outside of the government-backstopped banking sector, with capital typically raised in discrete, long-term funds, rather than a funding model that is reliant on deposits which demand instant liquidity. This approach to credit extension makes the system safer and also supports the economy in challenging times.

Our limited partners recognize Blackstone as a safe institution to which to allocate their capital, even as the world becomes more complex – in fact, especially so. And we have learned that the best time to put

money to work is in a risk-off world, when sentiment becomes negative. The recent stress in the banking system has led to heightened levels of negativity, along with diminished availability of credit - which should provide additional opportunity for us, given the firm's scale and available capital in both the credit and equity areas. Overall, our LPs have entrusted us with an unprecedented $194 billion of dry powder, ahead of what we believe could be a historic opportunity for deployment.

One final note from me: earlier this week, S&P Dow Jones updated the eligibility rules for their flagship indices to once again include companies with multiple share classes. This important development follows a consultation period in which they engaged a broad universe of market constituents. Blackstone is, by far, the largest company by market cap not included in the S&P 500 today. We are hopeful that this development paves the way for our inclusion, which would be very positive for our shareholders.

And with that, I'll turn it over to Jon.

Jon Gray: Thank you Steve, good morning everyone.

Despite the challenges of the current environment, Blackstone's value proposition for customers and shareholders is stronger than ever. I'll discuss the key elements that underpin this confidence.

First - our investment performance remains highly differentiated, as it has been for nearly four decades. This is the most important determinant of our success and is what allows us to attract more capital. We've delivered 15% net returns annually in corporate private equity, opportunistic real estate and secondaries; 12% in tactical opportunities; and 10% in credit. In Q1, our funds protected investor capital against the volatile market backdrop, which Michael will discuss. Over the past twelve months, nearly all our flagship strategies again meaningfully outperformed the relevant public indices.

Second - our strong returns are the direct result of the way we've deployed capital, and where we are very well positioned for the current environment. As we've said before, where you invest matters. Nowhere is that more apparent than in real estate, where 83% of the portfolio is in our high-conviction sectors, including logistics, rental housing, hotels, data centers and life science office. We're seeing a massive divergence in performance in these areas compared to more challenged parts of the real estate market.

In logistics - the largest exposure in our real estate portfolio and at the firm overall – we estimate the mark-to-market for our warehouse rents is approximately 50% in the United States, 30% in the U.K. and 100% in Canada; while at the same time, market rents are generally growing at double-digit rates. In rental housing – the second largest concentration in our real estate portfolio – rents have moderated in our U.S. apartment buildings, but we're still seeing releasing spreads of approximately 4% and cash flow growth that's materially higher; while our student and other housing assets are showing even greater strength.

At the same time, the pullback in capital markets is further constraining the new supply pipeline for most types of real estate – which is likely to intensify as regional banks provide a meaningful portion of U.S. construction lending. This is quite positive for real estate over time. Aside from the supply/demand dynamics, the single most important driver for real estate valuations is the level of the ten-year Treasury. While rising rates have been a significant headwind for real estate valuations recently, we've seen a reversal, with the 10-year yield down 65 basis points from its high last year.

In corporate private equity, our operating companies are showing continued strong momentum. Revenues grew 13% in Q1 reflecting our timely emphasis on travel, leisure and energy transition companies; meanwhile we're seeing indications that cost pressures have peaked. While the broader economy remains resilient, we do anticipate a deceleration given the weight of the Fed's actions and pressure on the

banking system. Our companies overall are well positioned to navigate such an environment. In credit, over 90% of our non-insurance portfolio is floating rate, and fundamentals remain healthy, with a default rate of less than 1% across our non-investment grade loans. Finally, BAAM's weightings in structured credit and quant strategies helped drive positive performance once again in Q1 with much less volatility than broader markets. In the last two-plus years, since we brought in a new investment leadership team, BAAM has beaten the typical 60/40 portfolio by nearly 1,500 basis points – remarkable outperformance in liquid markets.

Third - as a result of our performance, our customers are entrusting us with more capital. The fund-raising environment has become more challenging, but the breadth of our firm allows us to continue to raise scale capital, including over $40 billion in the first quarter and $217 billion over the last twelve months.

We're seeing the greatest demand today for private credit solutions, given higher interest rates and wider spreads. Coupled with the pullback in regional bank activity, this is a golden moment for our credit, real estate credit and insurance solutions teams, which accounted for 60% of the firm's inflows in Q1. Our four major insurance clients allocated an additional $8 billion to us in the first quarter, and we expect a strong pace of inflows from them throughout the year. In the case of Resolution, the $3 billion external fund-raise is now fully committed and the repositioning of their asset base is underway. We also launched a new U.S. direct lending product in Q1 for both institutional and insurance clients, targeting $10 billion for this first vintage. We've raised nearly $6 billion to date for our green energy-oriented private credit vehicle and expect to hit the $7 billion cap in June. Our new real estate debt vehicle has strong initial momentum, with $3.5 billion of commitments so far. And in private wealth, BCRED's monthly subscriptions on April 1 reached their highest level since October, at nearly $500 million.

As one of the largest private direct lenders in a world of growing capital constraints, we see this as an extremely favorable environment for deployment. More broadly, as regional banks experience outflows of deposits, we are seeing real-time opportunities to partner with them at scale, utilizing our insurance capital in areas like auto finance, home improvement lending and equipment finance. We expect private credit and insurance to grow significantly from here.

Moving to our private wealth platform, which overall had a solid first quarter against a difficult backdrop. We raised $8.1 billion in the channel, including $4.5 billion from the University of California. We're seeing stabilization in BREIT's repurchase trends, with requests down 16% in March compared to the January peak, but obviously it depends in the near term on market conditions. We remain confident in the re-acceleration of growth in this channel once volatility recedes, given the exceptional positioning and performance of our products.

Turning to our drawdown fund business: a few weeks ago we held the final close for our global real estate flagship, which reached $30.4 billion – the largest private equity or real estate private equity fund ever raised. We also commenced fund-raising for the next vintage of our European strategy, targeting a similar amount as the prior fund, which was 9.5 billion euros of third-party capital, with a first close expected this summer. In corporate private equity, we've raised $15.5 billion to date for our latest flagship, with additional closings expected in the second quarter. The environment has remained difficult, but we continue to target a vehicle of substantially similar size as the prior fund. Overall, we are affirming our $150 billion target, with approximately 70% raised to date. We anticipate having substantially achieved this by early next year.

Fourth - our latest fund-raising cycle has positioned us very well for the current environment. We have nearly $200 billion of dry powder to take advantage of dislocation. With stock markets under pressure, we did agree to privatize two public companies in an otherwise muted deployment quarter, including a leading provider of events management software and a logistics REIT in the U.K. We also continued our

push into the energy transition space with a commitment to acquire a portfolio of wind and solar assets, through our infrastructure portfolio company Invenergy.

Finally - we remain true to our asset-light, brand-heavy strategy, relying on our people and track record to grow. We continue to operate with minimal net debt and no insurance liabilities. Over the past five years, we've generated $22 billion of distributable earnings and have paid out 100% of these earnings through dividends and buybacks. Our share count has remained flat over this period, despite AUM more than doubling. There are few firms in the world with such a shareholder-friendly approach to returning capital to investors. Our unleveraged, capital-light model is especially valuable in a time like this.

In closing, despite the market's near-term challenges, we remain focused on being long-term investors: patient with our existing assets and lightning quick as opportunities emerge. And our model allows us to do both.

With that, I will turn things over to Michael.

Michael Chae: Thanks Jon, and good morning everyone.

The firm's first-quarter results reflected steady performance against a challenging external operating environment. Our funds protected capital in volatile markets, and we continued to expand the foundation of the firm's earnings power across multiple drivers of growth. I'll discuss each of these areas in more detail.

Starting with results. The unique breadth of our platform, and the power of our brand, have led to continued strong momentum across inflows, AUM and management fees. Total AUM rose 8% year over year to $991 billion, with $217 billion of inflows over the last twelve months. This is through a period in which the S&P 500 declined 8% and the public REIT index was down nearly 20%. Fee Earning AUM also increased 8%, driving base management fees up 13% year over year to a record $1.6 billion in Q1 – marking the 53rd consecutive quarter of year-over-year growth.

Fee related earnings were $1.0 billion in the quarter, or $0.86 per share – stable with Q4 – supported by the growth in management fees and the firm's strong margin position. The year-over-year FRE comparison was affected by a decline in fee related performance revenues; as we highlighted previously, we expect these revenues to accelerate in the second half of this year. With respect to margins, FRE margin for the trailing twelve months expanded 80 basis points from the prior-year comparable period to 57.4%, reflective of the firm's disciplined focus on managing expenses in a difficult environment.

Distributable earnings were $1.2 billion in the first quarter, or $0.97 per share – again, largely stable with Q4. Net realizations declined year over year, as last year's market turbulence had the effect of reducing the realization pipeline entering 2023. Notwithstanding these headwinds, the firm's ability to generate approximately $1 per share of DE again in Q1 – a level met or exceeded now for seven straight quarters – illustrates the elevation in earnings power that has been underway at Blackstone.

In terms of realizations, during the quarter we took advantage of a favorable window of market liquidity before the SVB-related turbulence to sell $3 billion of public stock across a number of portfolio companies in private equity, at an aggregate multiple of investor capital of approximately three times. These sales included the full exit of our stake in Sona Comstar – a company we transformed from a traditional auto parts supplier into India's largest electric vehicle components provider. Including prior sales, we generated $1.4 billion of gains on this investment at 11-times our LPs' money.

While the environment for realizations is likely to remain challenged in the near term, our long-term fund

structures allow us the benefit of patience. We can focus on building value while we wait for market conditions to improve. In the meantime, the firm's performance revenue potential continues to grow. Performance revenue eligible AUM in the ground was nearly $500 billion at quarter end. Net accrued performance revenue on the balance sheet – the firm's "store of value" – stands at $6.4 billion, or $5.27 per share. While down from a record level in Q1 of last year, primarily due to realizations, the receivable is still up 22% in two years and has nearly tripled in three years. And we hold $16 billion of public stock in our private equity and real estate drawdown funds. When markets ultimately stabilize, we are well positioned for an acceleration in realizations.

Turning to investment performance. In the first quarter, the corporate private equity funds appreciated 2.8%, and overall, our portfolio companies are reporting strong revenue growth and resilient margins. In real estate, the BREP opportunistic funds were largely stable in the quarter, while the core-plus funds depreciated 1.6%. We are seeing sustained strength in our key sectors in terms of cash flow growth, offset in Q1 by sharp write-downs in our remaining traditional office portfolio, which we had already significantly reduced over a period of multiple quarters. Within core-plus, BREIT's Class I shares reported a modest negative net return of 0.5%; however, BREIT's return was a positive 0.6% excluding the effect of its interest rate hedge, which was impacted by the dramatic decline in the 10-year treasury yield.

The hedge overall has generated substantial gains for investors, locking in low-cost fixed-rate debt ahead of last year's rise in interest rates. Since inception, BREIT has delivered net returns of approximately 12% per year, or nearly three times the public REIT index.

In credit, the private and liquid credit strategies appreciated 3.4% and 3.0%, respectively, in the first quarter, reflective of a healthy portfolio generating attractive current income. And in BAAM, the BPS gross composite return was 0.9% in Q1 – the 12th quarter in a row of positive performance. Moving to the outlook. We remain highly confident in the multi-year expansion of the firm's earnings power and FRE, with several embedded growth drivers. First, in our drawdown fund business, we continue to advance toward our $150 billion target across 18 funds. Second, our perpetual capital platform continues to expand, with AUM up 13% year over year to $381 billion, including more than 30% growth in our BIP infrastructure and BCRED strategies. Third, in the insurance area, AUM for our dedicated platform has reached nearly $170 billion, up $9 billion sequentially from Q4, driven by robust inflows from our major clients. For 2023 in total, we expect inflows of $25-30 billion from these clients. And we anticipate substantial, largely contractual growth for our insurance platform in the years ahead. To summarize – the firm has significant momentum, with multiple engines driving us forward.

In closing, we are very optimistic about the future of Blackstone. Our business model is designed to protect us in difficult times, and we have greater investment firepower than ever before. We remain totally focused on delivering for our investors. With that, we thank you for joining the call and would like to open it up now for questions.

Moderator: Thank you. As a reminder, please press star one to ask a question. We ask you limit yourself to one question so we may take as many questions as possible. We'll take our first question from Glenn Schorr with Evercore.

Glenn Schorr: Hi, thanks very much. So I'm curious, you mentioned that 20% AUM, thereabouts, that you're sitting on, the almost $200 billion. And in the comments, you both said, ahead of what we believe will be an attractive environment for deployment. Are there any leading indicators that would give us any confidence that it's coming in the near term? I know it's a lot, I know it's eventually going to happen, but what are you looking at to see closing of bid-ask spreads, or is it a funding environment thing? Just curious to get more color on that. Thanks.

Jon Gray: Glenn, I think it's a good question. I think the answer is not one size fits all. I think what we will see is more activity on the private credit insurance side, because there, because of the tightness in the banking system, I think deployment there should accelerate. In our secondaries business, we've begun to see transaction activity pick up. In fact, in the first quarter that was up, I think the highest level since the fourth quarter of '21. So, we are seeing some folks who are looking for liquidity to get below, sort of their target allocation levels. I do think for private equity, real estate private equity, those things take a little bit of time, there tends to be a need for a little more sort of confidence in markets, a little more stability, and I think that'll be a little while in the making. A lot of it does tie to sentiment overall. Obviously, as inflation comes down, I think that's a very important indicator to give markets confidence. Right now, people are concerned about the banking system. They're concerned about a slowdown, and that doesn't tend to lead to a lot of transaction activity. So, I think it will happen in waves in different segments. It ultimately will happen, it always does. But it's hard to point to any one thing as we sit here today.

Glenn Schorr: Okay. Thanks.

Moderator: Thank you. We'll take our next question from Craig Siegenthaler with Bank of America.

Craig Siegenthaler: Thank you. Good morning, Steve, Jon. Hope you are both doing well.

Steve Schwarzman: Thanks.

Craig Siegenthaler: So, if you add the $5 billion of real estate debt SMAs plus the contribution on credit, it looks like the insurance channel probably drove about $10 billion net flows or about a quarter of the total this quarter. So I'm wondering, did I get that right? And then extending this thought from here, we wanted your perspective on the insurance channel's ability to generate outsized flows over the next year, before we see markets recover, and then flows from the retail and institutional channels reaccelerate?

Jon Gray: So, I think the number is a little over $8 billion, but you're close, Craig, from insurance. I think the nice thing about insurance, as Michael pointed out is we have these contractual relationships with large clients, notably with Corebridge. We're just starting to ramp up the flows from the Resolution partnership we have. There are strong inflows at Fidelity Guaranty as they grow their business, and all of that gives us a lot of confidence in terms of the outlook from our major clients. I think additionally, there are others in the space, who see what we're able to do in areas like asset-backed finance, corporate direct lending, and they're looking to do some SMAs targeted in areas. And as we get more scale, it creates a bit of a virtuous cycle. And then of course, there are the episodic moments where we find a larger potential customer. We now have four. We also have Everlake as well, the former Allstate life and retirement platform. So I think we've got multiple engines. We've got this contractual growth that will continue to grow over time and take us up to $250 billion, basically on its own. Our clients could find other strategic things to do. We've got these SMA opportunities with insurance companies really around the globe. And then we can find new large-scale clients. And I think that's really the beauty of our model, which is – we're not an insurance company, we're an asset manager. And so we can serve multiple clients, just like we do in our institutional business. So I would say our confidence level around the insurance area remains extremely high.

Moderator: We'll take our next question from Adam Beatty with UBS.

Adam Beatty: Thank you and good morning. Just wanted to follow-up on the opportunity in private credit, very interesting and attractive. Want to get your thoughts on another source of private credit, which has been syndicated lending that's been fairly weak or even totally stuck over recent periods. So, how do you see that part of the environment? Is there a recovery in the offering there? And would that

affect kind of the growth trajectory you see for private credit at Blackstone? Thanks.

Jon Gray: So, the syndicated lending market, its challenges are that there's a lot of volatility in the system. So, if you're a bank today and you're generally in the moving business, right, you commit to a non-investment grade corporate credit, a private equity deal, you're trying to sell that down. But given the volatility, you're going to say to the borrower, hey, look, I need a lot of flex in the pricing. I need to be able to gap out the pricing 200, 300 basis points, and when there's this kind of volatility that makes it hard. And as a borrower, putting on our private equity cap, we prefer to do things on a direct basis, where we know we have certainty. At some point, of course, volatility will come down and the syndicated market will become more competitive. But I do think structurally over time, direct lenders have a competitive advantage, because they're in the storage business. And I think they will continue to gain more share on newly originated deals, where you've got to make a commitment for a public to private that lasts a long period of time. I think once a borrower's in the marketplace, is established, there's not an intermediary who has to take a bunch of near-term credit risk, the syndicated market has a lot of competitive advantages. So I think they both coexist, but I think in the new origination market, more and more of that will move to direct lenders.

Adam Beatty: Great perspective, appreciate that.

Jon Gray: Yeah, and I would just point out, we're big players in both. We're the leading investor in CLOs and we're the leading direct lender as well. Sorry, go ahead.

Adam Beatty: Yeah. Excellent, fair enough.

Moderator: We'll go next to Mike Cyprys with Morgan Stanley.

Michael Cyprys: Great. Thank you, good morning. So a question on investment performance. Blackstone has generated very strong returns historically, but just as you look out over the next decade, I'm just curious to hear your perspective around Blackstone's ability and also the overall private market industry's ability to deliver excess returns over public markets. And the question is, in what sort of environment would you say the scope for outperformance is more versus less? And what are some of the opportunities there and steps you could take to enhance your ability to generate excess return, such as with direct origination and also harnessing artificial intelligence?

Jon Gray: So, I would say for the last 30 plus years we've been at this now, we've continued to have durable advantages over public markets in our investing. And I think it comes down to our sector selection, the advantages of scale and often inefficiencies in marketplaces, our ability to intervene in companies, which is really important with our Portfolio Operations team, and then our capital allocation decisions for these companies. And that formula has continued to work extremely well in very good environments and very challenging environments. And I don't see any reason why that goes away in fact, we think as we get larger, we get better at this. We get better at scale, because of the competitive advantage of size in the private markets, but we also have more inputs. If you think about investing as pattern recognition, connecting dots, I don't think there's any firm in the world who gets to see more dots than we do. And so we can see something that's happening in the United States and how it's relevant in other parts of the world, you can see that in our global logistics investing. I think there are real powerful advantages from our scale and our model. So, we think these return premiums will persist over time.

In terms of technology, Steve can comment, but I would just say we've made a huge investment here on data scientists. We've got more than 40 of them. Every time we do a deal in private equity, in real estate infrastructure, we've got a data scientist on the deal team, we're embedding them in our portfolio companies, we realize the world's changing quickly, and we want to invest in that and be ahead of it.

Steve Schwarzman: So that, that area – this is Steve. That area is really sort of exploding. And, you know, we saw this probably five to six years ago. And we started a department here, we have fantastic people. We use them on due diligence, interestingly, because when you accumulate large databases, sometimes it's hard to figure out what's going on with them, and we have that ability to do it. This whole generative AI area, which is fascinating, we've had our people out in California meeting with a lot of the people. You know, I've been involved in the whole AI area, funding the college of computing at MIT, and other AI ethics area at Oxford. And so we have a very unusual network here for sort of a commercial firm of knowing what's going on. And I was with somebody last night who is very involved in the sector, and I think you're going to see – this is outside of a Blackstone earnings call – just a dramatic increase in power and efficacy in the AI area. And that kind of power applied to databases will have very important outcomes. Some of these large language models will be a little erratic for a while. But as this is applied, for example, individual businesses can set up their own generative AI over time. As this technology develops, those databases will be protected, which is one of the risks of the large databases. And you'll be able to do really, very, very unusual things analytically off of that model which most people don't even know is a potential. So, strap yourself in, on this one. It's going to be a fascinating time.

Weston Tucker: Next question, please, Kate.

Moderator: Thank you. We'll go next to Ken Worthington with JP Morgan.

Ken Worthington: Hi, good morning. Thanks for taking the question. I'd like to focus on BREDS. The pace of inflows has really picked up over the last two quarters, I assume helped, in part, by your insurance relationships. So maybe first, how is demand for BREDS developing from your non-insurance clients? Secondly, how are commercial real estate conditions impacting the size of the addressable market for BREDS from the investment perspective? And then lastly, deployment remains very light, similar to the other parts of your real estate business. Can you share the outlook for deployment for BREDS, and are the factors impacting deployment any different from Core or opportunistic real estate?

Jon Gray: Well, I think our real estate debt business has a really great spot today. Banks are quite focused on CRE exposure, shareholders, regulators, and that is leading to a pullback. So, if you have fresh capital to deploy in that area, I think it's quite positive. It can be on the new origination side, in our latest BREDS fund, which we're in the process of raising. It can also be in liquid real estate securities – debt securities, where people are just cautious in trying to reduce exposure. We talked here at the beginning of the call about the massive differentiation across real estate. And now at times you see people just pulling back regardless of the sector they're exposed to. So, I think the opportunity in real estate debt will come first. And I think it's a very favorable time to be a lender in that space. Obviously, the office sector in the U.S. is one cautionary area where there's more exposure, although debt loan to value levels were much lower than they were in the last downturn.

I think overall the opportunity exists here with insurance clients and with regular way institutional clients. We're going to continue to pursue it broadly. It's one of the great things about Blackstone is we have so many different engines out there. In real estate, we not only have this equity business, we have a very big real estate debt business, which alone is $60 billion. In most firms, that would be quite sizable. But inside our nearly trillion dollars, it doesn't get a lot of attention. But I do think it's an area of growth for us. I think, you know, we're obviously raising the next drawdown. And for the insurance clients and institutional clients in more liquid areas, I think there's a lot of opportunity.

Ken Worthington: Great, thank you.

Moderator: We'll go next to Brian Bedell with Deutsche Bank.

Brian Bedell: Great, thanks. Good morning, folks. Maybe just to pivot to BREIT, Jon, you talked about the potential for mark-to-market improvements in rent. How would you think that kind of layers through over the course of the year? I mean, obviously, the hedge on the long bond hurt a little bit in the first quarter, but as we move through the year, are you optimistic that that performance profile will improve? And as investors think about the redemption request, do you think it will be more of a factor of overall risk off appetite in the market? Or do you think that BREIT investors will see that performance improvement potential, and therefore even reduce those redemption requests and potentially turn this product net flow positive, later this year?

Jon Gray: Well, ultimately, Brian, it's performance that matters and I think what's remarkable, there's a lot of attention as you know on the redemptions. What's quite remarkable is that in the first quarter, we saw a 9% estimated same store cash flow growth against this very large $100 billion plus portfolio of commercial real estate. And it speaks to the positioning of the fund, our exposure in rental housing, not just traditional rental housing, but also in single family rentals, in student housing where there's real strength. It's the logistics where you have this big mark-to-market. We have some hotel exposure, and one area we haven't talked a lot about, BREIT has a data center business that is doing extraordinarily well.

And we believe that the position of BREIT in those sectors, and its focus on the Sun Belt, again, the fact that we chose to invest most of this in the Sun Belt, in places like Texas and Florida is a real difference-maker. And we think, as you look over time, that's what really matters here.

Now, as you look forward, what's going to impact the redemptions. I think it's a combination. I think it will be multiple months of positive performance, will show people and give them confidence as well as volatility in the marketplace coming down. Right now, we're seeing investors cautious really towards all equity vehicles and we're seeing something as you know better in terms of flows today in BCRED, because investors are more open to the debt business. But we think this is just a question of time. If we deliver, given the portfolio we built, the structure we've got here, this is working for investors as we've talked about, 12% since inception, triple the public REIT index. That's ultimately what matters. The portfolio positioning is what matters. And then as that performance shows up, as markets become a little less volatile, then I think you'll see a resumption of more positive flows here.

Steve Schwarzman: Well, one thing that Jon mentioned was data centers. And we own one of the largest data center companies in the world. The growth in that area as a result of the changes with AI are going to be really, really substantial. The need for data centers is going to escalate. I point that out just as an area of competitive advantage for us in our funds.

Weston Tucker: Great, thanks, Brian.

Brian Bedell: Great. Thank you for all that color.

Moderator: We'll take our next question from Alex Blostein with Goldman Sachs.

Alex Blostein: Hi guys, good morning. Thanks for the question. So, I was hoping we could expand the credit discussion a little broader to sort of all things private lending. In prior periods of dislocation, Blackstone really used it as an opportunity to sort of build out new businesses. And direct lending has been going there in that direction for a while. CRE, as we talked about, looks interesting. But what else is out there that you think is currently performed by the banks that could fit the private model? What do you see the biggest kind of disconnect between supply and demand? And maybe talk a little bit about your ability to raise capital around those initiatives?

Jon Gray: Great question, Alex. I would say the asset-backed area is the greatest area of opportunity today, beyond what we've talked about in direct lending to corporates, as well as commercial real estate. The regional banks generally play a very large role in home improvement loans, in auto loans, equipment finance, those are all areas of opportunities. I'd also say NAV lending to funds is another area in the asset-backed space, we see a lot of opportunity. And what's happening today is there are banks out there who have very good relationships with borrowers who want to continue to generate this flow, and we can be a long-term partner to them, and take a share of that flow. And we're in a number of discussions. And I think what you'll see here is some potentially funds, but a lot of more targeted SMAs, particularly with insurance clients, and I think also with some of our traditional pension clients. And what's happening here is the private equity and alternatives business started in the equity space, taking money out of public equity allocations. I think the opportunity today is in fixed income to convince institutional investors to take a little less liquidity and to partner with somebody like us. So I think you could see this with our large institutional clients scaling up quite a bit. And certainly in the insurance arena, and that's why we said we really think it's a golden moment for private credit.

Alex Blostein: Great. Thanks for that.

Moderator: Thanks. We'll go next to Finian O'Shea with Wells Fargo.

Finian O'Shea: Hi, everyone. Good morning. A question on the growth opportunity in retail. Can you talk about the competition with cash and how you're positioning products for success against higher money market yields? Thank you.

Jon Gray: Well, what I'd say is in our drawdown funds that we sell, we're obviously targeting much higher returns. So there there's less of an issue. If you look again at what we produced in our private credit vehicle, BCRED, if you look at what we've done in BREIT, again, meaningful premiums over cash, I would point out that BCRED in particular is a floating rate lender. And as a floating rate lender, it's benefiting. Its returns this year have been extremely strong, because defaults remain low and base rates have moved up quite a bit. We're now also seeing spreads gap out on new originations, which helps. So, BCRED is perfectly positioned, benefiting as rates move up. BREIT still has a favorable yield, because if you remember we pay out north of a 4% dividend for U.S. investors, because of the tax shield here it has an effective current yield, close to 7%. So, we think these products are still very well positioned. That has increased competition for us today. But over time, we think it's total return that really matters.

Weston Tucker: Thanks, Katie.

Moderator: Thank you. We'll take our next question from Jerry O'Hara with Jefferies.

Jerry O'Hara: Great. Thanks. Perhaps one for Michael. You mentioned FRPR to likely accelerate in the back half of the year. So, kind of hoping you might be able to maybe give us a little bit of color, what gives you confidence or visibility there. And then, I guess, thinking about it, on a related basis, ex- the FRPR, any sense of how we could think about incremental FRE margin expansion throughout the kind of next 12 to 18 months would also be helpful. Thank you.

Michael Chae: Sure. All right. Jerry, on FRPRs, we talked about this before in my remarks, but we definitely see an acceleration. And specifically, I'd point to two things, BPP, FRPRs in the second half of the year, we have a schedule. It's known what will be eligible for incentive fee events. I think we mentioned last quarter, four times more AUM will be crystallizing this year than last year. There was very little in the first quarter. There will be a modest amount in the second quarter. So, it's a really second half event. The ultimate dollars from that will obviously be a function of the embedded gains at that time, but

we have decent visibility on that.

You know I'd also note on BCRED, which is sort of a little bit below the radar as it relates to FRPRs, that is obviously a steadily expanding base of both management fees and FRPRs, and those FRPRs are based on investment income borrowers paying interest, it's a very stable and crystallizes quarterly. It's a very stable source of incentive fees and I'd note that FRPRs from BCRED, we don't break it out, but those doubled year-over-year in the first quarter, actually. So there's important underlying momentum, I think, from multiple areas, not just the ones that get a lot of the attention. On margins, as I said in my remarks, I'd just say the big picture is we I think stepping back we I think it's fair to say we've demonstrated the ability to generate significant operating leverage over time. And that comes from strong underlying management fee growth for long periods of time and disciplined approach to cost management, and our biggest area of cost, compensation, we fundamentally have a performance aligned structure over which we have considerable control. So in terms of the outlook as always I would focus on full-year delivery, not intra-year or quarter-to-quarter. I'd refer you back to my comments from last quarter regarding confidence about margin stability and so for the full year 2023, relative to 2022, I think we continue to feel good about that.

Weston Tucker: Thanks Jerry.

Moderator: We'll take our next question from Ben Budish with Barclays.

Ben Budish: Hi, there. Thanks for taking the question. I wanted to ask about a refinancing risk across the portfolio. Thinking about real estate in particular, but kind of wondering are there any areas where you have portfolio companies or real estate assets paying fixed rates on their debt, where there could be potential step-up over the next few years? How are you guys thinking about that risk there?

Jon Gray: Well, what I would say on that is the good news is we have very little in the way of near-term maturities, which is the most significant thing. We generally are operating funds these days at far lower leverage than we had in the past, and we have ample reserves in these funds. And because we're positioned in the strong sectors, cash flow growth has been very significant, which really helps when you get to refinancing. So had we positioned heavier, obviously, in U.S. office buildings, excuse me, had we done a lot in retail, I think we would be more vulnerable. Doesn't mean there aren't specific situations, and at times we have walked from assets when we don't see equity value. But when you look at our portfolios as a whole, we've used a very disciplined approach to leverage, and even at higher interest expense, we feel good about our ability to refinance and extend our debt.

Michael Chae: And Ben, it's Michael, just maybe I'll add some stats around that. I mean, I would just reinforce what Jon said. I think our teams are the best in the business actually, at sort of managing capital structures, laddering maturities, and making that a constant process. Locking in floating rates – fixing floating rates at attractive moments. And so just in terms of some metrics across our real estate and private equity portfolios, these are our, portfolio companies, the average maturity, remaining life in the maturities, are about 4.5 years. So we're talking about, you know, the end of 2027. So really good runway there, as Jon said, minimal maturities across the portfolio this year. And in a business like private equity, even though there's typically on the face of it, you know potentially a fixed high yield component, but also a floating rate senior debt component, as I mentioned, our teams worked and have worked in the past to, you know, fix those floating rates at attractive times. So approximately probably two-thirds of our private equity debt is essentially fixed rate at attractive levels. So we're very, I think, conscientious and focused about managing our capital structures.

Ben Budish: Great. Thanks so much.

Moderator: We'll go next to Patrick Davitt with Autonomous Research.

Patrick Davitt: Hi. Good morning, everyone. PE fundraising remains pretty anemic, and you mentioned it remains tough, but there was a poll out from BlackRock this week, which I think had the fairly surprising conclusion that the respondents by far most wanted to increase asset allocations to private equity this year. That appears to be an outlier versus other polls we've seen. So through the lens of that, do you sense, like, in your more broad discussions with LPs, that they're starting to step in more to PE allocations, and thus we could see a bigger uptick sometime later this year? Or is that poll surprising to you as well?

Jon Gray: Yeah, it's interesting. Our clients love private equity. That's the bottom-line. And why do they love private equity? It's because it's been the best performing part of their portfolio for a long period of time, at virtually every one of our clients. So, when you have something that does well, you generally want more of it. Their challenge, of course, is that it's grown to be above their target. So, they could have 10% or 12% or 15% target there above that and so they're constrained, and therefore in some cases they're doing some secondaries, in some cases they're raising the allocations. We talked last quarter about New York State raising allocations to private equity, but it's making them more cautious in the sense they only have so much budget to allocate. But it's not because of a lack of desire. And I would make the broader point, which is so important to our firm overall, our clients like alternatives. Our institutional clients, insurance clients, individual investors. And so the mega trend is intact, we're in a more challenging moment, but clients' desire for alternatives is very strong, but there are some structural challenges, just in the near-term because they may be over-allocated right now. Those things tend to go away over time, and their desire will become reality. And so that's what gives us a lot of confidence, but yes, near-term, a more challenging private equity fundraising environment.

Steve Schwarzman: Yeah, but in the same survey, credit was up 52%. What it said is that 52% of institutional investors want to increase their allocation to credit. And we're feeling that and that's a theme that both Jon and Michael really amplified on and you know the BlackRock survey indicates, and it's quite logical that that's a place to go, and that's not something historically that has been a first choice kind of decision at a time of low interest rates, obviously. That's all changed.

Weston Tucker: Thanks, Patrick.

Moderator: We'll take our next question from Michael Brown with KBW.

Michael Brown: Hi, great. Just wanted to ask on the real estate segment, how should we think about the interplay of the growth in the equity and debt funds here and how that could play out for the fee rate for the segment overall? So I know the fee rate is generally an output here, but given the growth of BREDS, and the strength of the insurance SMA business, is it fair to assume that the strength there could actually put a little bit of a downward mix shift on the fee rate overall for the segment?

Michael Chae: Michael, overall, I think, zooming out on the firm and on the real estate segment, as you probably know management fee rates over long periods of time had been remarkably stable and in fact, if anything tilting upwards. Probably the one sort of dilutive factor is, frankly, the great growth of insurance, and that and that sort of by a couple of basis points overall affects the firm's overall management fee rate. I think for the real estate segment, and Jon can chime in on relative growth rates, long-term positive tailwinds, obviously, around the growth rates of both. The actual management fee rates, I think, on the BREDS business are not such that I think you would see the overall segments management -- weighted average management fee to dilute by very much over time.

Weston Tucker: Great. Thanks Michael.

Michael Brown: Okay, great. Thanks.

Moderator: We'll take our next question from Bill Katz with Credit Suisse.

William Katz: Thanks very much for taking the question this morning. Just circling back to the retail opportunity, I'm sort of wondering if you could think through or help us think through the evolution of the opportunity as it relates to product design in terms of the liquidity nature of the business, any shift in the pricing? And then from here, what products do you think will drive incremental growth, and any update around private equity opportunity for that? Thank you.

Jon Gray: Thanks, Bill. I would say, we still see this as an enormous area of opportunity. There's $85 trillion of wealth in accounts where people have more than $1 million to invest. On average, folks in the individual investor space are only allocated 1% or 2%, to alternatives, as opposed to our institutional clients who are 25% or 30%. So there seems to us to be a lot of runway in this area. It does tend to lend itself a little better to yield-oriented products. So real estate and credit, not a surprise we started in these areas. I think as it relates to the liquidity features, you know, I think we've done a very good job creating these products, so we were match funded. I think BCRED for us, which has quarterly redemption features and a bit of a delay on when those redemptions come out, is probably a little bit of a better structure. That being said, you've seen with BREIT, we've done a terrific job managing this, running it with appropriate liquidity and delivering great returns for investors.

And I do think as these products evolve over time, there'll be a little more focus on how potentially they can be tweaked to optimize both return and risk. Also, when you sell these products, what kind of program and set-up can you use to make sure investors recognize this should be a long-term holding for them like it is for institutional investors.

In terms of new products, yes, I think private equity broadly is an area of opportunity. It's corporate private equity for us, it could be secondaries, it could be life sciences, growth, tactical opportunities. We really have a unique platform that can source a lot of deal flow. Again, this is a less liquid area than real estate and credit, so the structure would have to align with that. And then I think infrastructure, something we haven't talked about on the call, could be an area of opportunity. As you all know, we've grown that business in five or so years to $36 billion of assets, outstanding performance, really delivered for institutions. Again, it's a long-term compounder with a yield component, should be attractive. So, and then I think there are subcategories, who knows, real estate debt, other areas multi-asset credit, I think as we build relationships with individual investors and deliver for them, their confidence in investing in a range of products and having a mix of both the semi-liquid vehicles, and then for some drawdown vehicles. I think all of that will grow. People are focused on the near-term, it's a volatile market, there's more caution today, but the long-term trends as I said, are very much intact, I think particularly in the retail space.

William Katz: Thank you.

Moderator: We'll go next to Rufus Hone with BMO.

Rufus Hone: Hi. Thanks very much. I wanted to ask about credit and insurance, maybe focusing in on origination. Can you talk about the build-out of your origination capabilities? You've mentioned a few key areas already like asset backed, but is there also maybe a longer-term margin expansion opportunity, assuming you've had to invest quite a significant amount to scale that front-end origination capacity so significantly. And if you could put some numbers around the size of your origination capacity, that would be really helpful. Thank you.

Jon Gray: The numbers, the total amount of credit origination across real estate, asset-backed, corporate, I don't know, Michael, do you have that number?

Michael Chae: The number on a – in terms of the – our deployment numbers are more around the private strategies. In our liquid credit strategies, in some cases, they're effectively trading strategies, the origination numbers are multiples of that, I would just say.

Jon Gray: Yeah. And I would say overall these are in the tens of billions of dollars in terms of the scale of this. We have made an enormous investment in people. You know, I don't know to the specific numbers, how much margin improvement. I think this is mostly about the growth in assets and fees overall. Like all our businesses, there tends to be a margin improvement over time. I mean, really, since we've gone public over the last 15 years, you've seen steady improvement in margin. I would expect in this area, you would see margin improvement over time. But we just see a lot of white space in this area. And once you have these engines of origination, once you have a large commercial real estate origination capability, a direct lending capability, once you're doing things in all sorts of these asset-backed areas we talked about, then you can attract more assets. So, I would just say overall still early days in our mind.

Michael Chae: Yeah, and Rufus, I would just add – it's Michael – I guess three things are true. One, is we entered this insurance, dedicated insurance space a number of years ago, with the advantage of having these platforms and direct origination for both corporate and real estate credit, very well developed and built out. So they were there to be leveraged with some, but not an undue amount, of incremental investment. Second thing is we have been investing. So beneath the surface of the margin we've been producing, we've been investing in this area generally, both in terms of sort of depth and breadth, and then also in newer asset areas like asset-backed finance. And then third, I would say, as we've commented before, the sort of incremental margin profile of this insurance capital is very attractive.

Rufus Hone: Thank you.

Moderator: We'll take our final question from Arnaud Giblat with BNP.

Arnaud Giblat: Good morning. Thanks for the question. If I could come back to the private wealth space. A number of your competitors are entering or looking to enter the space there. I'm just wondering if you could touch a bit more on your competitive – how you see the competitive situation evolve there. What's your competitive advantage, maybe in light of the fact that today private investors might be a bit lesser allocated. So, maybe there might be less of a brand advantage. So, I'm just wondering how you're thinking about really positioning and increasing your competitive moat there. Thank you.

Jon Gray: So it's no surprise when you have a big market and people see the opportunity that others move in, and we expect to have more competitors. What I would say is we have a number of advantages. First, we've really been the first mover in the space. We built out our private wealth distribution team. Joan Solotar and her team have done a terrific job. We have hundreds of people on the ground around the world, and that matters. And also what matters is we've built up relationships with financial advisors around the world, particularly here in the United States. They've been investing in a range of Blackstone products for a long period of time, both drawdown and semi-liquid products. And of course, most importantly, they've had good experiences, and that really matters.

And then, I do think the brand makes a difference. When you go and you talk to a financial advisor or their end customer, the fact that they know who Blackstone is, does make the likelihood of purchase much greater.

And finally, what I'd say in this space, unlike the institutional space where you can have thousands of private equity firms, you can't have large numbers of firms on these platforms. They're going to have a handful in private credit, private real estate, maybe in private equity. We think we'll have a slot in almost all of these places, because of our brand, our reach, the track record. I think that's a very good spot to be in, we've invested here early. We think we're going to continue to build on what we've done. And if you ask financial advisors out there about Blackstone, I generally think you'll hear very positive things about the way we've done this. We brought fees down pretty dramatically when we entered the space, because we were focused on net returns, we've added a whole new level of transparency, and engagement in all of this, all this investment over a decade plus is going to pay big dividends over time.

Steve Schwarzman: Now one other thing. We've been doing this for like 10 years, roughly. And when we started, hardly anybody in that channel knew what we were doing or what the program was. And so we started a series of in-person, what we call, BX Universities - Blackstone Universities. And we have had, I don't know the number, whether it's 10,000 or, you know, FAs, who've been at the firm. And they usually come for a day. And we introduce them to each of our different business areas. We teach them how alternatives work, the differences between that, and other types of immediately liquid types of investments, as well as why the returns are higher.

And I can't overestimate for you, how important this is, because when somebody comes and spends a day, and sometimes it's more than a day, and learns something from the ground up, they go back and they talk to people who work with them, people who are in the same office. And they say, you should really be doing this. And that sort of viral kind of internal marketing is pretty remarkable. And since, we've been doing it, when no one was doing this, I mean, we were just alone. We have a group of people who really trust what we're doing and our fulfillment organization, which is different and service, you know for customers of that type is totally unlike institutional type of support. And we built that over a very long period of time and no one else had that, who competes with us.

And so there is a – when Jon mentions a first mover advantage, it's really about people and reputation and knowledge and performance and that type of thing really is quite enduring. So, I leave you with that one.

Weston Tucker: Thank you, Arnaud. And thank you, everyone, for joining us today. If you have any follow-up questions, I look forward to connecting after the call. Thank you.

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