BLACKSTONE Second Quarter 2022 Investor Call
July 21, 2022 at 9:00 a.m. ET

Moderator: Good day everyone and welcome to the Blackstone Second Quarter 2022 Investor Call hosted by Weston Tucker, Head of Shareholder Relations. My name is Ben and I'm your event manager.

During the presentation, your lines will remain on listen only. If you require assistance at any time, please press star zero on your device and the coordinator will be happy to assist you. If you wish to ask a question throughout the conference, please press star one on your device. Please only present one question at a time and then press star one again for any follow-ups so everyone can get an opportunity to participate. Thank you.

I'd like to advise all parties that this conference is being recorded. And now, I would like to hand it over to your host. Weston, the word is yours.

Weston Tucker: Terrific. Thanks, Ben. And good morning and welcome to Blackstone's second quarter conference call. Joining today are Steve Schwarzman, Chairman and CEO; Jon Gray, President and Chief Operating Officer; and Michael Chae, Chief Financial Officer. Earlier this morning, we issued a press release and slide presentation which are available on our website. We expect to file our 10-Q report in a few weeks.

I'd like to remind you that today's call may include forward-looking statements, which are uncertain and outside of the firm's control and may differ from actual results materially. We do not undertake any duty to update these statements, and for a discussion of some of the risks that could affect results please see the "Risk Factors" section of our 10-K. We'll also refer to 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 audiocast is copyrighted material of Blackstone and may not be duplicated without consent.

On results, we reported a GAAP net loss for the quarter of $256 million, distributable earnings were $2 billion or $1.49 per common share, and we declared a dividend of $1.27 per share paid to holders of record as of August 1st.

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

Steve Schwarzman: Thanks a lot, Weston. Good morning and thank you for joining our call. As you know, the second quarter and the first half of 2022 represented some of the worst periods for market performance in history. Investors were anticipating extremely high levels of inflation, rising interest rates, and a slowing economy.

The S&P fell 16 percent in the quarter and 20 percent in the first 6 months of the year, the largest first half decline for US equities in over 50 years. Debt markets experienced their largest decline on record. Taken together, the typical 60/40 portfolio produced its worst return since the Great Depression of the 1930s.

Capital markets activity, of course, slowed dramatically, including US IPOs down over90 percent year-on-year and commodity prices soared, but now appear to be backing off from their highest levels.

Despite these hostile conditions, Blackstone again delivered outstanding results for our investors. Distributable earnings in Q2 nearly doubled year-over-year to $2 billion, one of the two best quarters in our history, driven by a 45 percent growth in fee-related earnings and record realizations.

We raised a remarkable $88 billion of inflows – that's $88 billion of inflows – in a quarter in the midst of the market chaos, our second highest quarter ever, and equal, ironically, to Blackstone's total AUM at the time of our IPO in 2007.

For the past 12 months, inflows reached $340 billion, driving a 38 percent increase in AUM to a record setting for us $941 billion. We are about midway through the largest fundraising cycle in our history, with enormous support from our limited partners, providing us with an unprecedented $170 billion of dry powder capital. And over the next several years, we expect historically attractive investment opportunities to arise from this dislocation.

As a result, our fundraising cycle and the deployment of our dry powder should significantly expand the firm's earnings power and fee-related earnings over time.

How can Blackstone generate these extraordinary results while most other money managers are suffering? We believe that it is the power of our brand and our superior performance which have enabled us to build unique relationships with our clients over decades. We've also benefited from the remarkable trends started over 30 years ago of increasing allocations to alternative managers, as investors seek higher, sustainable returns, including retail investors, which represent a vast and largely untapped market. Limited partners across customer channels rely on us to produce differentiated outcomes compared to what they can achieve in traditional asset classes.

In the second quarter, for example, our flagship strategies again dramatically outperformed the relevant market indices, most notably in real estate and our hedge fund solutions business. In real estate, while the public REIT index fell 17 percent in the quarter, our Core-plus funds were up 2.3 percent. I'll do that again for you. The index is down 17 percent; we were up 2.3 percent. And our opportunistic funds protected capital, down only 1 percent, so we outperformed by 16 percent for our customers over the index.

For the first six months of the year, our real estate strategies appreciated 9 to 10 percent versus a 20 percent decline in the REIT index, equaling an outperformance of roughly 3000 basis points. I don't know many asset classes that outperform indexes by 3000 basis points. Meanwhile, in liquids BAAM achieved positive returns again in the second quarter, and a 1.8 percent gross for the first half, outperforming the S&P by 2200 basis points for the 6-month period and the hedge fund index by nearly 700 basis points. This is exactly what BAAM's products are designed to do in down markets. These results, frankly, are stunning compared to the losses most investors are experiencing.

What drives our funds' outperformance and allows us to sustain it over time? Our investment process is highly differentiated, including a rigorous focus on choosing the best sectors and assets always with a priority of protecting capital.

And we create value in our investments with our deep portfolio operations and asset management capabilities. We had anticipated higher interest rates and more pervasive inflation for some time, and we positioned the firm's portfolios to reflect that, which Jon will discuss in more detail. We're seeing the clear benefits of that foresight today and so are our customers.

Looking forward, market conditions will remain challenging. We're cautious on inflation which we think could stay higher for longer than most expect and central banks will have to continue responding. It will be a difficult balancing act to combat inflation, while trying to minimize the negative impact on economies. Europe is also facing the most severe impacts of the war in Ukraine in terms of dislocations in energy markets and the global food supply.

And in Asia the periodic reassertion of COVID remains a headwind to growth. These conditions of course create significant uncertainty for markets. And the critical question is how much has already been incorporated in the broad-base declines that have occurred? It is impossible to know the exact outcome because it depends on future central bank actions, but economic softening along with corporate margin pressure will be prevalent.

Blackstone is uniquely positioned to navigate these uncertainties on behalf of our investors. We've lived through many cycles in our 36-year history. In each one we've learned a lot and each one reinforced the importance of having long-term committed capital. The vast majority of our AUM today is under long-term contracts or in perpetual structures, helping us avoid the large decreases in AUM experienced by many other money managers in this environment, as we've all seen.

Our model also provides us the advantage of patience to buy assets and the flexibility to sell when the time is right. Meanwhile, our portfolio is in excellent shape, having been carefully designed with the current environment in mind. The firm is extremely secure financially with a market cap today of $120 billion, minimal net debt, and importantly, no insurance liabilities.

Our fundraising should allow us to invest large-scale capital at lower prices, providing the basis for substantial realizations in the future. We expect a significant expansion of FRE over the next several years, which Michael will discuss. In conclusion, despite the difficult conditions that come with every central bank tightening cycle, I am extremely confident that Blackstone, as always, will prosper and grow even stronger in the future.

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

Jon Gray: Thank you, Steve. Good morning, everyone. Despite the challenging quarter, Blackstone delivered both for our customers and shareholders. And with four powerful engines of growth and record dry powder capital to invest, we are ideally positioned for the road ahead.

The foundation of our business remains investment performance. The way we positioned investor capital over the past several years is driving differentiated returns today, as Steve noted. We've been preparing for an environment of rising rates and a normalization of market multiples for some time. And the facts on the ground across our global portfolio suggested inflation would be higher and more persistent than many believed.

These views informed our investing, leading us towards owning floating rate debt, hard assets with shorter duration income streams, and high-quality companies with limited exposure to input costs and with pricing power. We also have pursued attractive cyclical opportunities, such as the

travel recovery theme, and we did not lose our discipline even as we invested in faster-growing sectors, always keeping a sharp focus on profitability.

Nowhere are the benefits of our thematic approach more apparent than in our $320 billion real estate business, which just reported a record quarter. Performance remains outstanding, the output of our emphasis on sectors where rent growth continues to meaningfully outpace inflation. In logistics and rental housing, our two largest exposures, fundamentals are the strongest we've seen.

In logistics, e-commerce tailwinds and corporates moving away from just-in-time inventory have driven vacancy towards all-time low levels. We estimate rental growth in our US and Canadian logistics markets exceeded 40 percent year-over-year in the second quarter. And in our US multifamily markets, rents grew 19 percent based on the most recent data for May. BREIT perfectly exemplifies the strength of our concentrated strategy in these two areas, with estimated year-to-date growth in same-store property net operating income of 16 percent.

In corporate private equity, revenue growth in our portfolio also remained quite strong in the quarter, up 17 percent year-over-year for our operating companies, which helped to offset significant increases in labor and input costs. While we were not immune to the market volatility, we saw strong appreciation in our travel, leisure, and energy holdings. These areas comprise 28 percent of our corporate private equity business, compared to a5 percent weighting in the S&P 500.

In our credit business, fundamentals remain healthy. Default rates are historically low. And our focus on large senior secured loans has led to an average loan-to-value ratio of just 44 percent in our US direct lending portfolio, with significant borrower equity subordinate to our positions.

The value of our assets is further highlighted by our record realization activity in the second quarter. The firm's largest realizations in the quarter and among the largest in our history were the $23 billion recapitalization of last-mile logistics platform Mileway and the $5.7 billion sale of the Cosmopolitan Hotel in Las Vegas in two of our favorite secular neighborhoods.

Looking forward, volatile markets do mean realizations will likely be muted for sometime. However, FRE will continue to provide meaningful ballast to earnings during this period. Conversely, market dislocation creates attractive opportunities to deploy, and our enormous dry powder and long-duration fund structures give us the ability to take advantage of these opportunities as they emerge.

Turning to our four engines of growth, our customers continue to respond favorably to our performance and our drawdown fund business could not be in a stronger position today. We launched fundraising for our new global real estate flagship in March, targeting $30.3 billion, which is 50 percent larger than its predecessor and would represent the largest private equity or real estate private equity drawdown fund ever raised.

In only three months, we closed on $24.4 billion, with the remaining capacity already fully allocated. Combined with our BREP funds in Europe and Asia, we will have $50 billion of opportunistic real estate capital to deploy globally, only 12 percent which is invested today. This is a very advantageous position given the current environment.

We've also raised $9 billion to date for our new corporate private equity flagship and expect it to be at least as large as the prior fund. Our private equity secondaries flagship is on track to reach its target of approximately $20 billion, the largest secondaries vehicle ever raised. We closed on

$3 billion for our new growth equity vehicle and expect to exceed the size of the prior fund here as well. And the list goes on. Overall, we remain highly confident in our $150 billion aggregate target for drawdown strategies.

Moving to our institutional perpetual capital platform, which has grown rapidly and now exceeds $100 billion. Our institutional real estate Core-plus strategy, BPP, is $74 billion across 25 different vehicles, including $8 billion of additional perpetual capital raised in the second quarter for the Mileway recapitalization.

As a reminder, we have four open-ended institutional BPP strategies focused on North America, Asia, Europe and the life sciences sector that can continuously raise capital. We also have perpetual closed-end and co-investment vehicles, including Logicor and Mileway in Europe, Stuyvesant Town in New York, Canadian industrial, Japanese apartments and more.

Our infrastructure strategy has grown to $30 billion, with an additional $3 billion raised in the second quarter and over $12 billion of inflows since reopening to new capital late last year. Both BPP and our infrastructure platform continue to benefit from their focus on hard assets and great sectors where inflation is further limiting new supply.

Turning to retail, sales in the channel were $15.5 billion in the quarter. For our three perpetual products – BREIT, BCRED, and BEPIF – sales totaled a robust $11 billion, with an additional $2.4 billion of monthly subscriptions on July 1st. We do offer limited repurchases within these vehicles, which increased in the quarter to $2.9 billion, driven by Asia-based retail investors.

As we saw in 2020, retail net flows are impacted in a volatile market environment, but the key long term is that our investment performance for our three perpetual vehicles remains very strong, as does the positioning of their respective portfolios. Looking forward, we have more perpetual products in registration and we continue to add distribution partners around the world.

Finally, on insurance, our business has more than doubled in the past 12 months to over $150 billion and we are seeing continued organic flows from our clients, totaling $3 billion year-to-date. We are focused on delivering for them and we're also pursuing a variety of additional growth opportunities on a balance sheet light basis.

In closing, we have both the staying power and firepower to thrive in this challenging environment, as we have for 36 years. Our strategy remains the same as always. We are an asset-light, brand-heavy investment manager focused on delivering exceptional returns for our clients, which creates both near-term dividends and long-term appreciation for our shareholders. With that, I will turn things over to Michael.

Michael Chae*:* Thanks, Jon, and good morning, everyone. For the past several years, we've been highlighting the continuing expansion and transformation of our AUM and earnings. At our Investor Day in 2018, we first shared the message about a meaningful step up in earnings power driven by the combination of, first, the drawdown fundraising cycle, at the time consisting of five flagships targeting $60 billion, and second, the growing contribution of our perpetual capital platform. Over the subsequent four years, our asset and earnings base and quality have expanded dramatically, powered by these factors.

The firm's second quarter results reflected another definitive step on this journey. Meanwhile, the key elements of the forward outlook favorably resemble our setup four years ago with a new

drawdown fund cycle underway and a growing array of perpetual strategies. I'll discuss each of these areas in more detail.

Starting with results: The exceptional range of growth engines firing across the firm has continued to propel AUM to new record levels. Management fees grew 28 percent year-over-year to a record $1.6 billion in the second quarter and were up 6 percent sequentially from Q1.

Combined with $347 million of fee-related performance revenues in the second quarter generated by a variety of perpetual vehicles, total fee revenues exceeded $1.9 billion, up 51 percent year over year.

Fee-related earnings increased 45 percent year over year to $1 billion, reflecting the strong growth in fee revenues. With respect to FRE margin, as we've stated before, it's most informative to look over multiple quarters given intra-year movements. On a year-to-date basis, the FRE margin was 55.1 percent, in line with the prior year comparable period, despite a significant step up in T&E expense from muted levels last year. As we noted then, the COVID-related reduction in T&E spend was a benefit that would eventually reverse.

Adjusting for this impact, year-to-date 2022 margins were stable with the full year 2021 as well. For 2022, we expect full-year margin to be approximately in the same 55 percent area, reflecting expansion of over 200 basis points in two years and 900 basis points in four years. Distributable earnings increased 86 percent year-over-year to $2.0 billion in the second quarter, or $1.49 per share, driven by strong growth in both FRE and net realizations. Net realizations rose over two-and-a-half-fold to a record $1.3 billion, powered by Mileway and the Cosmopolitan.

While the overall effect of the current environment will be to slow realizations in the near term, our performance revenue potential continues to build. Invested performance revenue-eligible AUM grew 39 percent year-over-year to a record $487 billion. Net accrued performance revenues on the balance sheet stand at $7.5 billion or over $6 per share. While down from a record level in Q1, primarily due to realizations, this store of value is still up 11 percent year-over-year and is up nearly threefold from the same period two years ago.

Turning to the outlook. Similar to the roadmap we provided four years ago, we believe the combination of the firm's latest drawdown fundraising cycle and the ongoing expansion and scaling of our perpetual capital platform will lead to a structural step up in the firm's FRE over the next several years. First, our $150 billion target across 18 drawdown funds represents an increase of over 25 percent compared to their prior vintages. This engine alone should add approximately 20 percent to FRE as these funds are raised and activated over time.

We expect to launch the new $30 billion real estate flagship in early fall with an effective four-month fee holiday for first closers. We will launch other funds at various points over the coming quarters, depending on deployment. At the same time and alongside the drawdown funds, our perpetual capital platform has expanded dramatically since Investor Day. In the past 12 months alone, perpetual AUM more than doubled to $356 billion, consisting of 21 strategies across 51 discrete vehicles with more in development.

Most of these vehicles generate recurring fee-related performance revenues and momentum in this high-quality earnings stream continues to build. Indeed, perpetual strategies now comprise 45 percent of the firm's total performance revenue-eligible AUM on the ground, or $219 billion, reflecting a model that is less and less dependent on asset sales. In the past, we referred to the layering effect of these revenues as crystallization events that occur on differing cycles across

strategies. In the case of BPP in particular, we expect to see a meaningful step up in fee-related performance revenues in 2023 – with four times more BPP AUM subject to crystallization than in 2022. Overall, our perpetual platform, including both institutional and retail strategies, has been a key driver of the firm's evolution toward higher and more recurring earnings – a progression we expect to continue.

So, in closing, as Blackstone moves into the second half of 2022, despite the many uncertainties in the world, we are highly confident in the future. Our business model is set up to provide extraordinary resiliency in difficult times, as shown throughout our history. At the same time, we have multiple engines of growth driving us forward and are putting in place the foundation for a material step up in FRE.

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

Moderator: Thank you. Allow me to kindly remind our audience: If you wish to ask a question, please press star one on your device. Please only present one question at a time and then press star one again for any follow-ups. Thank you.

And with that, our first question is coming from the line of Michael Cyprys from Morgan Stanley. Michael, please proceed.

Michael Cyprys: *[Connection issue during first part of question]* which we hear is getting a bit tougher. But then, when we look at your results, you raised a staggering amount of capital in the quarter. So just curious, your perspectives on the broader fundraising backdrop here for the industry. And then, how do you expect the balance of the year to play out for Blackstone? And then, any additional help you can provide around how to think about the fee activations and timing around that for the rest of the year and into 2023 and what that means for the financial profile. Thank you.

Jon Gray: Thanks, Mike. I would say on the fundraising front it is getting harder out there. I think there was some Preqin or Bain data that was out this last week that showed private equity fundraising in the first half of the year was down 43 percent. It's particularly tough in North America private equity with institutions. And I think you'll probably hear about more of this from others in the industry, both public and private participants.

I think the key, as you saw in the numbers here and our reaffirmation of our $150 billion target, is that we are in a differentiated spot. It reflects our track record over time, the relationships we've built with LPs. I mean, to raise a $30 plus billion fund in 90 days is pretty staggering. It would be in a good environment, but to do it in an environment where markets are falling sharply is especially impressive.

And so, what we're seeing with us is we have this very broad platform; we're in secondaries and credit, hedge funds, private equity, infrastructure, life sciences. We raise capital around the world: US, Canada, the Middle East, Asia, Australia. And we do it, of course, in different channels, not only the institutional channel but in retail and insurance now. And so, I think that gives us an ability to do things that others can't.

We would continue to expect we'll raise money. It is a more challenging environment, but I think it will hit some others probably in a more adverse way who don't have as broad a platform, maybe not the same track record, maybe not the same depth of relationships, so a more challenging environment, and this is where a firm like Blackstone really shines.

In terms of the financials, I don't know if there's anything you want to add, Michael.

Michael Chae: Mike, I referred to how the fundraising cycle – and there was sort of 20 or so discrete strategies that these vehicles have launched and will continue to launch over the course of the coming quarters depending on deployment. So, I mentioned the big new BREP global fund that we expect to launch in the early fall, subject to the standard fee holiday. And then, I think beyond that you'll see, depending on the deployment, more funds launching. And I would say you'll see a substantial impact from that in 2023. And then, in terms of full fees from the broader sweep of those funds, much of that in 2024, we would expect. But again, it's deployment-dependent.

Michael Cyprys: Great. Thank you.

Moderator: Our second question is coming from the line of Ken Worthington from JP Morgan. Ken, please go ahead.

Ken Worthington: Hi. Good morning. There seems to be a disconnect in terms of what we're seeing and the message we're hearing from management in terms of the resiliency of the business and the perception by investors of this resiliency. So, can you help us reconcile this perception divide and what might seem intuitive and logical for investors about the flow-through of macro factors through private markets investing and why that's not as bad as they think? And in particular, BREIT and BCRED seem to be areas of concern.

Do you see net redemptions as possible in coming months? And how are those funds positioned to manage a period of redemptions beyond redemption limits, particularly if they exhaust cash and credit lines?

Jon Gray: Okay. That is a long question, Ken. I guess I'd start with what we think is a misperception about the business, and it may go back in time to the fact that these businesses used to have a narrower base, were engaged in a relatively small number of activities, and had a small number of customers. And as we've talked about on past calls, we really see ourselves having moved into these much more open waters. Alternatives have gone from being sort of a niche business to something that's broadly accepted, that the performance has proven resilient, and that has given customers more and more confidence. That's why even different than 2008, 2009, customers recognize that this is a great vintage. We said on the call we expect to raise a private equity fund equal in size. We expect to raise a growth fund similarly, even larger than the last fund. In previous cycles investors may have shied away. Now, because of our track record and confidence in the industry, investors recognize this is a compelling time to invest in this space.

I'd also point out that the way the business is built, we talk about both staying power and firepower. So, on the staying power front, we have a firm Steve articulated that has virtually no net debt, no insurance liabilities. We are a very well-capitalized business for any kind of environment. And then, our funds are set up in ways where we are not forced sellers of assets. So, when we go through periods of dislocation, we're able to ride through them. If you look back at our data over 30-plus years, interestingly, our funds that have been through recessions produced the same multiples of invested capital. It just takes a little longer to get there. And people who have been around the business, I think, understand that.

The other factor here that I would point to is we've got all this dry powder. And I think, that's going to prove to be very advantageous both in terms of FRE, but taking advantage of a difficult market.

And then, I would talk about where we've deployed capital. We've been really focused on what we call good neighborhoods. We've been talking to all of you now for 18 months about inflation. And so, when you look at our portfolios, they don't necessarily reflect the market overall. So, we've got 28 percent in private equity in travel and energy. That's different than the market. In real estate, we have a large portion of our portfolio in residential, rental housing, and logistics, very different than the overall market. In fixed income, our BXC, our credit business, and our BREDS real estate debt business are heavily oriented, virtually all to floating rate debt, obviously very important. And when you look at some of the products we're pivoting to – you specifically asked about BREIT and BCRED – the fact that they're designed for an inflationary environment gives us a lot of confidence.

In the case of BCRED, you've got floating rate debt, so every time the Fed raises rates, returns go higher. In the case of BREIT, you own short-duration hard assets, in that case, 80 percent in residential housing and logistics where the fundamentals are phenomenally strong.

I guess I should just comment specifically – the question was about redemption in those two vehicles. I'd say a number of things. First of all, if you look at the data in the quarter, overall in retail we had $15.5 billion of inflows. Very remarkable. In the three products, primarily BREIT and BCRED, but also our European product BEPIF, we had $11 billion of inflows in the quarter. We did have $3 billion of redemptions – or, $2.9 billion of redemptions.

I would also point out that on July 1st, which doesn't show up in the quarterly data, we had another $2.4 billion of inflows. So, these are products that have a lot of momentum. I would point out that we operate them with low leverage. In the case of BCRED it's around one-to-one. In the case of BREIT, I think as of the latest quarter, it's right at or slightly below 40 percent leverage.

We also run them with a significant amount of liquidity, excess liquidity to meet our clients' needs over time. And I think it's super, super important to focus on the fact that these portfolios have delivered extraordinary performance. Steve articulated this, but in markets that are down sharply, the fact that BCRED has managed to produce slightly positive performance – BREIT, I think, is up over seven percent net this year – that's really exceptional. And again, it goes back to what we own in these portfolios.

And so being positioned in the right place for a good environment and then having a terrific product to address it we think is really important. I would also say as a final point: In these vehicles, of course, beyond the enormous amounts of liquidity we run them with we also have structures here again that make sure we never have to be a forced seller. So, we've been really thoughtful in designing them. But the thing that gives us the greatest confidence is individual investors are continuing to allocate capital and the performance in the positioning is so strong.

Ken Worthington: Okay. Well, great. Thank you so much.

Moderator: Our next question is coming from Alexander Blostein from Goldman Sachs. Please go ahead.

Alex Blostein*:* Good morning. Thanks. Thanks for taking the question. So, Jon, maybe building on the retail theme a little bit more here – so, you guys have provided a lot of data and evidence

that support how large that addressable market is for Blackstone. And as you think about the more turbulent market conditions, what do you hear from some of the larger distribution partners, individual financial advisors, etc., as they are thinking about both the growth sales and potential for larger redemptions from some of these vehicles? Because to your point, performance has been extraordinary relative to fixed income markets being down double digits year-to-date, so if there are redemptions, what are the main reasons? And B, as you're thinking about launching a lot of new products – you guys have a couple of things in Europe; there are some headlines in Asia – how are you thinking about scaling those products in a more challenging macro backdrop?

Jon Gray: So I would say, Alex, near term, when you have this kind of market volatility, you would expect to see net flows to slow. We saw this, by the way, back in 2020. It was a short period, but we saw back then a pretty dramatic decline in net flows. We continued to execute, and of course that turned over time in the other direction.

And of course, if you look at IPO markets or other areas, we've seen much sharper declines relative to what we've experienced here. When we talk to our distribution partners, I think what they would say and what we see in our data – and I mentioned most of the repurchases, as we call them, are coming from a smaller subset of our investors in Asia. And the majority of investors here in the United States have been fairly stable. I would say investors, the feedback are they like these products. They like the performance of these products. And that's the reason we're continuing to sell them. If the markets continue to be challenging, then you can expect that it's a more difficult period for net flows. But then again, I go back to – we've got products that are well designed with ample liquidity.

And then, again, you look at the numbers on the ground, and I think this is where it's worthwhile to talk about what's happening. So, in BREIT we mentioned that same-store net operating income was up 16 percent in the quarter. That's well above, I think, almost any public real estate company today. And it speaks to the positioning and the geographic positioning as well. Rental growth is even higher in these portfolios. And what that allows us to do or has allowed to happen here is between the dividends we pay and the growth the multiples have come down in terms of the valuation metrics, and yet we've still managed to deliver positive performance. And that's what we're seeing out there, which is incredible performance on the ground. And in BCRED again, as I said, the floating rate will help a lot.

So, the short answer is in a choppy environment, you could see a tougher retail net flows environment, but you're continuing to see meaningful positive flows. You saw it again at the beginning of July and we're continuing to see strong performance, and that's what we think will continue to make a big difference.

Alex Blostein: Great. Thanks very much.

Moderator: Our next question is coming from Glenn Schorr from Evercore ISI. Glenn, please proceed.

Glenn Schorr: Hi. I appreciate it. Thanks. I guess I just want to drill down on the concept that we've talked about in the past about higher rates.And you mentioned the clear, obvious – it's great to be a lender with lots of floating rate debt when rates are rising and so you benefit from that. I guess the flip side is you invest in companies that are levered, and so I'm curious if you can address the positioning of the portfolio and what types of companies, while rates were zero and spreads were so low for so long – low with floating rate debt instead of locking in a fixed rate.

And if I could, just on the same topic of high rates, do you think that slows demand for private credit products in general, as a competitive thing? Thanks.

Jon Gray: When transaction activity slows that can impact deal volumes in terms of originating private credit, although in this environment the banks have grown more cautious and that's creating an opportunity for private lenders. In terms of our portfolio, it really varies. We've been talking a bunch about BREIT. In that case, virtually all of the debt we've fixed long-term. We do that similarly in our perpetual vehicles like BPP. We have a lot of fixed-rate debt in our infrastructure business as well because these are long-term hold assets.

BCP has also been pretty disciplined in fixing out its rate – that's our private equity business – maybe not quite as much as we do in some of our long-duration real estate or infrastructure products. And then, I would say in our opportunistic real estate business, we have more floating rate debt. But again, we're much more lowly leveraged than we were in the past.

And so when I look at sort of where our portfolio sits, our leverage, our coverage versus 15 years ago and the stability of the type of assets we own, we feel so much better. And by the way, it's not just us. If you look at the default rates across the credit world, it's still pretty low. So, yes, higher rates will impact the net cash flow you have to distribute and also, of course, has an impact on multiples and we're seeing that in the marketplace. But overall, we don't see that as being a major issue for our portfolio.

Glenn Schorr: Okay. Thank you.

Moderator: Our following question is coming from Craig Siegenthaler from Bank of America. Please go ahead.

Craig Siegenthaler: Thanks. Good morning, everyone. My question is on the underlying leverage for BREIT, BPP, and BCRED. And I appreciate the comments for one-to-one for BCRED and 40 percent for BREIT, but what type of flexibility do you have in each of these three vehicles to move leverage up, or down, especially considering the M&A pipeline at both BREIT and BPP?

Jon Gray: So, we have meaningful, additional capacity in both of these vehicles in order to obviously meet our investment requirements. But also if there are liquidity requirements, sizable excess liquidity, I don't know what's disclosed in the documents for these vehicles, but I would just characterize it as quite significant. We've created these products recognizing you could go through a more challenging period of time. And so that is definitely not something we view as an issue.

Weston Tucker: Great. Thanks, Craig.

Moderator: Our next question is coming from Robert Lee from KBW. Please proceed.

Robert Lee: Great. Thanks. Good morning. Thanks for taking my questions. I was wondering if would be possible to maybe get a little bit more meat on the bones, so to speak, from your FRE expectations. I know you called out the fundraising cycle adding maybe – I think it was 20 percent alone to FRE from – I'm assuming its current run rates. But could you maybe break that down, how we should think of it from base fees versus fee-related performance revenues? And then, it's been, a long while, maybe 2018 since you updated some kind of growth target, so any willingness to kind of update what you think is possible over the next, say, three or five years?

Michael Chae: Thanks Rob, it's Michael. I think you heard it right: a 20 percent increase from basically run rate FRE levels, which includes management fees and also fee-related performance revenues. But that 20 percent is coming from just the management fee effect and contribution to FRE overall. So, the numerator is the management fee uplift to FRE from this cycle of flagship drawdown fundraising relative to the current run rate FRE base. And that's obviously an estimate, but we feel pretty good about it over the coming years.

And then I would just – without putting more numbers to it – go back to what I said in my remarks, which is I think certainly qualitatively as we look at it and in terms of sort of the mix of it, there are parallels to the position we're in, which is very favorable as it relates to uplift from the cycle of fundraising and also perpetual capital, both in terms of growth in the base, and then also we've talked about over time sort of this – the layering and seasoning effect, if you will, of platforms, including institutional perpetual platforms in BPP and BIP. And for programs like in BPP's case, which are now six, seven years old, where those fee-related performance revenues mostly have a three-year anniversary you're starting to see those sort of cycle through for a second and third time. So, you'll see the benefit of that in the coming years.

Robert Lee: Okay. Thank you.

Moderator: Moving on to our next question from Brian Bedell from Deutsche Bank. Please go ahead.

Brian Bedell*:* Great. Thanks. Good morning, folks. Maybe I'll just focus on that last point on the performance, fee-related performance on BREIT and the BPP platforms. Just on BREIT to start: So, I think the net return was a little over two percent in the second quarter but you're making your fees on the gross return, I believe. So maybe, Jon, if you can just talk about the yield component of that and the return profile of that and your optimism on that yield increasing, obviously as something that would be attractive for retail investors? And then, Michael, just if you could talk a little bit more about the BPP platform, the crystallization timing, what assets are related to that for that three-year anniversary? I assume that's excluding BREIT.

Jon Gray: So, on the BREIT outlook, what I would say is it goes back to these really remarkable fundamentals, the best we've seen in logistics, in rental housing in our history. That should power strong performance even as multiples come down, as cap rates move up, something we've already done materially at this point. And there could be more of that over time. But we have such strong fundamental growth combined with the dividend yield today, which is 4.5 percent. And that's what's produced the strong performance. That's what gives us confidence about the future.

Michael Chae: Yeah. And just to reinforce that, Brian – so, just stepping on BREIT, basically high single-digit gross appreciation, total return, and that's comprised of that 4.5 percent mid-single-digit cash yield and then appreciation. I think in terms of the BPP incentive fees both currently and then next year, they're spread across different vehicles and strategies. So, whether it's BPP US, BPP Europe strategies, co-invest strategies, BPP Asia, you saw contributions from each of those this quarter. That'll continue in the coming quarters, and then next year you have more of that. And you also have the life sciences BPP vehicle that we created a couple of years ago that will have an anniversary – it will be next year, which will be meaningful.

Brian Bedell: Okay. That's helpful. Thank you.

Moderator: Our following question comes from Patrick Davitt from Autonomous

Research. Patrick, please proceed.

Patrick Davitt: Thanks. Good morning, everyone. There's a press report out suggesting that you and some of the other big private credit managers are dialing back on deal financing risk and in direct lending. Could you speak to that dynamic? And through that lens, should we expect a meaningful pullback in credit deployment? And on the other hand, is there a potential offset from maybe pivoting to more rescue financing than deal financing to offset that?

Jon Gray: I think in terms of private credit, I would just point out that in the second quarter we committed to seven transactions with $1 billion or more. The biggest one was, I believe, the Zendesk public to private in the software space. So, we had an extremely active quarter.

That being said, obviously there has been a change in the market. It allows you to be more selective on which types of credits. It allows you to diversify a little bit more. And so, I think it speaks to there being significant opportunity, but obviously we're going to pick our spots.

But in general, I think as a lender in this kind of environment it not only applies to our private credit business on direct lending positions, but also in insurance you can lend at lower loan-to-values and higher spreads. So, it's a good time to be a lender. We, fortunately, between our BXC business, our BREDS business, our insurance business, we have a lot of scale in this area.

So, we're enthused about the opportunity to lend money to provide credit to borrowers. But yes, you can be selective in who you choose, where you choose to deploy capital, and also get both favorable economic and contract terms in this kind of environment.

Patrick Davitt: Thanks.

Weston Tucker: Thanks, Patrick. Next question, please.

Moderator: Moving to our next question from Finian O'Shea from Wells Fargo Securities. Please proceed.

Finian O'Shea: Hi, everyone. Thank you. Can you talk about the market volatility's expected impact on private deal activity, what sort of a magnitude of a drop-off we might see, and in terms of how long it might last? Is the buyer-seller disconnect perhaps on valuation starting to thaw out?

Jon Gray: We have seen a decline, no surprise. Whenever you have moments of dislocation, as I keep saying, of equity markets and debt markets trading off you have banks who at these moments sometimes have inventory that they will take some time to move. You see this slow down and you see buyers and sellers sort of resetting their expectations. We saw it in 2020 when it was very short; it lasted six weeks. In the most extreme example in '08, '09, it was 15 months or something. We're not, I don't think, in either of those conditions.

And we're still seeing deals getting done. We did a number of things in private equity. We bought a business, Advarra, which is in the life science space, doing compliance testing. We bought a business, Geosyntec, which is an environmental consulting firm. And so there still is activity. But the way it happens is things slow down. People find sort of a floor, and then business builds back up. I think in this environment, until there's a little more confidence around the trajectory of inflation, I think we'll see slower volumes. Once people get a sense that inflation is turning down

more, they'll have a clearer path. And so, I would expect the back half of the year will be slower because I think it'll take a little time and then things will pick back up.

Going back to our model, the good news is we don't have to deploy the capital. We can be patient. We can wait for the right moment. The best opportunities today are clearly in the public markets on the screen, and that's where we're spending a lot of time. Then there'll be people who need capital or want to sell a division, and then sort of private-to-private transactions will probably pick up over that time. So, we've seen these cycles over time. Deal volume will pick back up, but I would expect it probably to be slow in the back half of the year.

Finian O'Shea: Thank you.

Moderator: Moving on to our next question from Brian McKenna from JMP Securities. Please proceed.

Brian McKenna: Thanks. Good morning, everyone. It was great to see the strong fundraising to date for BREP X and then to hear the $30 billion target. When I look at the last few vintages of this product, the fund sizes have stepped up quite meaningfully. So, can you talk about how you think about expanding the size of these funds over time and then also how you think about capping these funds relative to the market opportunity?

Jon Gray: Yeah. We've been very disciplined over time. I mean, if you really look across the BREP franchise, as you mentioned, $30 billion is a step up, but it's grown from low double digits just before the financial crisis. And we see the marketplace – if you look at asset value growth in commercial real estate, I don't think we've grown faster than that on a relative basis. As you know, where we've seen big growth, of course, has been in our perpetual products, in Core-plus, both institutionally and retail, which is an even larger market. But what excites us, of course, and I think excited our investors, is what's going to happen potentially. You see in the public markets. There could be people who face financial challenges, and having a large-scale fund that doesn't require financing commitments allows us to do big things. And we recently committed to buy a last-mile logistics business – which actually closed this week – PS Business Parks that's in some of the best geographies in the US with incredibly strong fundamentals. And because of our scale, we were able to step up.

So, I guess what I would say is we're very thoughtful in the size of the capital. We've been asked this question now for 30-plus years. If you look at the BREP global track record, it's 17 net since inception. Investors have a lot of confidence in us and it's a similar story across our firm. We scale the capital in these drawdown funds relative to the opportunity and performance is what matters. We're continuing to deliver that and investors continue to respond.

Brian McKenna: Thanks, Jon.

Moderator: Our next question comes from Adam Beatty from UBS. Please go ahead.

Adam Beatty: Hi, good morning. Thank you for squeezing me in. A question on expenses and margins, so probably for Michael, just how we should think about the non-comp expense growth going forward. How far along do you think we are in terms of kind of post-pandemic uplift on that line and getting back to a more normal run rate? And then quickly, if I could, just on the FRE uplift from the fundraising, are you assuming like a higher incremental margin there or just a run rate margin such that some margin expansion might be upside? Thanks a lot.

Michael Chae: Sure, Adam. I think on the second question – that approximately 20 percent – that doesn't rely on margin expansion, although over the long term we'd obviously continue to expect operating leverage and margin expansion, and larger funds have that effect. In terms of your first question on operating expense, for sure this was in T&E and we sort of made this call a year ago. I think we said a year ago it explained about 100 basis points or so of margin impact and that's exactly what happened. And even though we felt like we were pretty much back to work a year ago, if you look at the T&E spend across the firm as our teams really mobilized and investors gathered again and so forth, it was a significant uplift even relative to pre-COVID levels versus pretty minimal spend a year ago.

So, I would expect that to sort of cycle through over the next couple of quarters and then normalize in the year after that. And I think overall if you look at the full year, the second half of the year, I think the rate of increase in OpEx will decline as we roll over some lumpier first half comparisons.

Adam Beatty: Thanks for the detail. Appreciate it.

Moderator: Next up, we have Gerry O'Hara from Jefferies. Please go ahead.

Gerald O'Hara: Great. Thanks. Perhaps maybe we could just touch on the secondaries market briefly. Clearly strong performance in the quarter, up over 5.5 percent, but if you might be able to comment a little bit on some of the drivers and outlook for this business? And then, I guess this is maybe a bit of a longer-term question, but do the dynamics and the sort of construct of the secondaries fund lend itself to any sort of retail opportunity in the future just given the liquidity or closer liquidity that it could potentially afford? Thank you.

Jon Gray: Good question. So, on the performance front, there is a little bit of a lag there. So, because you're reporting from underlying managers as opposed to reporting directly from Blackstone, you've got a quarter or so lag. So, those were very good results. But obviously, we'll expect next quarter they will reflect what's happening in the private equity market today.

In terms of drivers in the business, they're really outstanding. If you think about how dramatically the alternatives space has grown and yet how little capital is in the secondary space to provide liquidity, there is a serious mismatch there. And then, when you add to that the number of firms who can buy across the several thousand different managers out there, that's even more limited.

So, we think about this as a special business that will continue to scale over time, that there's a structural inefficiency in the business because there's this need for liquidity.

I would say on the deal flow front, again, what's going to happen now is investors will probably pause – LPs – in terms of selling and there will probably be a period where some markdowns will come through. Then, we'll see sales pick up again. And many investors, one of the flip side positives – and this is why the firm having the sort of diversity we have is so important – one of the positives here is the overallocation to private equity that makes fundraising more challenging for many firms means that those same institutions are now thinking more and more about selling in secondaries. So, we think having a $20 billion fund in that space is going to be very compelling. We have smaller funds in infrastructure and real estate, but that is really a long-term growth engine for our firm.

And on retail, I do think there's an opportunity. I think the diversity of it, the liquidity, the shorter duration, that is a product potentially part of something broader that could be a meaningful

addition. And again, it's another one of the factors that's the strength of our firm. And I guess I would just say there was – we've talked generally about the environment and everybody's focused on this month or quarter. I just cannot emphasize enough the strength of our brand and what it allows us to do to create new retail products, to do things in insurance on a capital-light basis, our ability to still fundraise institutionally despite the challenging environment. You see it in that number, $88 billion. I think you'll continue to see it over time in our results.

Gerald O'Hara: Okay. Thank you.

Moderator: Our next question is coming from Arnaud Giblat from BNP Exane. Please go ahead.

Arnaud Giblat: Yeah. Good morning. So, my question is on BREIT. If I understand well, the biggest component of performance over the past 6 months, 12 months has been rental growth. I'm just wondering what the outlook there is? I've heard you that you're in good neighborhoods, et cetera, but I'm just wondering how much more scope you have to put up rents in the context of rising rates, and inflation, and a squeezed consumer? Thank you.

Jon Gray: It's a good question. Obviously, at some point, the very high rates of rental growth will come down. But the backdrop is incredibly constructive. You start with – in our two main asset classes here, residential and logistics – record low vacancies, which is different typically than when you're going into a down cycle.

In addition to that, what you're seeing is – particularly on the residential side – a pretty rapid slowing of new construction. New home starts were down 20 percent here in the last couple of months because obviously the for-sale market, the cost of construction goes up, and also financing costs, mortgage costs have gone up really materially. And so, people still have to live somewhere. And so, what's happening, of course, is you're seeing less new supply.

We already have a very big structural shortage and that's pushing more people into the rental market. So that provides a lot of support.

I would also point out as history if you went back to the 1978 to 1982 period, the last period of really high inflation in the US, CPI averaged nine percent back then. Rental housing and apartment rents grew at 9 percent and new construction declined by 50 percent. So, I think investors haven't fully appreciated the value of hard assets in this kind of climate.

And then on the logistics side, what I would say there is we're still seeing this shift to e-commerce. The importance of owning last-mile logistics keeps going up. And then, this redundancy desire of companies who are concerned about supply chain and the need to hold more inventory closer to home, that's creating real demand there too. And so, we see strength there as well. So, surprisingly, despite a lot of the headwinds, these are probably two of the best sectors in the entire economy around the world.

Weston Tucker: Thanks, Arnaud. Next question please, Ben.

Moderator: Our next question is coming from Rufus Hone from BMO. Rufus, please proceed.

Rufus Hone: All right. Good morning. Thanks very much. I wanted to ask about the potential you're seeing for insurance deals in the current environment and how has your deal pipeline evolved? And I was wondering whether the rise in interest rates and higher volatility have had any impact on the appetite you're seeing for transactions? Thank you.

Jon Gray: We are seeing insurance companies, I think, increasingly recognizing that having the capability to originate private credit is very important. And particularly in this environment, when the banks get more full-on inventory and slow their originations, that makes it more challenging for folks who buy just liquid widely distributed products. And if you have the capability in this environment to make corporate loans, real estate loans, infrastructure loans, and asset-backed loans, that is a real competitive advantage. I think insurers are also seeing the strong performance of our insurance clients – we have three meaningful insurance clients, but also other insurers tied to alternative asset managers who have private credit, which allows them to earn incremental yield without taking on incremental risk.

So, we're seeing an industry that is beginning to recognize that this is a powerful tool to generate better returns for policyholders. We are in discussions with multiple parties, as we've talked about over time. We don't know when these things hit or not, but what we do have is this very powerful origination engine and a model where we can serve multiple insurance clients, and that gives us the ability to grow in this area.

So, my expectation is over time – I don't know when – we'll come back and find other sizable clients and continue to grow this area. There's really a natural partnership between us and major insurance companies looking for incremental yield.

Moderator: The next question comes from Patrick Davitt from Autonomous Research. Patrick, please proceed.

Patrick Davitt: Hey, thanks for the follow-up. BAAM had great performance as you highlighted, but the flow has remained pretty anemic. Are you starting to see a shift maybe in the pipeline of demand building there as it seems like we're entering a longer-term period where that strategy should be more attractive?

Jon Gray: I think it takes time. We've been through a period where equity markets and fixed income markets were so good that the idea that you would invest in a product where your downside was protected and you could produce solid returns sort of regardless of market movements, that wasn't really valued. And what I would say is after these two quarters I think clients are going to begin to recognize this.

But it does take a bit of time. We're also working on some new products in that area that we're not going to talk about today but we think could help give some growth. But really, flows follow performance. That's how it works. And so, in the BAAM business, showing just how powerfully we can protect capital in an adverse environment, I think that will resonate. I think we will grow, but it doesn't necessarily happen overnight.

Patrick Davitt: Thanks.

Moderator: Our final question comes from Brian Bedell from Deutsche Bank. Please proceed.

Brian Bedell: Great. Thanks for taking my follow-up. Maybe just on the growth angle on the retail side, I think you mentioned you're continuing to focus on expanding those distribution partners. Can you talk about which areas in particular? I know you're already very well penetrated in the wirehouses and I believe the private banks, and maybe there's a lot more to go there, but maybe talk about that, and also the very large RIA market in the US. And also, outside of the US

– I believe there's an effort in Asia in particular – and whether this cannot be done with existing products or does it rely outside the US on creating new retail products?

Jon Gray: I think we're at a very early stage when you look at – even within the wirehouses – when you say the largest firms, we're well penetrated. We're still only with a minority, a small minority of the overall financial advisors in these systems. In the RIA channel our penetration is very low. In the smaller IBD channel, that's also low. In Europe and Asia, in Europe, there are all sorts of regulatory and filing requirements which we are steadily working our way through. Japan is a market that could have real scale, I would say we are much closer to the beginning of this journey, not only with these initial products but also with the future products. And the customers are just experiencing these for the first time.

If you went back in time 30 years ago to the alternative space and you were talking to an institution about private equity, it seemed sort of new and exotic. Steve could comment on this, but we are now in a very different place today. And today institutions have 30 percent of their capital in private markets. I think individual investors, I don't know if it'll go that far, but from the low single digits they're in, I think it can move meaningfully. Again, this is where our brand and performance makes a huge difference. And so, we're investing a lot in building out our capabilities. And I think that over time we'll have more distribution partners and many more financial advisors and clients within these systems.

Brian Bedell: That's great color. Thank you.

Moderator: Thank you. Allow me to hand it back to Weston Tucker for closing remarks.

Weston Tucker: Great. Thanks, Ben. And Steve, I think you had some remarks you wanted to make.

Steve Schwarzman: Yeah, I've been quiet today, because it's always fun to watch Jon and Michael answer questions. But there was an unanswered piece, I think, of the JP Morgan question about – which was very well phrased – what's the disconnect between what you as management think and sort of what we're seeing on the screen, which is not such a happy day here. I'll just tell you a story, just to start out. I was someplace on Sunday and somebody walked up to me and he said, "I'm a BREIT investor. In fact, it's the biggest thing in my portfolio and I love you people. This is so amazing. All of my friends are losing a fortune in the market and I'm making money."

It's a simple story. I've been listening to the BREIT discussion and Jon's laid out our wares pretty well, I think. But the reason we have optimism, where apparently that's not broadly shared, is that we're providing enormous value to people who are investors who remember it, and they appreciate the firm. That builds our brand. That helps us raise money. It helps us do our function, which is to underwrite risk and put really good products out, unlike other people where that isn't the case. And we're doing it throughout our asset classes. It's really exciting to be able to outperform markets by thousands of basis points. And if you don't think that's a reason for optimism, then I find that odd. And I think that's a base that we will be building upon.

I was at one retail thing where we talked about if everybody put 100 percent of their portfolio in BREIT, they'd be the best performing broker in that large system. And so, we take a lot of pride in what we do, and we do it carefully, and we have really good results.

In terms of other reasons for disconnect, we sit with distributors who say to us "I want you to be hugely bigger in my system." And when they say that they have the ability to do it. It's not a hope. These things are going to happen.

And so, I think we have a sense of the future that obviously isn't shared by the market today. But I've been through this a lot of times, and at the end of the day, we prevail. And I don't think there's a reason to be particularly concerned about the long term because in the long term we also have an amazing group of people at the firm, a truly astonishing group of people, and that's how you build a business.

And so, when I ended my remarks and said I thought we would really do well over time I didn't just do that as a throwaway line. And I think we have terrific positioning. I think it's unique in the financial world. And we're going to build on it and it's going to work out fine for everybody.

So, I just wanted to end on that because I realize there's a lot of individual questions, but when you step back and look at what's happening here, $88 billion in a quarter, I mean, there are giant mutual fund complexes that are hemorrhaging. We're not hemorrhaging. I mean, there's a reason to have some balance here. We're going up in terms of our AUM, not like other famous companies that seem to go down.

So, I think if you unbundle what you're thinking and you step back and look at what's going to happen in our business over time, I think there is enormous reason for optimism as to what we will be building at Blackstone and providing for all of our customers.

I apologize for that little speech, but I honestly believe it, and I wish you would.

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

Moderator: Thank you for joining, everyone. That concludes your conference. You may now disconnect. Please enjoy the rest of your day. Goodbye.

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