BLACKSTONE Third Quarter 2021 Investor Call
October 21, 2021 at 9:00 a.m. ET

Moderator: Good day, everyone, and welcome to the Blackstone third quarter 2021 investor call. My name is Sue and I'm your event manager. During the presentation your lines will remain on listen only. If you need assistance at all just key star zero and an operator will be happy to assist you. If you would like to ask a question please key star one. These will be addressed towards the end of the presentation.

I'd like to advise all parties the conference is being recorded. Now I'd like to hand it over to your host, Weston Tucker, Head of Shareholder Relations. Please go ahead.

Weston Tucker: Terrific. Thanks, Sue. And good morning and welcome to Blackstone's third 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 10Q 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 10K. We'll also refer to non-GAAP measures on this call and you will 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.

A quick recap of our results. We reported GAAP net income for the quarter of $3.2 billion. Distributable earnings were $1.6 billion or $1.28 per common share, and we declared a dividend of $1.09 to be paid to holders of record as of November 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. Today Blackstone reported the best results in our 36-year history. Distributable earnings more than doubled year over year to $1.6 billion while fee-related earnings increased nearly 30 percent, with both metrics reaching records for the quarter and the 12-month period.

Investment performance was extraordinary and represented one of the best quarters for fund appreciation in our history. And assets under management rose 25 percent year over year to an industry record, $731 billion.

On our last earnings call I shared my view that it was the most consequential quarter in our history. It represented a defining moment in terms of our expansion into the vast retail and insurance markets and a step change in the firm's earning power and capacity to generate FRE.

Today's results are proof of concept and I believe we are only at the beginning of a long-term acceleration of growth. Our unique market position today is the outcome of the substantial investments we've made over decades to expand our capabilities and build out leading distribution platforms across customer channels.

We are now experiencing record demand for products in the alternatives area. And while our profitability continues to expand we are reinvesting significantly to support current and future growth in terms of major personnel increases as well as our operational infrastructure. We are creating the foundation for a dramatically more profitable firm, further widening the competitive moat around our business.

As the reference institution in the alternatives sector we are now reinventing the asset class, both in terms of who can invest and what they can invest in. We continue to expand our traditional business lines meaningfully and are adding an entire platform of fast-growing perpetual capital strategies. We now offer 16 perpetual vehicles, which generated nearly half of total inflows over the last 12 months. At the same time our active pace of deployment is leading to an acceleration of the fundraising cycle for some of our largest flagship funds.

The overall outlook for fundraising is incredibly strong. We have unrivaled breadth and depth of product offerings, with over 50 discrete investment strategies. Our flagship strategies have consistently outperformed the relevant benchmarks across market cycles, including the most recent one. In an environment that continues to be deeply impacted by the pandemic, over the last 12 months our corporate private equity funds have appreciated 49 percent, while our opportunistic real estate funds appreciated 36 percent.

This remarkable performance is the result of the way we've positioned investor capital towards areas of the economy with superior secular growth, coupled with our world class portfolio management capabilities. In real estate, for example, nearly 70 percent of our portfolio is concentrated in the fast-growing logistics, rental housing, and life sciences office sectors compared to less than 10 percent a decade ago.

We believe our portfolio overall is well positioned for future cycles, including a likely scenario of rising interest rates. In our credit business the vast majority of our investments are in floating rate debt, which should benefit in this scenario. In both real estate and private equity we focused on high quality companies and assets in the best secular neighborhoods. We believe the fundamental superiority of these investments leading to faster cash flow growth should help offset pressure on market multiples that might occur in response to rising rates. Moreover, our experience when exiting investments throughout our history has been at a significant premium to our carrying values given the strategic value we create.

Across all of our businesses we remain laser-focused on generating outstanding returns for our investors in any market environment. Everyone at Blackstone is dedicated to this mission. To work at our firm you must believe in our mission and embrace our distinctive culture characterized by meritocracy, entrepreneurialism, excellence, cooperation, protection of capital, and the highest standards of integrity.

As we grow we strive to protect this culture. To that end I've been spending substantial personal time with each of our groups and our new hires to ensure that everyone at the firm internalizes our core values. And I couldn't be more impressed by the exceptional quality of the people coming to work at our firm. This year we had 29,000 unique applicants resulting in 103 first-year analyst hires, an acceptance rate of a stunning 0.4 percent. We are assembling the next generation of outstanding talent that will continue to drive the firm's outperformance for decades to come.

In closing, I've never been more excited about the firm's prospects, and I thank you for joining us on this remarkable adventure. And with that I'm going to throw the ball over to Jon.

Jon Gray: I will catch it. Thank you, Steve. Good morning, everyone. This was, as Steve noted, an extraordinary quarter for Blackstone and our investors, and we are extremely confident in the outlook from here.

I say that because all the pillars for our success are in place. We continue to deliver for clients and they are entrusting us with more capital, increasingly perpetual. As Steve noted, this allows us to broaden who we serve and where we can invest. We've compared this to a ship moving from a narrow channel into open waters and we believe this process has just begun.

Most importantly, the last 12 months were the best for fund appreciation on record. We continue to benefit from our large-scale, thematic approach to deploying capital. Our customers are responding favorably to this performance. Total inflows were $47 billion in the third quarter and $148 billion over the last 12 months, nearly half of which was perpetual, as Steve highlighted.

Perpetual AUM rose over 70 percent year over year to nearly $200 billion and is up threefold since our 2018 Investor Day. Our real estate Core+ business remains the largest driver of perpetual capital as well as fee-related earnings at the firm. In less than 8 years AUM has grown to nearly $100 billion across 6 vehicles, roughly the size of our opportunistic real estate business. We raised $10 billion for this platform in the third quarter alone with strong demand for both institutional and retail investors, including $7.5 billion for BREIT. We launched BEPIF, our new vehicle focused on European real estate earlier this month, with inflows to start in Q4. In addition, our credit segment's non-traded BDC, BCRED, raised $3.5 billion of equity capital in the third quarter. We expect demand to grow over time for these and other products we plan to introduce.

Turning to infrastructure, our $14 billion perpetual vehicle is now over 80 percent committed and we've reopened fundraising. Given the vast opportunity set and the strength of our team, we expect this business to grow significantly over time.

In the secondaries area SP's latest flagship vehicle is on track to reach approximately $20 billion, nearly double the size of the prior 2019 fund. We completed an initial close of $8 billion a few weeks ago and we expect to begin the investment period this quarter.

In credit we saw $65 billion of inflows in the last 12 months, with continued robust demand for direct lending and floating rate liquid strategies. Our actively managed loan ETF, SRLN, is now the largest of its kind in the world at nearly $8 billion.

Moving to Asia where our business will see meaningful growth this year with our third real estate and second private equity vintages in the region raising capital. In real estate Asia we closed on $4 billion and expect to raise approximately $9 billion, 30 percent larger than the prior fund. And in private equity Asia we've raised $6 billion and will soon hit the $6.4 billion cap, nearly three times the previous fund.

Lastly, in BAAM we expect to finish fundraising our second GP stakes vehicle, another perpetual strategy, in the fourth quarter, reaching approximately $5.5 billion in size. We've been actively investing in this area, including acquiring stakes in two high-quality alternative managers recently with a third in process, totaling more than $1.5 billion.

Looking forward, several of our drawdown funds are deploying capital faster than our original expectations and are now over 50 percent committed, including Global Private Equity, Global and European Real Estate, Growth Equity, Private Equity Energy, European Credit and Energy Credit, and our secondaries real estate fund. The timing of successor funds will be a function of investment pace. Together with our growing menu of perpetual strategies the outlook is positive.

Turning to deployment, the firm's expansion has opened up many new areas where we didn't have pools of capital previously. The third quarter was our busiest ever, with $37 billion invested and an additional $30 billion committed to pending deals. The largest were in rental housing, transportation infrastructure, logistics, and sustainability-linked businesses.

Finally, on the realization front we remain very active, which Michael will discuss. One transaction to highlight: a few weeks ago we announced the sale by our BREP funds of the Cosmopolitan Hotel in Las Vegas at a gain of nearly ten times original cost, the largest profit on a single asset investment in the history of our real estate business. This investment is a classic example of our "buy it, fix it, sell it" model at work, in which we transformed the asset and improved operations. Our long-term capital combined with our focus on value creation led to a tremendous outcome for our investors.

In closing, it is impossible to not feel energized about the firm's prospects. Blackstone is a branded, fast-growing, capital-lite asset manager with an enormous addressable market and the future is bright. With that I will turn things over to Michael.

Michael Chae: Thanks, Jon, and good morning, everyone. I'll first review the firm's record results and then we'll discuss investment performance and the balance sheet.

Starting with results, distributable earnings in the quarter more than doubled year over year, as Steve highlighted, and for the LTM period nearly doubled to $5.4 billion, or $4.19 per share. This step up in the firm's earnings power is being driven by two important underlying dynamics in our business. First, the continued acceleration of fee-related earnings. And second, the significant expansion of the firm's performance revenue potential.

First, with respect to FRE, which increased 28 percent year over year to $779 million in the third quarter, for the last 12 months FRE rose 37 percent to $3 billion, or $2.47 per share, driven by the combination of 30 percent growth in fee revenues and significant margin expansion. FRE margin for this period expanded to 54.8 percent, the highest level ever, and we expect full year 2021 margin to be approximately in this 55 percent area. As a reminder, our FRE is 100 percent driven by fee revenues from third party contracts and includes all cash operating expenses and corporate overhead.

At nearly $2.50 per share FRE has more than doubled since 2018 and the outlook is very strong. The scaling of perpetual strategies in particular is transforming the firm's earning profile with their compound effect. These strategies primarily involve management fees that benefit from both accelerating inflows and appreciation in NAV, along with fee-related performance revenues that crystallize on a recurring schedule without asset sales. The combination of drivers that you've heard about today give us confidence in the trajectory of FRE.

With respect to performance revenues, net realizations increased nearly fivefold in the third quarter to almost $1 billion and increased sharply to $3 billion for the last 12 months. Fund realizations in the quarter reached a record $22 billion, reflective of the scale of our global platform and included the recapitalization of India-based digital services provider Mphasis, the sale of software company Blue Yonder, and certain logistics, multifamily, and office assets in the US and Europe. We also monetized stakes in various public holdings and refinanced a number of portfolio companies.

The firm's significant multi-year expansion in the breadth and scale of strategies, coupled with the excellent investment performance of that scaled deployment across our businesses, has driven a step function change in the firm's store of value. Investment performance revenue-eligible AUM reached $393 billion in the quarter, up nearly 50 percent year over year, and nearly double its level of three years ago. At the same time the net accrued performance revenue receivable on the balance sheet has grown to $8.3 billion, the highest level in our history, up 23 percent sequentially and importantly more than double its pre-COVID level of Q4 2019. This is a dramatic upward reset in this forward indicator of performance revenues over time.

Turning to investment performance, which as you've heard today was simply outstanding across the firm, the BREP Opportunistic funds appreciated 16.2 percent in the quarter, while the Core+ funds appreciated 7.6 percent, together leading to the best fund appreciation in the history of our real estate business. For the last 12 months the BREP funds appreciated 36 percent and Core+ appreciated 23 percent. Returns continued to be driven by gains in logistics, US suburban multifamily, and life sciences office.

In private equity the Corporate PE funds had another excellent quarter, appreciating 9.9 percent and 49 percent over the last 12 months. Appreciation in the quarter was strong across both the private and public portfolio, particularly in our technology-related holdings. Overall, our companies are seeing robust, double-digit revenue and EBITDA growth.

Our secondaries business reported a standout quarter, with 17 percent appreciation and 53 percent over the last 12 months. And the Tactical Opportunities funds appreciated 2.3 percent in the quarter and 35 percent over the LTM period.

In credit the private credit strategies reported a gross return of 4.5 percent in the quarter and 25 percent LTM, with the quarter's performance driven by improving fundamentals, tightening spreads, and strength in energy positions. Finally, in BAAM the BPS composite return was 1.3 percent gross in the quarter and 13 percent for the last 12 months, outperforming the HFRX Global Index by over 400 basis points for the LTM period. When market volatility spiked in September and the S&P declined five percent in the month BAAM produced a positive return in BPS, protecting capital in a down market.

Overall, strong returns across the firm equated to $28 billion of total fund appreciation in the quarter and a record $110 billion over the last 12 months, reflecting exceptional value creation for our investors.

A final note on the firm's financial position. In early August we opportunistically issued $2 billion of 7-, 10-, and 30-year notes at a weighted average pre-tax cost of 2.2 percent. Our average debt maturity now stands at 14 years, with a 2.7 percent overall pre-tax cost on fixed-rate, long-data debt. We maintain our A+ credit rating, one of the two best ratings in the asset management industry.

So, to recap, the firm reported record or near record results across all of our key metrics this quarter and our forward momentum has never been stronger. And we believe that these records reflect reality: the reality of the continuing transformation of our business and its earnings power.

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

Moderator: Thank you, everybody. If you would like to ask a question please key star then one on your telephone. If your question has been answered or you wish to withdraw it key star two. We ask that you limit your questions to one only. If you would like to ask a follow-up please redial back into the question queue. Thank you.

And your first question is from the line of Glenn Schorr from Evercore. Please go ahead.

Glenn Schorr: Hi, thank you very much. If I could I want to ask a question on high net worth space. So, pretty amazing to see, $11.5-ish billion – of course BREIT and BCRED. So, you mentioned BEPIF. The question I have is that market – how can we think about it relative to what we've seen in Europe vs. the US size-wise in expectations? And taking a bigger step back, retail obviously has lower allocations so the capacity to handle more is a lot. So, curious how do you think about what other types of products, and as the flood of competition comes in, how big of a deal is the ten-year head start that you have?

Jon Gray: All right. Good question. So, I'll start with the BEPIF question, Glenn. I would say in Europe the market – overall market is not as large, of course, as the US and it's very early days for this type of product. And we're going to do it deliberately. We'll start with one distributor, as

we did going back on BREIT, and then over time add others. But I think it could be meaningful. I think it's early days. There's a lot of savings in Europe at low yield. But alternatives are something that are a little different. The way real estate products historically have been distributed there have been different. And we're a bit of a trailblazer, a bit like we were with BREIT when we revolutionized the non-traded REIT market. Here it's a little bit of virgin territory. We're starting out – I would say our expectations are we can't get – likely not to get to the scale of BREIT. But we think it could be meaningful and it will take a number of years.

What I would say in terms of other products is we think there is a potential to do more products. I don't think you're going to be surprised about that, that given the scale of our platform here at Blackstone that there are other things we can do in multiple geographies and multiple asset classes. I think the key consideration for us is that we deliver returns, that we're focused on our brand long term and delivering for individual investors just as we do for institutions. So, we will do it in a deliberate and thoughtful way when we have the right program, the right setup. But the short answer is yes, there is more to do.

As it relates to the head start, we think it's very helpful. I think it's helpful to get to scale earlier. It's helpful to have several hundred people in our private wealth area who built relationships over a decade. It's helpful to have the plumbing, the legal, compliance, disclosure. All of that matters. And it really helps to have the platform to deploy the capital. And so, others will come into this space – like everything, there's competition – but we do have a big head start and we have a brand that is very powerful. And if there's one thing to emphasize about Blackstone, and the reason why we've been so successful being a capital-lite firm, it's the power of the brand. And you see that nowhere more than in the retail channel, and that is a real durable advantage, we believe, and we're going to continue to build on it.

Glenn Schorr: Thank you.

Moderator: Thank you. Your next question is from the line of Alexander Blostein from Goldman Sachs. Please go ahead.

Weston Tucker: Good morning, Alex. Alex, I'm not sure if you're on mute there. Sue, why don't we go ahead and move to the next caller and Alex can dial back into the queue.

Moderator: Thank you. So, your next question is from the line of Robert Lee, KBW. Please go ahead.

Robert Lee: Great. Thanks. Good morning and thanks for taking my question. I mean, the first one maybe Jon, you kind of hit on is your fundraising is so strong, you have this kind of scale of capital coming in. I mean, can you talk about on the deployment side how you are kind of able to deploy that, kind of keep returns going without affecting the market, just from a pricing perspective, just given the sheer wall of capital?

And then maybe a follow-up question for Steve, I mean, you kind of hit your $100 billion core target ahead of schedule, so what's next?

Jon Gray: So, I'll start on the deployment side. I think what we've been doing consistently as a firm over a long period of time is answering this question, which is how do you deploy as you grow larger and larger? It's existed as long as I've been at the firm and even longer for Steve. And one of the advantages we have is scale - year to date we've been involved in 13 public-to-privates, which are transactions that are often harder for other firms because of their size and complexity.

The second thing I'd say is we've really broadened our platform and where we're deploying capital. So, if you looked in the quarter at the ten largest transactions we did in terms of investments and commitments, all of them were done in vehicles that did not exist five years ago. So, if you think about it they were in BREIT, they were in infrastructure, they were in BCRED, they were in core private equity. So, deploying capital for us at scale has gotten easier because we have more oars in that water, and that has really helped us as the capital comes in. And we do it geographically across the globe. We do it across risk and return as well.
And then, the last thing I'd say – and we talk a lot about this – is this thematic approach, focusing on good neighborhoods, that what we've tried to do as a firm is identify where there are real secular tailwinds in the migration of everything online, sustainability, life sciences, global travel coming out of COVID, the rise [of] the middle class in India, alternatives – look at these different asset classes and try to deploy capital directly on theme and then sometimes one derivative off. We bought a company this quarter called Chamberlain, which is the parent of LiftMaster garage door openers. It's a great example of thematic investing. One is it's a play on the big housing build that we think is coming, and secondarily it's a play on e-commerce because the best way to deliver goods to your home when you're not there is through your garage door, and there's all sorts of connected technology in that area.

So, I'd say unique advantages at scale, unique advantages given the breadth of products, and then this high level, high conviction investing that we're expressing across the firm, and we're leaning in and flooding the zone in those areas. And that combination has allowed us to deploy a lot of capital.

With that, I will let Steve set a new, very high target.

Steve Schwarzman: [Laughs] Well, I think you asked, Robert – I didn't hear you exactly – sort of how do I feel about what we accomplished in the Core+ area? And whenever we go into a new area or introduce a new product, actually it's fun for me to have a vision of how big we can be, consistent with great performance for our investors. So we certainly got this one right and we've got a lot of momentum of course behind that. And every one of our areas has sort of set a similar expectation internally. I don't know that we've disappointed internally on our goals, but part of the way of managing a great firm is having amazing people and great prospects and discipline when we go into something, and set targets for success both investment-wise and scale-wise. And we're all used to that kind of system here.

Rob Lee: Thank you so much for taking my questions.

Weston Tucker: Thanks, Rob.

Moderator: Thank you. Your next question comes from Jerry O'Hara from Jefferies. Please go ahead.

Jerry O'Hara: Great. Thanks. Thanks for taking my question this morning. Perhaps one for Michael. But clearly a lot of performance fees in the pipeline. I'm hoping you might be able to give us a sense of what's to come into 4Q and I guess – I don't know if there's anything you can sort of say. I know you've done it in the past with respect to Hilton, but the Cosmopolitan sale obviously is material, and anything you might be able to help us think about that would be helpful as well. Thank you.

Michael Chae: Sure, Jerry. Well, as you know, we don't give sort of near-term guidance, but the big picture, as I mentioned in my remarks, is this net-accrued performance revenue receivable that is double what it was pre-COVID. Much of it is relatively liquid. About a third of the private equity portfolio at FMV is publicly traded. So, we'll take advantage of that based on market conditions. Obviously, the invested performance revenue AUM has grown considerably. We entered this quarter with sort of some locked-in realizations that are under contract and we'll expect those to crystallize in this quarter and in the several quarters to come.

The Cosmopolitan transaction we expect to close in the first half of next year, not this – not in the fourth quarter. And obviously there are other things in the pipeline, things that we've mentioned and things that we haven't. So, quarter to quarter it's not sort of fruitful to guide to that or to predict that, but big picture we're in remarkably good position over time.

Jerry O'Hara: Fair enough. Thanks. Thanks for the color.

Jon Gray: Thanks, Jerry.

Moderator: Thank you. And your next question is from Michael Cyprys, Morgan Stanley. Please go ahead.

Michael Cyprys: Hey, good morning. Thanks for taking the question. I was just hoping you could update us on some of the technology investments you're making across the firm. If you think about digitizing, automating parts across your business, how do you think about the opportunities out there? Where can sort of digitization of Blackstone be most helpful? And what challenges would you face as you think about building the tech stack architecture for the future of Blackstone?

Michael Chae: Hey, Mike. It's Michael. Thanks for the question. I'd step back and say we've been in the technology and innovation area – we talked about innovation in terms of product development and new strategies where we think we're pretty good. We also have been investing for years in innovation around how we run our own business from an internal standpoint and from how do we transform the basic daily work of the business, middle and back office, and also from an investing standpoint. And I think we'd say in our industry even though the industry itself is somewhat in development on that front that we're second to nobody in that effort.

Stepping back in the technology area, we've been investing in people and in hardware and software for a bunch of years now. We actually have nearly 400 employees in technology and data science. We used to say it's the fastest-growing part of the firm; I'd say it's now one of the two or three fastest-growing areas of the firm. That includes among other groups our data science team that has around 20 people. That'll be 30, I think, pretty soon. They're doing wonderful work. And it's really a process and discipline that's getting embedded more and more in our business overall, particularly in the work we do on looking at new investments and also helping our portfolio companies. And as you know, our global head of portfolio operations, Jen Morgan, was [a] co-CEO in the technology area historically.

We've internally developed on the technology side, and this is getting to your question, I think, specifically, a suite of internally developed products in the fund accounting area, in the investor reporting area, both traditional institutions and the retail area, which I think reflects that when we started really leaning into this sort of 15 years ago the industry, the alternatives industry then was very nascent in terms of having these solutions developed both for GPs and LPs. So, we turned to in part making a significant effort internally and we think we've developed a stack that – it's still a work in progress in some ways – but we think are actually as good or better than sort of third party solutions that are available if you look at a business like E-Access that another firm bought a few years ago at a pretty high value. And you look at sort of we have equivalent internally developed products that both LPs and others tell us rate pretty well against those outside solutions.

We also – and then I'll sort of pause – we have a program, we announced a hire in this area a couple months ago, which we call the Innovations Program. We don't talk a lot about it; it's a small program. But we do use internal capital to purchase small stakes in early stage companies in the fintech area, the proptech area, the enterprise tech area, the cyber area. We've made almost 30 investments or so over a bunch of years, all mostly quite successful. But moreover, because the dollars aren't so big from a financial point of view it really, these companies and we kind of mutually benefit from a deeper relationship in this whole ecosystem in terms of cutting edge products and also just being in the mix in this area. And I think it has real tangible benefits to how we think about innovating in our firm overall.

So, that's a little bit of a multipart answer, Mike, but it's not something we sort of talk about or we've named for external purposes holistically. But we've been at this for a long time. We're scaling – we have scale in terms of people, organization, process, and we're going to keep at it. It's still early days and there's a long way to go.

Michael Cyprys: Great. Thank you.

Moderator: Your next question is from Brian Bedell of Deutsche Bank. Please go ahead.

Brian Bedell: Great. Thanks. Good morning, folks. Thanks for taking my question. Let me ask just a two-parter on fundraising. Just in looking at this year I think you – your initial target, of course, is to approach $200 billion of inflows, including the insurance partnerships. It looks like you will be easily exceeding that and I just wanted to sort of sanity check that. And then, also, for next year is there a possibility of raising the next vintages of the flagships in private equity

and real estate given that faster drawdown pace into next year? And then is that – given your traction overall and the retail traction a possibility to get to $200 billion even without insurance partnerships next year? And then, if you wanted to also just talk about the potential for any ESG impact offerings? And then maybe just comment on the simple investments you've been making within the funds as well?

Jon Gray: So, maybe Michael will talk about this year, but what I would say overall is we've got a lot of momentum. The perpetuals obviously have great momentum, not just in the retail channel and not just with some of these insurance things, but institutionally I talked about infrastructure. I also mentioned our BPP Core+ business. Institutional real estate Core+ is still bigger than what we're doing on the individual investor side.

As it relates to the drawdowns the good news is that if you look across the board the fund performance is very strong and that is the best forward indicator of investors' desire to invest in future Blackstone funds. The fundraising for those will be a function of how quickly we deploy capital. We have a number of these funds, as you noted, that are now over 50 percent. It's a question – when we get in most cases sort of north of 70 percent, that's when we start thinking about fundraising. So, it's hard to predict but we expect a good reception when we go back out. That's certainly been our history.

I'd say the one headwind on fundraising that exists out there is that private equity has been such a strong sector that investors are in some cases overallocated. I think that will be very bullish for our secondaries business and I think we'll see our investment community raise their allocations to private equity and alternatives in general. And that's more limited to PE, not as much of an impact at all on real estate or infrastructure or private credit.

But overall it is a picture of strength as it relates to fundraising. It's one where really strong performance, a broad array of products, successful deployment, we think, will lead to large scale fundraising. I'm not giving you a specific answer as to timing but I think it's fair to say that if you look back there's probably a step function increase in the amount we'll raise versus where we thought of, say, three years ago. And that's the combination of larger and more drawdown funds and this big step up in perpetual funds, and then add to that now the expansion into insurance.

So, this is happening in a lot of different directions. It's hard to quantify exactly how it will all land and what the timing is, but I think the path of travel is very clear.

Brian Bedell: And just on ESG?

Jon Gray: On ESG. So, what I'd say on that is I think that the most relevant areas for us, three areas, we actually talked about this at our board meeting this week: In the energy credit and energy debt areas, if you went back in time there was much more orientation towards hydrocarbons and E&P. A lot of those activities we've deemphasized in a significant way over the last three or four years and we've been doing much more around the energy transition and have had great success. We announced a big transmission line of hydropower from Quebec to Queens a few weeks ago. We put an investment into a company called Array Technologies which moves solar panels. We did a preferred with warrants.

So, we've had a lot of success investing and I would expect the next vintages of our energy equity and energy debt funds will be heavily oriented towards the transition, towards sustainability. I think investors will react well. And I think similarly we'll do more in infrastructure, another way investors can play it with us at Blackstone. So, there is a lot of investment demand.

And then I would say in some of our more liquid structures and areas some of the things we do in insurance on asset-backed, I think you'll see more there. So, I think overall as an asset class the demands for capital are enormous and I think a lot of it will come from private capital, so I think that bodes well. But it will be expressed at our firm in multiple areas.

Brian Bedell: Great. Thank you for the color.

Moderator: Your next question is from Patrick Davitt, Autonomous Research. Please go ahead.

Patrick Davitt: Hi. Good morning, everyone. One of the big takeaways from a competitor investor day this week was the focus on kind of building out investment grade direct origination capacity to address the idea of fixed income replacement for particularly insurance money desperate for higher yields, and obviously that opens you up to a bigger piece of the client AUM pie. Could you discuss to what extent Blackstone is focused on this idea of building similar fixed income replacement strategies, specifically as you bring in so many large insurance partnerships this year?

Jon Gray: We agree that this is a huge theme. If you think about fixed income investors, individual investors, institutions, and certainly insurance companies who do almost exclusively fixed income investing, buying a liquid CUSIP bond today in many cases can't meet their long-term needs. And so, what you see happening is asset managers who have these origination capabilities being awarded more and more assets over time, and that's certainly been the story with us. And one of the keys to this, of course, is having those origination capabilities. I would say in real estate origination and in corporate credit origination we are a leader in the field or at the very top. I think in structured and asset-backed there are certain areas like renewables we've been very active. Aircraft. But there are many more verticals and I would say there's room for us to grow and expand. We are going to grow our capabilities because I think this is very important, and that I think you will see this movement of pools of capital who want to own credit assets get much closer to the borrowers, and that's really what's going to be facilitated.

And then I would just add of course as we do this we're not going to rely on taking on large scale liabilities and doing spread investing against those. What we're going to be focused on is being a third party manager of capital in this area just as we've done historically as a firm.

Weston Tucker: I think we're ready for the next question, Sue.

Moderator: Thank you. That question is from the line of Arnaud Giblat, BNP. Please go ahead.

Arnaud Giblat: Hi, good morning. One question. So, we have seen a lot of US insurance deals, like your AIG deal. I was wondering if you could discuss whether you see opportunities to do the insurance type deals in Europe. Is the regulation around capital conducive for this and [its] availability in general? Thank you.

Jon Gray: So, there could be some opportunity in Europe. The structure of insurance, there's this concept of "with profits" that makes it – in many of the countries – more challenging to do. And in some countries the regulatory framework, it's possible that in some ways in some of the Asian countries it may be easier to adopt the model.

Our hope, though, is that we will find a way to do more in Europe over time. But I would say there are more challenges. The reason why this should happen, back to the earlier question, is if you're a European insurance company and you're buying corporate or government fixed income, today you're earning virtually no return. And so, I think it's going to be important for these insurers to have more origination capabilities.

So, I think it will head that way over time but I would say it's behind the US at this point.

Arnaud Giblat: Okay. Thank you.

Moderator: Thank you. Your next question is from Ken Worthington of JP Morgan. Please go ahead.

Ken Worthington: Hi, good morning. So, Senator Warren put out some legislation aimed at private equity investing but Blackstone invests all over the world with investment dollars raised from clients all over the world in various asset classes. So, maybe one, how much of Blackstone could be impacted by the Wall Street Looting Act and what parts might not be? And then maybe two, are you seeing political and regulatory involvement in private markets investing in Europe, in Asia, and is scrutiny there sort of rising as well?

Jon Gray: So, I'd start with the fact that what we do as a firm – and I think others in the industry – we're remarkably proud of. And unfortunately I think there is this outdated view sort of stuck in the 1980s of private equity and alternative firms harming companies and communities. And nothing could be further from the truth if you look at what we do to accelerate growth. I mean, we announced yesterday an investment in Sara Blakley's SPANX business – a terrific company, terrific founder, lots of potential. We're going to help that business grow faster. Same story with Reese Witherspoon and Hello Sunshine. We did this with Whitney Wolfe Herd at Bumble. What we're doing around green energy where we've invested $11 billion in the last two years, we're really proud of that. What we're doing in life sciences as a leader, accelerating development of powerful technologies to make human beings live longer and safer lives.

And then just in traditional private equity, what we do with businesses to make them grow is so important. And I haven't figured out yet how you destroy companies and somehow generate the kinds of returns private equity has. Amongst our clients private equity is the highest returning asset class, and that's happening because we're growing businesses and investing in businesses.

And I give you that as background because as we walk policymakers around the world and in the US through the facts, they increasingly understand that. So, I don't expect that there will be specific legislation that will pass. I don't see that as near term likely. We are, as I said, very proud of what we do. And I think we're going to continue to do it in a good way, have a positive impact. And at the end of the day of course so many of the benefits flow to pension funds and to police officers, firefighters, teachers, city workers around the world and particularly here in the United States.

So, a lot of pride in what we do and we feel really good about it. And when we get a chance to articulate that generally the facts win out, and we would expect that will happen in the future.

Ken Worthington: Thank you.

Moderator: Thank you. Your next question is from Chris Kotowski, Oppenheimer. Please go ahead.

Chris Kotowski: All right. Yeah, good morning. I forget the exact words that you used in your opening comments but it was something like that you were poised for an even greater breakout in earnings. And I was wondering with a 56 percent FRE margin were you implying that there's significant upside to that as you launch the next generation of flagship funds and so on? Or should we not get greedy and just kind of expect earnings growth to follow AUM growth over the next couple of years?

Michael Chae: Well, Chris, I think the comment was a broad one and a really positive one, not necessarily any aspect of earnings growth but about the overall picture, and the overall picture on FRE and also on performance revenues, where I think with both cylinders we are firing and are in a tremendous position. So, I think over time we've exhibited strength on both the top line and in terms of our ability to exhibit operating leverage and expand margins over time. We would expect that to continue generally but no need to over-read into the comment.

Chris Kotowski: Okay. All right. Thank you.

Moderator: Your next question is from the line of Devin Ryan, JMP Securities. Please go ahead.

Devin Ryan: Hi. Great. Good morning. Just a question on the infrastructure business, $14 billion, I think you said 80 percent committed and reopening for fundraising. I would just love to get an update on what else the appetite looks like in that area right now. How relevant something happening in Washington is, either influencing the opportunity or sentiment around the opportunity? And then, just a broader update about how you guys are thinking about the addressable market there. It still seems like a big area of white space and obviously relatively small AUM relative to the firm and I think opportunities. So just an update would be appreciated.

Jon Gray: So, we feel terrific about this infrastructure business, primarily because we've done a great job out of the box returns-wise for our customers. That's always the most important thing we've delivered for our customers. What I would say is there's a lot of interest generally in

infrastructure, particularly as people think about owning hard assets with long duration and some yield in a rising inflationary environment. So, I would suspect that we'll have good responses to the business. What I would point out is this is not a drawdown fund, so like our BPP Core+ institutional real estate business we will start to raise money on a quarterly basis. What tends to happen is you have a surge of fundraising, then you deploy the capital. As the queue goes down you raise more capital. But what we like about the business is the type of assets you can invest in. We just made this large investment in data centers. We really like digital infrastructure. We've done a big investment in a fiber-to-the-home business based in the Southeast US. We have some really attractive transportation businesses around ports and roads and airports. And as I said, I think investors like this asset class a lot. They're underexposed to it and there are not many places where there are open-ended funds that provide liquidity over time, and that they find attractive as well. So, this is a business that today at $14 billion is small, I believe, relative to its long-term potential.

Michael Chae: And I would just add to that that our strategy and the demand for it and the deals we've been doing, it doesn't rely on sort of whether public-private partnerships come to pass out of the current legislation or in the future. The physical infrastructure gap around the world and also the demands in areas like digital infrastructure, which Jon mentioned, just organically are so large private capital is there as sort of the primary solution today. And if partnerships between government and private investors emerges or expands over time then that's – I would say that will be interesting and sort of gravy but not something we're sort of depending on.

Devin Ryan: Okay. Great. Thank you.

Moderator: Our final question comes from the line of Alex Blostein, Goldman Sachs. Please proceed.

Alex Blostein: Great. Good norming. Hi, you guys. Sorry for the phone issues earlier. I wanted to follow up on the discussion around retail products and really think about capacity. Jon, you addressed some of the capacity dynamics earlier on – which, again, it sounds like you have plenty of origination capabilities, not to really worry about. The capacity question I have is really with respect to concentration with various distribution platforms. Just given the size of the business for you today, how quickly it's been growing, are there any concerns on the horizon with respect to just how much capital a single distribution platform can have with a single manager?

Jon Gray: It's a good question. The good news is the market is so large that even with an individual distribution house what can seem like a lot of capital is still pretty small. A number of these places have multi trillions of dollars of assets under management. So, if you end up with $30 billion or $40 billion, even $80 billion or $100 billion it's still a small percentage.

And also, I would point out in the US we're early days along – in the path of RIAs. We think around the world, particularly Asia, there's a lot of savings looking for alternatives and exposure to the type of things we do. Overall, I think globally there's $70 trillion of wealth with people with more than $1 million of investable assets, which is the target traditionally. And I think they're allocated to alternatives, I don't even know, maybe one percent or something. A very,

very low number. And so, when we think about where this can go, yes, the potential is significant.

And in closing, the reason we're so excited is we're early days on the retail journey. I think the story is similar in insurance: We're early days for folks like us to manage capital. And in the institutional world we continue to see increasing allocations and we're still growing fast in that channel as well. So, having these multiple, very scalable channels and us with this very powerful platform, this is a really strong combination and what gives us so much enthusiasm and optimism as we look forward.

Alex Blostein: Thanks very much.

Weston Tucker: Terrific.

Moderator: Thank you. And now I'd like to hand it over to Weston Tucker for closing remarks.

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

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