BLACKSTONE Third Quarter 2022 Investor Call
October 20, 2022 at 9:00 a.m. ET

Moderator: Good day, everyone, and welcome to the Blackstone Third 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. I'd like to advise all parties that this conference is being recorded for replay purposes. For questions, please press star one on your device.

And now I would like to hand it over to your host. Weston, the floor is yours.

Weston Tucker: Great. Thanks, Ben, and good morning everyone, 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 10-Q report in a few weeks. I'd like to remind you that today's call may include forward-looking statements, which are uncertain and outside of the firm's control and may differ from actual results materially. We do not undertake any duty to update these statements. For a discussion of some of the risks that could affect results, please see the "Risk 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.

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On results, we reported GAAP net income for the quarter of $4 million. Distributable earnings were $1.4 billion or $1.06 per common share, and we declared a dividend of $0.90 per common share, which will be paid to holders of record as of October 31st. With that, I'll turn the call over to Steve.

Steve Schwarzman: Thank you, Weston. Good morning, and thank you for joining our call. The third quarter of 2022 was a continuation of one of the most difficult periods for markets in decades. Global markets extended the dramatic sell-off that characterized the first half of the year, with the S&P 500 falling another 5 percent, bringing the year-to-date decline to 24 percent. The public REIT index was down 10 percent in just a quarter and 28 percent year-to-date. The NASDAQ fell 32 percent year-to-date; and in debt markets, high-grade and high-yield bonds declined 14-15 percent in the first 9 months of the year.

High inflation, rising interest rates, and a slowing economy, combined with ongoing geopolitical turmoil, have created an extremely difficult environment for investors to navigate. The traditional “60/40” portfolio is down over 20 percent year-to-date - its worst performance in nearly 50 years - and sentiment in almost all areas is likely to remain negative given the Fed's commitment to continue increasing interest rates to combat inflation.

Against this highly challenging backdrop, Blackstone delivered excellent results for our shareholders. Fee-related earnings for the third quarter rose 51 percent year over year to $1.2 billion, representing our second-best quarter on record. We generated strong distributable earnings of $1.4 billion, or $1.06 per share, a share as Weston noted. While most money managers focusing on liquid markets have seen declining AUM, we've continued to grow. Our assets under management increased 30 percent year-over-year to a record $951 billion, with strong demand for our products across the institutional, private wealth and insurance channels. Just last week, we announced our fourth major partnership in the insurance space with Resolution Life, a leading life and annuity block consolidator, which we expect to comprise approximately $25 billion of AUM in the first year, and over $60 billion over time as their platform grows.

Key to Blackstone’s success with our customers is that we have protected their capital through these remarkable market declines. One of our core principles since we founded the firm in 1985 is to avoid losing our clients' money, and we've done an excellent job of that. As the largest and most diverse alternatives firm in the world, we have unique access to data and insights on what is happening in the global economy, allowing us to anticipate trends and, we believe, minimize risk. We then carefully choose sectors and which type of assets to buy, and actively work to build great companies and platforms.

We use this advantage as well to help determine areas of focus in the liquid securities area. This synergistic approach has led to distinctly strong positioning across our business today. For example, in real estate, approximately 80 percent of our portfolio is in sectors where rents are growing above the rate of inflation, including logistics, rental housing, life science office and hotels. In corporate private equity, our emphasis on faster growing companies has resulted in a 17 percent year-over-year revenue growth in our operating companies in the third quarter, led by our travel and leisure-related holdings. That's 17 percent growth in revenue as an economy is slowing all over the world. This is a stunning result given the size of our portfolio, which in total, across our private equity business, employs approximately 500,000 people.

In corporate and real estate credit, we benefit from close to 100 percent floating-rate exposure, and we're experiencing negligible defaults. And our hedge fund solutions business is performing remarkably well, with the BPS composite achieving positive returns in the third quarter and every quarter so far in 2022. This is a highly differentiated outcome in liquid securities, compared to the year-to-date decline of 24 percent in the S&P.

Blackstone's long history of outperformance and capital protection is of course critically important to our LPs and their constituents. They have found it difficult to achieve their objectives by investing in traditional asset classes alone. That's why LPs around the world are choosing to increase allocations to alternatives, and in particular, to Blackstone.

Recent research from Morgan Stanley estimates that private markets AUM will grow 12 percent annually over the next five years, with share growth in areas such as infrastructure, real estate and private credit as investors seek yield and inflation protection, all areas of distinctive competence here at Blackstone. From a channel perspective, Morgan Stanley predicts the greatest growth among individual investors - with allocations to alternatives from high net worth investors more than doubling in 5 years to 8-10 percent of their portfolios. This represents a major paradigm change, one we identified over a decade ago, and trillions of dollars of opportunity, which Jon will discuss in more detail. Blackstone is the clear leader in this channel, with the largest market share among alternative managers.

Blackstone occupies a special status with customers and potential customers around the world. They are facing significant uncertainties today and are looking to us to help them navigate these challenges. And we believe we are uniquely positioned to do so. We are proud of the trust that they place in us, and we remain steadfast in our mission to serve them.

In closing, our firm has prospered across the many cycles of the past 37 years since we started. We had no assets then, and today we're closing in on $1 trillion of AUM. Historically, we've taken advantage of the pullbacks to deploy significant capital at attractive prices, extend our leadership position across business lines and invest in new initiatives as well as in our people. For our shareholders, this has translated into extraordinary growth, and we have no intention of slowing down. We are in the early innings of penetrating new channels and markets with enormous potential. And the firm's earnings power continues to expand, concentrated in the highest quality earnings.

Even though the investment climate is challenging, we have the confidence, the resources and the loyalty of our customers and our people to continue to develop our franchise, for the benefit of all of our constituencies.

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

Jon Gray: Thank you, Steve. Good morning, everyone. Our business is all about delivering for our customers, in rain or shine, and the third quarter was no exception. Our investment performance again demonstrated the durability of our model, along with the benefits of our thematic investing, as Steve highlighted. Meanwhile, the firm's strong results have allowed us to continue expanding who we serve and where we can invest, even in the most difficult of times. I'll update you on the multiple avenues of growth we have in front of us.

Starting with our drawdown fund business. With the support of our LPs, we are progressing toward our $150 billion target, with more than half achieved at this point. We've largely completed the fundraise for two of our three largest flagships, global real estate and private equity secondaries, and have launched their respective investment periods. Our corporate private equity flagship has raised $14 billion to date, and we expect it to be at least as large as the prior fund. In credit, we've closed on $4 billion for a new strategy focused on renewables and the energy transition, and expect to reach our target of $6-7 billion in the coming quarters - we believe the largest private credit vehicle of its kind. This is an area where we see tremendous secular tailwinds, and where we reported additional inflows in the quarter in growth equity, tactical opportunities and private equity energy. While the market environment will remain a headwind for the industry overall, we are in a differentiated position given the diversity of our platform, global reach and the power of our brand.

Turning to private wealth, one of the long-term megatrends transforming the market landscape is that individual investors are finally getting access to alternatives, in a form and structure that works for them. This development has been led by Blackstone and our distribution partners, and the response has been powerful. We now manage $236 billion of private wealth AUM, up 43 percent in the past 12 months alone. In the third quarter, sales in this channel totaled $8 billion, including $6.6 billion for our perpetual vehicles. We do also offer limited repurchases in the perpetuals, which totaled $3.7 billion. As we discussed last quarter, stock market volatility meaningfully impacts net flows in these vehicles.

That said, this is a vast and underpenetrated market, and our products have outstanding performance and positioning. BREIT's net return since inception six years ago is 13 percent per year, or 4 times the public REIT index. Nearly 80 percent of BREIT's portfolio is comprised of logistics and rental housing – some of the best performing sectors, with short duration leases and rents outpacing inflation. BCRED has generated an 8 percent annual net return since inception, and with a floating rate portfolio, returns benefit as interest rates move higher. Looking forward, we plan to launch more products in this channel, deepen penetration with existing partners and add new relationships around the world.

Moving to our institutional perpetual business, which is over $100 billion across 42 vehicles, up 37 percent year over year – including our institutional real estate core-plus platform and infrastructure. Our infrastructure business nearly doubled year over year to $31 billion, on the back of excellent performance. Both platforms continue to benefit from their focus on hard assets in great sectors with strong fundamentals, helping drive positive appreciation in the quarter and year to date.

Turning to insurance, our AUM has doubled in the past 12 months to over $150 billion. We've now added a fourth large-scale mandate with Resolution Life, as Steve noted, which is one of the leading closed block consolidators servicing the multi-trillion-dollar life and annuity market on a global basis. This is another example of our strategy to serve

as an investment manager for multiple insurance clients – without becoming an insurance company ourselves or taking on liabilities.

Over time, we expect more than $250 billion of AUM from existing clients alone, several of which have an added tailwind from greatly accelerated annuity sales. Our deep investment expertise, and capabilities in private credit in particular, uniquely position us to serve insurance clients.

Stepping back, private credit represents another long-term mega trend in the alternatives sector. We can leverage our expansive platform to directly originate yield-oriented investment products for our clients – including insurance companies, as well as institutional and individual investors. And we see a particularly favorable environment for deployment today, as base rates have increased significantly and spreads have widened, all while traditional sources of financing have pulled back. With over $320 billion of AUM across our credit and real estate credit businesses, we've built one of the largest platforms in our industry, but still comprise a tiny fraction of these markets overall. We are quite excited about the long-term potential.

Taken together, our diverse range of growth engines drove total inflows of $45 billion in the third quarter and a record $183 billion year to date – a period in which markets experienced some of the worst declines on record, as Steve discussed. These results, more than anything, speak to the strength of our brand and the trust our clients place in us. And with a record $182 billion of dry powder capital, we have the ability to take advantage of dislocations.

In closing, despite the many challenges of today's investment environment, we are well positioned to navigate the road ahead. I could not have more confidence in our firm and our people. For our shareholders, we continue to achieve significant growth while remaining true to our capital-light model, allowing us to return 100 percent of earnings over the past 5 years through dividends and share buybacks. We are totally focused on delivering for all of our stakeholders.

And with that, I will turn things over to Michael.

Michael Chae: Thanks, Jon, and good morning everyone. The firm's third quarter results highlight a business model designed to provide resiliency in difficult markets. At the same time, we are advancing through the largest fundraising cycle in our history which, coupled with our expanding platform of perpetual capital strategies, is setting the foundation for a material step-up in FRE. I'll discuss each of these areas in more detail.

Starting with results. One of the best illustrations of the durability of our financial model is the continued powerful trajectory of fee-related earnings. In the third quarter, FRE increased 51 percent year over year to $1.2 billion, or $0.98 per share – powered by 42 percent growth in fee revenues, along with significant margin expansion. With respect to revenues, the firm's expansive breadth of growth engines lifted management fees to a record $1.6 billion, up 22 percent year-over-year and 4 percent sequentially from Q2. At

the same time, the continued scaling of our perpetual strategies, combined with strong investment performance across those strategies, led to $372 million of fee-related performance revenues.

With respect to margins, FRE margin for the nine-months year-to-date period expanded nearly 100 basis points from the prior year comparable period to 56.5 percent and is tracking above our previous expectation. We now expect full-year 2022 margin to be in the same 56 percent area - in line with 2021.

Distributable Earnings were $1.4 billion in the third quarter, underpinned by the robust momentum in FRE. Net realizations declined year over year as the market environment muted activity levels, as expected. While the backdrop for exits is likely to remain less favorable in the near term, one of the key attributes of our model is that we can focus on executing our operating plans and creating value for the long term – patiently waiting to identify the optimal opportunities for monetization. In the meantime, the firm's performance revenue potential continues to build. Performance revenue eligible AUM in the ground grew 26 percent year over year to a record $494 billion. Net accrued performance revenues on the balance sheet stand at $7.1 billion, or nearly $6 per share – down over the past few quarters primarily due to record realization activity, but still double its level of two years ago.

Moving to investment performance. As Steve noted, against the backdrop of continued pressure in global equity and credit markets, our funds protected investor capital. Core-plus real estate, credit and BAAM appreciated 1-3 percent in the quarter; in corporate private equity and opportunistic real estate, values were largely stable; and Tac Opps saw modest depreciation of approximately 2 percent. These returns included the negative impact of currency translation for our non-U.S. holdings related to the stronger U.S. dollar.

A few additional observations on our returns. First, in private equity, our portfolio companies historically have been held at a meaningful discount to public comps in terms of valuation multiples, which continues to be true today. In alignment with that, in terms of outcomes, exits have occurred at a significant premium compared to unaffected carrying values.

Second, in real estate, in the context of rising interest rates, we've materially increased cap rate assumptions across the portfolio. Notwithstanding this impact, our real estate strategies have still seen strong appreciation year-to-date, as cash flow growth and dividends have more than offset the impact of wider cap rates.

Turning to the outlook, which is characterized by the firm's continuing progression toward higher and more recurring earnings. As we highlighted last quarter, we expect the combination of our drawdown fundraising cycle, along with the growing contribution from perpetual strategies, to lead to a structural step-up in FRE over the next several years. In terms of the drawdown funds, we launched the investment period for the global

real estate flagship in August, with an effective four-month fee holiday for first closers. We will launch other funds over time, depending on deployment.

With respect to perpetual strategies, we previously discussed the layering effect of fee-related performance revenues and noted that BPP in particular has four times more AUM subject to crystallization in 2023 than in 2022. At the same time, the private wealth perpetual vehicles have continued to compound in value with fee earning AUM increasing $27 billion since the start of this year, to $94 billion in total - setting a higher baseline for fee revenues going forward. As Jon described, these vehicles remain exceptionally well positioned. And for BCRED specifically, it's worth highlighting that the driver of fee-related performance revenues is investment income – borrowers paying interest – which has a high degree of visibility. Overall, the dual catalyst of our drawdown fundraising cycle and the ongoing perpetualization of our business give us confidence in the multi-year outlook for FRE.

One final item of note. Last month, our insurance client Corebridge successfully completed its IPO, despite the extremely difficult capital markets backdrop. This represented an important milestone in their evolution as a standalone public company. Blackstone was not a seller in the offering, nor was Corebridge, and we are committed to being shareholders for years to come. We have a very positive view on the value of the company, including the expected benefits from increasing base rates and widening spreads. We've been pleased with the success of our partnership to date and look forward to continuing to deliver for them as their exclusive investment manager for key asset classes.

In closing - the firm is in an excellent position today. Our all-weather model protects us in times of stress and provides a powerful foundation for future growth. We have great confidence in what the firm will achieve in the years ahead.

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

Moderator: Thank you. Let me kindly remind everyone: If you wish to ask a question, please press star one on your device. And allow me to kindly request our audience to keep it to one question and a follow-up at a time so everyone has a chance to participate. Thank you.

And with that, I would like to proceed to our first question, which is coming from Craig Siegenthaler from Bank of America. Craig, please go ahead.

Craig Siegenthaler: Good morning, Steve, Jon. Hope everyone is doing well.

Jon Gray: Good morning, Craig.

Craig Siegenthaler: My question is on fundraising. There's been multiple headwinds this year with the crowded private equity backdrop, denominator effect and it's seen some

weakness with U.S. pension plans, although probably more strength from sovereign wealth funds. But we haven't seen this really impact Blackstone's results yet with strong fundraising again last quarter. Can you provide us an update on the fundraising front, and Blackstone's overall ability to grow organically if the bear market extends into next year?

Jon Gray: So Craig, I think it's worth starting with our quarter and the first 9 months. The fact that we raised $45 billion in the quarter, $183 billion in the first 9 months, which is 60 percent higher than our previous best, in an environment when equities were down 25 percent and bonds down 15 percent, is pretty remarkable. And I think what it reflects, of course, is our long-term track record of delivering for customers, the power of our brand, the breadth of what we're doing today. Obviously, the expansion into these new areas in insurance, in core-plus real estate, in direct lending, alternative fixed income, and then continuing to grow our traditional drawdown business as well, where we move into new spaces like life sciences and growth equity, continue to grow our original businesses. And so what you see is sort of a growing platform built on the backbone of successful performance, and then exploiting all these new channels. And then geographically, I think unlike some other managers, we've got the benefit of raising money in the U.S., but also around the world in other regions that are not as capital-constrained. And all of that has led to our strong performance.

To your specific question, I would acknowledge it's harder out there. Investors are more capital-constrained. I think it will be tougher for many groups to raise capital, and that will be until markets get better, a bit tougher. But I would say overall, when you talk to our customers you don't hear a lot saying they want to reduce their allocation to alternatives. They've got a favorable view. It's been their best performing area. They may be a bit constrained by the denominator effect today, but they want to continue with this. And then for us, we've got this differentiated spot. So, tougher, but we feel very good about where we sit.

Steve Schwarzman: Yeah, I'd just add that starting from our – this is Steve – from our first fund in 1987, we've had a very significant component of non-U.S. investors. And I think at a time when the U.S. is less favorable because of the factors you mentioned in the pension funds, the fact that we are so global for so long, those type of relationships tend to be enduring and personal because people are coming from foreign countries and foreign cultures. And when they decide that they want to trust you, they make significant commitments and then you deliver time after time after time. There's a certain bond that you have. And the flows, as Jon mentioned, have been more directed outside the United States, and that gives us just a terrific balance of where we can go to raise money.

Weston Tucker: Thank you. And Ben, before we move on to the next question, if I could just clarify the operator's instructions - we have a long queue, and I just want to make sure we get to everyone. So, if we could just limit the first to one question. If you have a follow up question, please come back into the queue. I just want to make sure we get to everyone this morning.

Moderator: Perfect. Thank you. Our next question is coming from Ben Budish from Barclays. Please proceed.

Ben Budish: Hi, guys. Thanks so much for taking the question. I wanted to ask about kind of your outlook for the underlying portfolio companies. Jon, I know you gave some commentary this morning that there's a little bit more caution and you guys kind of mentioned in the prepared remarks that there's a bit of a skew toward travel and leisure, which are a bit more discretionary. So, can you maybe comment on how you see performance there over the next 6 to 12 months?

Jon Gray: So, as I said, what's remarkable is the U.S. economy in particular has been very strong. Europe has held up better than people expected. Places like India are strong. As a data point here, the fact that we saw 17 percent revenue growth in our private equity portfolio says something - I think pretty profound - that there's still a lot of strength, and it also reflects that sector selection. So, the fact that we've done so much in private equity, in travel and leisure, bodes well for us. Our energy, energy infrastructure, energy transition assets, are all doing quite well. I think where we've positioned ourselves has helped us. And it's similar for us in the real estate market, as Michael commented on. The positioning in such a big way in logistics, and then rental housing, hotels – all areas with strong growth.

Overall, back to your comment, we do think we'll see a slowdown here. It's just inevitable. When you take the cost of capital from zero percent to 4 percent and debt capital widens even more, with spreads widening, people start to think about deleveraging, paying down their debt. They're less focused on expansion, there's more caution. And that's going to lead to a slowing that will happen over time, and that's what we're anticipating, and that's what we're telling our companies. So, I think that's something that all companies need to think about. In terms of how severe it is, I think it's hard to say. What I would comment on is we're in a much better spot as a global economy than we were back in '08, '09. We don't have the same kind of overleverage we had back then in housing, in commercial real estate, in banking institutions. So, that makes you feel better, but there's no question there is a slowing coming here. We should anticipate that. And obviously, the stock market's been thinking about that.

Ben Budish: Okay, great. Thank so much for taking my question.

Moderator: The following question comes from Michael Cyprys from Morgan Stanley. Michael, please proceed.

Michael Cyprys: Hey. Good morning. Thanks for taking the question. I wanted to ask about the U.K. and Europe. We've seen some very sharp moves in currency and interest rates there. So, just curious how you see the opportunity set there evolving for putting capital to work. Is now the time for buying trophy properties or companies in the U.K. or Europe? And also, we've seen some funds that implement LDI strategies become forced sellers of assets. Just curious what you're seeing on that front and what sort of opportunity set that might offer for you? Thank you.

Jon Gray: Thanks, Michael. Obviously, the U.K. and Europe face some real challenges in the near term. There is the inflation challenge, driven by their energy challenges, which are much more pronounced than what we have in the United States. Their central banks need to raise rates in order to maintain their currencies and not have further inflation. In addition, as they raise rates, their housing markets, many of them tend to have floating rate mortgages versus our 30-year fixed rate model, which puts additional pressure on the European economies. I would say, to date, things have held up better and our companies have performed better than you would expect. Companies are adapting to the higher energy prices in their usage and efficiency. But it is going to be a challenging period.

I think as investors, what you have to overlay against that is just how much the currencies have moved and how much the valuations have moved down. You've seen currency movements here of nearly 20 percent in Europe and the U.K. And you look at the U.K. in particular, the stock market there is trading at below nine times earnings. So we look at that and say, "Wow, these are interesting places." A bunch of the thematic trends we like could be around travel, could be around technology, infrastructure, logistics. They're still attractive assets in Continental Europe and the U.K. and yet prices and investor enthusiasm has gone down. And so to us, that makes for an attractive entry point. Sometimes it takes time for these things to manifest themselves, but we think we'll be busy in Europe over the next few years.

I would say on the LDI question, in particular, there was some selling, as you know, of CLO paper. We, like others, participated in that. It seems to have abated at this point. But, I wouldn't be surprised as rates move up that there aren't other forced sellers as pressure grows in the system. And again back to our model, $182 billion of dry powder, the ability to make decisions really quickly, to move quickly when there are periods of dislocation. It happened back in Brexit. It happened back in '08, '09. We try to take the opportunity to deploy capital on behalf of our investors. So, I think you have to be cognizant of the economic challenges in Europe, but open-minded to the opportunities given the repricing that's underway there.

Michael Cyprys: Great. Thank you.

Moderator: The following question comes from Brian Bedell from Deutsche Bank. Brian, please go ahead.

Brian Bedell: Great. Thanks. Good morning, folks. Maybe just wanted to touch on the energy transition, Jon, that you mentioned, the successful raising of the private credit green energy strategy. I guess maybe talk a little bit about that strategy in general in terms of that investment opportunity set. And then, are you seeing demand come more from retail in this product or is this really more traditional? And I know you bake in ESG considerations across the investment processes, across all investments, but what is the desire to expand a more dedicated impact energy transition platform across all the verticals?

Jon Gray: Thank you, Brian. What I would say this area is about for us is providing credit to this enormous energy transition that is underway. So, if you think about the trillions of dollars that need to be spent to move us from 85 percent dependency in the U.S. – a little bit lower in Europe – on hydrocarbons, to a lower number, it's going to require a lot of equity. It's going to require a lot of debt.

To us, the most interesting form of financing is not necessarily financing finished projects, which liquid investors will pay, will accept very low yields for in order to hit their net zero targets. We think, if you back developers, as we've been doing successfully, on projects, if you lend to some of the service providers in the space, if you lend to consumers – we've been very active in providing financing for instance in the solar market to consumers – we think this is a good way to go because there's an enormous need for capital. And so, we're excited about this.

We're also excited about our energy equity area as well for similar reasons because of the need for capital. And in our infrastructure area we've been doing a lot. We made a large investment we talked about six months ago in Invenergy, which is the largest builder of solar and wind projects in the United States.

I would say, as it relates to ESG overall, the driver for us is being a fiduciary and delivering for our customers. They're focused on this area. We also see a big opportunity set because of the need for both debt and equity capital. We think we're building a pretty unique platform and ecosystem. We said publicly we want to invest $100 billion in this area across our various platforms over the next decade. I think we can do that and generate favorable returns. So I'd say it's an exciting area that is still in the early days of its expansion.

Brian Bedell: Well, I'll get back in the queue for another question. Thanks.

Moderator: Moving to our next question from Alexander Blostein from Goldman Sachs. Alexander, please proceed.

Alex Blostein: Hi. Good morning. Thanks, everybody. Thanks for taking the question. I was hoping we could spend a couple of minutes on real estate obviously a lot of concern in the public market scene where those shares are trading for public REITs. Jon, you've been very clear in terms of how Blackstone's portfolio is different and how you differentiate yourself, staying short duration and leaning into areas of secular growth. I'm curious from a fundraising perspective, how are institutional LPs viewing real estate today in the context of kind of private markets allocation broadly? With rates, I guess, where they are today, why is real estate still an interesting place to be particularly around core products? And as you think about the forward growth for Blackstone and real estate outside of the opportunistic funds, how do you envision those drivers evolve over the next call it, 18 to 24 months?

Jon Gray: Thanks, Alex. I guess I'd step back and say the reason why hard assets are interesting in an environment like this is because the replacement cost goes up pretty significantly. In an inflationary environment, the cost to build, the labor cost, which is a big component, has gone up and probably the largest input cost, the cost of money, goes up significantly. And the yield on cost that you need to build a new project goes up.

So, I was talking this week to a major apartment developer who builds - 15,000 units he has under construction today. He said next year he's cut his budget to 4,000 units, a 75 percent decline in terms of his new construction. So, what you see happen in an environment like this is you start to see a reduction in new supply, which is obviously helpful in the long-term. And these hard assets are beneficial because they don't have much exposure to input costs, and there's going to be fewer of them, as I said, built. So, that's the argument for investing into hard assets.

The challenge, of course, is in a rising rate environment, if you own a hard asset that looks and feels like a bond, or worse, an older office building. Then I think you're going to see a challenge to valuation because the income is not growing much and rates have gone up. On the other hand, if you're in rental housing and you have pricing power, or you're in logistics, where we're still seeing in the U.S. 30 percent increases in rents, in Europe, nearly 20 percent increases in rents, the duration of the leases is short.

Even as the cap rates go up, you can still see value appreciation, albeit at a lower rate. So, as it relates to institutions, yes, they become more cautious in this environment, so they don't allocate quite as much. They pause. We've seen this before. But I think once you get to the other side of this, healthy real estate fundamentals – and by the way, unlike almost every other down cycle, what we have going into this, particularly in logistics and rental housing is low rates of vacancy and limited new supply and a lot less leverage. So, we go into this in a better shape. And then as a result, we start to see this sharp decline in new supply; it should be even better coming out.

So, I think long-term, hard assets, real estate, which is obviously a big area of focus for us, is a really good area to be in. And then, I would just say, obviously, we have a distinctive platform. Our scale is larger than anyone else in the world. We see more on the ground than anybody. We have access to capital, both debt and equity capital. So it's an area we continue to have a lot of confidence in, even if there are some near-term headwinds.

Alex Blostein: Great. Thanks very much.

Moderator: The following question comes from Jerry O'Hara from Jefferies. Jerry, please go ahead.

Jerry O'Hara: Great. Thanks for taking my question this morning. Just maybe sticking with the rate environment a little bit and picking up on a question – or, on a comment Steve made earlier. But can you kind of talk broadly a little bit about how the rising rate environment could potentially put pressure on the LP dynamics from – I mean, if I'm an

LP, and I'm thinking about kind of getting more attractive rate exposure from fixed income and relative to less liquid private markets. I would be curious to get some color on how that dynamic might play out going forward?

Jon Gray: Well, it does, I think, impact some investors. Fixed income starts to look more attractive. But if you think about our clients and their long-term obligations, the rates they want to produce are generally above investment-grade fixed income. And so, I don't think they can move their portfolios out of alternatives in a meaningful way. It has been their best performing sector. And if anything, what they may say is "You know what, I'm really interested in private credit because I get the benefit of short duration income as the Fed raises rates. So, Blackstone, I'm interested in doing that. That's attractive. I'm interested potentially in infrastructure because it's got inflation hedges and income streams that are often tied to CPI or RPI in Europe. And so I'm interested in that."

We haven't really seen a movement out of the complex. We still see people interested in the sector. The composition of where they allocate could change. But the other thing I'd say about our investors is they've been at this a long time - the institutional ones in particular - and they don't want to just be procyclical. So, they know that to leave growth equity after the tech market sold off in a big way doesn't make a ton of sense. The same thing in private equity. And if you went back to the early 2000s, if you went back to '08, '09, leaving these sectors at the time prices go down is not the best decision. So, I'd say they take a longer-term view. They're sticking with what they've done. They may reallocate a little bit. I think private credit will be a beneficiary, and that's something obviously we do in scale. But I don't see any sort of large-scale movement away from this very attractive asset class.

Jerry O'Hara: Great. Thank you.

Moderator: The next question comes from Bill Katz from Credit Suisse. Bill, please proceed.

Bill Katz: Okay, thank you very much, and good morning, everyone. Thank you for taking the question. Maybe one for Michael to mix it up a little bit. Just want to unpack your discussion on the FRE margin at 56.5 percent, which sounds like a bit of a pickup in guidance. Can we unpack that a little bit just between how you sort of see the FRE dynamics if you were to strip out the performance fee-related contribution? And maybe if you could comment on just sort of the base payout rate, the comp payout rate, this quarter – it looked like it was particularly low ex-performance fees – and how you sort of see the two payout ratios into the new year? Thank you.

Michael Chae: Sure, Bill. Look, I think, as you know, we always encourage folks to look at margins over longer time frames, not just a single quarter, given intra-year movements and puts and takes in any period. And so, as I said and framed in my remarks - on a 9-month year-to-date basis, margin is up 100 basis points. And in terms of the key drivers, which is getting at your question on the expense side, just to unpack it, with respect to compensation expense, similarly, looking at that on a year-to-date basis, our comp ratio is

stable. It's right in line with the year ago, maybe within 30 basis points. And then in terms of OpEx, non-comp operating expense, it actually declined quarter over quarter about 6 percent driven by a range of factors – T&E, which we talked about in the past couple of quarters, is still higher than a year ago, but it's actually down quarter-over-quarter and other factors.

So, overall, I think what this reflects is a few things: very strong year-over-year and good quarter over quarter top-line growth, obviously, combined with a disciplined approach to cost management. We feel very comfortable in our ability to control and carefully manage costs in our business, all within the context of continuing to invest in our people and infrastructure to support growth. So the result of all of this, we think, continues to be a very stable and healthy margin picture.

Bill Katz: Great. Thank you.

Moderator: The following question comes from Kenneth Worthington from JP Morgan. Kenneth, please go ahead.

Ken Worthington: Hi. Good morning. I was hoping you could speak to BREIT and BPP. So, first on BREIT, it looks like gross sales have been slowing. Gross redemptions have been picking up. I think, Jonathan, you said higher volatility impacts flows. Could BREIT go into redemption in coming months? It looks like it may be poised there. And then on BPP, I think assets fell during the quarter. I thought that was largely permanent capital, and I think you highlighted that core-plus returns were higher. What drove the decline there in AUM?

Jon Gray: So, on BPP, I think the specific answer on that is currency, I think was the specific answer because –

Michael Chae: The translation of our European BPP platform.

Jon Gray: And Asia.

Michael Chae: Yes.

Jon Gray: And Asia. So, I think that's what you saw there, not outflows out of the complex. As it relates to BREIT, as I said in my remarks, it's not a surprise that you would see a deceleration in flows from individual investors when you've had this kind of market decline. I think the number in active equity and fixed income is something like $500 billion of outflows. And remarkably, as you know, we've had positive inflows throughout the year, which has been pretty exceptional.

I would say as it relates to near-term flows, yes, it's possible that we could see negatives over some period of time. But the key, which we keep pointing out, is the performance that we've delivered and the portfolio we've built. So, if you look at BREIT, the fact that we've delivered 13 percent per year for 6 years versus 4 times greater than the public

REIT index, or that BCRED has delivered 8 percent versus significant losses in fixed income over 2 years, that of course makes an enormous difference.

There's also the positioning of these portfolios, which is, if you look at what BREIT owns – we keep talking about it – rental housing, which is the biggest contributor now to inflation, and then you look at what BCRED owns, it's floating rate debt, which is benefiting, of course, every time the Fed raises rates. And just to put a point on performance again, if you look at BREIT up 9 percent this year, which versus the rest of the world is, of course, quite striking – so we look at this not necessarily in the context of months or this quarter. We look at this over time. And we see individual investors at 1-2 percent allocated to alternatives, versus institutions that are 25-30 percent allocated. And our view is with these products, what we're offering is attractive to individual investors and they will continue to find it so. Does it mean we have times when things are a little difficult? Yes. In terms of flows, we saw that in March 2020. But in the fullness of time, what we think we're going to see is investors respond to our investment management performance. That's the key driver over time.

Ken Worthington: Great. Thank you very much.

Moderator: The next question is from Adam Beatty from UBS. Adam, please go ahead.

Adam Beatty: Thank you, and good morning. I wanted to ask about capital deployment, which seems to have pretty much moderated across the various asset classes and categories. One of the themes in the industry echoed at Blackstone is the idea that market dislocation provides a good time to kind of deploy dry powder with higher expected returns. So, I guess, directionally, it was a little bit unexpected.

Now, a couple of minutes ago, Jon said that sometimes – referring to Europe - that sometimes opportunities just take a while to manifest. So, is it just a question of timing? Is there a reason that you've been holding back a little bit? And should we expect deployment to increase next quarter? Thank you.

Jon Gray: So, Adam, it's exactly what you referenced there, which is in a moment of dislocation, it takes time. Sellers' expectations change - they pause. Obviously, lenders in some cases move to the sidelines and transaction activity slows. And if you went back again to the '08, '09 dislocation, it took a bit of time. But then ultimately, of course, we were able to plant a lot of good seeds into the right kind of environment.

I would expect deployment will be muted for a bit of time. That doesn't mean we're not going to find some opportunities and that sellers won't start to get creative, providing financing, maybe taking back some equity in a transaction. I think it will build over time. But until you get, I think, a little more certainty out there, until people become more confident about inflation starting to head down, that rates have hit their peak levels, I think you'll see a slower level of transaction activity.

I think the key for us is that we don't have to be forced investors at any time, neither buyers nor sellers. So, if there is a slowdown in market activity, we can afford to be a little patient, and then when opportunity emerges, we can move. And I would just say that as our platform grows, I think you'll see us be able to do more and more even in a tougher environment. Areas like insurance, we can deploy capital on an unleveraged basis at a very low cost relative to others. I think that will be a busy area. But I would say an expectation of slower deployment in the near term is reasonable, but at some point picking up meaningfully.

Michael Chae: And Adam – it's Michael – I'd just add a couple of points. One is history, and we have 37 years of it, show that the vintages that straddle these periods of dislocation, which do take time to play out, prove to be really good vintages over time in terms of investment returns. And that second, our platform, which Jon referenced, our franchise, is so strong and distinctive. And so, our ability to access capital and debt capital in tougher markets and also our ability, I think, to engage in sort of dialogues with corporations, public companies, privately held companies, founders around capital solutions at a tough time, again, is, I think, quite advantaged. So, we'll have to be patient. It will take time to play out in terms of activity levels, but these periods of dislocation will ultimately prove to be opportunities for value creation.

Adam Beatty: Excellent. Thank you, guys. Much appreciated.

Moderator: The following question is from Patrick Davitt from Autonomous. Patrick, please proceed.

Patrick Davitt: Hey. Good morning, everyone. My question is on that same topic, more specific to private credit. Obviously, I appreciate your comments on better spreads and lack of competition helping you, and it looks like the deployment held up pretty well in 3Q. But how should we think about –

Weston Tucker: Patrick, we – we're losing you. Patrick, you're cutting out there. We're losing you.

Patrick Davitt: Can you hear me now?

Weston Tucker: Yep. We can.

Patrick Davitt: Okay. So, yeah, so I appreciate the comments on better spreads and competition helping credit deployment. And that held up pretty good in 3Q. But how should we think about the pace of credit deployment through a period of continued deterioration in deal markets? Do you think it can hold up if M&A and sponsored deal volumes in particular are getting increasingly anemic? And if so, what do you think kind of offsets the deal volumes being a lot lower?

Jon Gray: I think what offsets the fact that deal volumes are lower is the certainty that direct lenders provide to borrowers. So, in an environment like this, if you're a financial

institution in the distribution business, you're going to be cautious because you don't know where the end market is. And so, I think direct lenders, providers of capital, who aren't distributing the paper but just holding it will have an advantage in this kind of volatile market. And so, I think we're seeing that today.

There's definitely a movement towards direct lending. And it's a similar dynamic in insurance, where rather than somebody distributing paper, investment-grade paper, we're doing the direct origination for our insurance clients. So, I think there will be opportunities. And I will say when you look at the private equity market there's still a lot of equity capital out there. There's a lot of discussions. There are transactions getting done at a lower level. At some point here, inflation, as we've talked about, will get to a top point, rates will get there, people will begin to feel a little better, and things will continue to go.

And what's been amazing throughout this is we've continued to deliver good performance. We found some opportunities along the way, and investors continue to allocate capital to us. So, it gives us confidence and we've been through other cycles before. We're sort of built as a firm for this. And we think there'll be plenty of opportunities as we get through this and get to the other side.

Weston Tucker: Thanks Patrick.

Moderator: Our next question is from Finian O'Shea from Wells Fargo. Finian, please go ahead.

Finian O'Shea: Hi, everyone. Good morning. Sort of staying on the same theme, can you talk about the financing markets for funds and if you see any impact there on growth across the platform or in any particular strategies?

Jon Gray: When you say financing for funds, you mean transaction financing?

Finian O'Shea: We'll say borrowing from banks, securitization, capital markets sometimes. But yes, transactions…

Jon Gray: Yes, we've definitely – as I said, we've seen a slowdown. Banks' risk appetite is lower than it was before. And spreads have gapped out. So, the cost of capital if you're buying a company or buying real estate has gone up materially.

We're still, because of our unique spot, if anyone can get a financing done somewhere, it's us. And I think you'll see some examples of that in the not-too-distant future. But it is harder to borrow money. And as I said, what we're going to see, I think, sellers do a little bit – who want to sell – is potentially provide some seller financing to get things done. There's a lot of creativity in the deal market. And I think that some of that will emerge in this uncertain environment.

But overall message is financing is generally tougher and it makes transactions harder. But I would point out - if you look as investors, if you said, "Are you better off in periods like 2000, 2007, 2021, where debt markets sort of are abundant, debt is low cost, but you have to pay a lot for assets versus an environment like today?" We're definitely better off as investors in an environment like today where capital is more scarce, where we may have to over-equitize the deal and then ultimately finance it when markets calm down a bit in the future.

Finian O'Shea: Thank you.

Moderator: The following question comes from Brian McKenna from JMP Securities. Brian, please go ahead.

Brian McKenna: Thanks. Good morning everyone. So, I had a question on hedge fund solutions. Year-to-date performance has actually been pretty healthy, despite the tough backdrop for public markets. So, are you starting to see any increased demand for the product on the heels of this performance? And then related, how is the business tracking for year-end incentive fees in the fourth quarter?

Jon Gray: Well, I'll just comment on the fact that we brought in Joe Dowling, who previously ran the Brown endowment a couple of years ago. We actually had our LP meeting this week, and we were highlighting the team, the additional investment professionals Joe's brought on board, and really this outstanding performance. The fact that here we are into the worst 60/40 environment since the early '70s and the BAAM business has been positive all three quarters. That is exceptional, particularly given the scale of capital they operate.

I think it's still a bit early in terms of investors who have been, I think, a little more cautious on the hedge fund sector, now recognizing, in an environment like this, that some of these non-directional strategies in macro, quant, credit-related strategies can generate attractive returns. And I think that will give us momentum over time. It takes a bit of time for investors to see what's happening here, but we feel really good about it. We could not be more proud of the investment performance the BAAM team has delivered.

Moderator: The following question comes from Chris Kotowski from Oppenheimer. Chris, the floor is yours.

Chris Kotowski: Yeah. Good morning. Thanks. I mean, I guess the striking thing to me is that if you look at the public apartment logistics and lodging rates, the earnings are up, the estimates are up, the estimates for next year are higher than for this year, but the stocks are down 30 percent. And so I guess it leads me to think, one – (a) do you need to run BREIT with more liquidity just in case the perception there gets negative? And then (b), when you use your methodology for looking at the asset values in BREIT, and if you apply that to the public companies, do those all of a sudden look a whole bunch more attractive relative to your valuations?

Jon Gray: Yeah, I'll start on valuations. What's interesting about the public real estate market, it's pretty small. It's probably 7 or 8 percent of the U.S. commercial real estate market. It trades with a lot of volatility, as you pointed out. In fact, since 2010, it's gone up or down in a 60-day period by more than 10 percent 50 times, which hasn't happened in the private real estate market during that period, I don't think, once. And it can, of course, trade above NAV and below. And part of the decline you've seen was the public markets heading into this were actually above, in many cases, the private market. So, some of that was giving back. And if you look at the analysts today who cover real estate, they would say they're trading below the private market.

And the short answer is, does it create opportunity for us as the largest real estate investor? It does. We've done many, many public-to-privates in the real estate space. And generally, it's because the public markets tend to go back and forth between euphoria and depression. And what we've seen here is now the idea is rates have gone up, and therefore real estate values go down very, very sharply below the private market value, which can create an opportunity for us, certainly. And we do believe, if you look at the logistics space, the phenomenal performance that's happening in markets, the public markets don't seem to appreciate that, but those can create opportunities over time, similarly in rental housing.

As it relates to BREIT, we've built this product keeping in mind that there can be volatility in markets. So, we run the vehicle with ample liquidity, large amounts of cash and revolvers, large amounts of liquid debt securities. We've met 100 percent of the repurchase requests since we started 6 years ago, including throughout COVID, and the structure means we're never a forced seller of assets. So, we feel really good about BREIT and its ability to weather pretty much any storm. And again, back to what I talked about earlier, focusing on rental housing and logistics, where the vast majority of the assets are in the Southern United States, you could not have built a better portfolio for the environment we're in. And we feel really good about where BREIT's going over time.

Chris Kotowski: Very interesting. Thank you.

Moderator: Our next question comes from Rufus Hone from BMO. Rufus, please go ahead.

Rufus Hone: Great. Good morning. Thanks very much. I was hoping to get an update on how your private equity portfolio companies are performing and also on their ability to manage higher debt service costs as the economy slows down. And related to that, I was curious to know how you've structured the debt at your portfolio companies. If you could share roughly what the mix is between fixed and floating rate debt, and to what extent you may have hedged the floating portion? That would be really helpful. Thank you.

Michael Chae: Hey, Rufus, this is Michael. I'll start with the last question. We've been at this for a while, obviously, financing our private equity portfolio and feel really good about the position our companies are in. Our average debt maturity - remaining maturity

in our private equity portfolio - is around five years. In terms of hedging, while the baseline is – there's obviously a floating rate component of especially the senior debt. There's a fixed component as it relates to a high yield or sub-debt portion in most cases. And then, we also hedge a significant portion of our portfolio to fixed over a period of time. And then I'd say from an interest coverage level, we're in very, very good position from a cushion standpoint, even anticipating higher base rates.

Jon Gray: And I would say, performance-wise, the third quarter – again, remarkable 17 percent revenue growth. Real strength, as we talked about in travel and leisure - businesses like Crown Resorts, Merlin Entertainment, we have a visa processing business; all of these companies, seeing very strong revenue growth.

We have large exposure to energy and energy transition. Of course, that's been one of the best areas in the global economy. And that sector positioning for us, I think, has made a very big difference, relative to the overall mix of companies out there. We also – when we did technology investing, we focused on profitable tech businesses, enterprise tech businesses, which are continuing to grow nicely.

So, we are as we said in the opening, we're seeing a slowdown economically but still really good momentum, and particularly in our companies. There is still some margin pressure out there. Labor costs mean that the bottom line is not growing as fast as the revenue line is. But I would say on the ground today, at least for our portfolio, it's still pretty good.

Rufus Hone: Thank you.

Moderator: Up next is Arnaud Giblat from BNP Exane.

Arnaud Giblat: Hi. Good morning. My question is on the opportunities that are out there in secondary markets. There's been a lot of news flow suggesting that pension funds have been selling some of their LP stakes in the U.S. and Europe. I was wondering if you could comment on that. Have volumes picked up markedly? And is pricing attractive for your secondary funds? Thank you.

Jon Gray: We think it's a really great time for what will be a $20 billion industry leader secondary fund. What happens in moments like this, a little bit like my earlier comments, is you see a pause from sellers. They want to wait and see where valuations come out. Sometimes they may not be enthused about potential discounts. As the funds may get marked down and they accept that the valuations are different than they were 12 months earlier, then you see transaction activity pick up.

I would say overall as alternatives have grown in a big way, the secondaries business is very well positioned because people need liquidity for a wide variety of reasons, and there just hasn't been enough growth in the secondary space. And again, it speaks to the power of Blackstone. The fact that we've got a leading industry platform in this area as well is really advantageous. We believe that we'll see a pickup in volumes. It may take

six months for that to happen. That's been the history. But when it happens, because of the scale of our platform and our ability to invest in all sorts of funds – we're invested in more than 4,000 funds, which gives us a real competitive advantage when somebody is looking for a holistic solution. So, we like the space. We think it's going to be a busy space. It may just be a little bit slower here for a couple of quarters.

Arnaud Giblat: Thank you very much.

Moderator: Our final question comes from Brian Bedell from Deutsche Bank. Brian, please go ahead.

Brian Bedell: Great. Thanks for taking my follow-up. Just wanted to go back to Resolution Life for a second and to your confidence on that being a block aggregator. And I think you mentioned $250 billion of potential fundraising in insurance. Would you be able to unpack that a little bit in terms of the different components of those drivers in a rough time frame?

Jon Gray: Yeah, on the $250 billion, that's really the $150 billion today, plus where we think both Corebridge is going to grow to, plus Resolution, plus a little bit of organic growth as well.

Michael Chae: Yeah, and the $150 billion is our total insurance AUM managed. There's about $110 billion or so, subset of that, from these four big partnerships that Jon's referencing; it's that number that will contractually, we expect to grow to $250 billion or so over time.

Jon Gray: Yeah. On Resolution, what's attractive to us is that they're focused on these legacy closed blocks. And so, there are a lot of insurance companies out there today - this is an area where there is a lot of deal flow - who want to move out of their old, call it life insurance book. Resolution is uniquely positioned. The CEO, Clive Cowdery, has been doing this for a very long time. He's built a terrific team to not only underwrite the liabilities, but then to service the customers. What he hadn't done historically, was focus as much on the asset side, generally buying liquid rated fixed income. And what we're bringing to Resolution is new capital to help them grow, in what we think is a very good time, and the ability to directly originate credit. And this is this mega trend I talked about, but the ability to make real estate loans, corporate loans, infrastructure loans, asset-backed loans and do that at scale, we think that is a very compelling opportunity. Resolution was excited about it, and it gives us another engine. So, we've obviously got Resolution focused on these closed blocks.

In the case of Corebridge, and also F&G, we have firms that are growing in the fixed annuity space in a big way. So, we've got multiple engines of growth for assets in this space. And, the base rates have moved up and the spreads have widened. So, if you think about a market where it's a very attractive time to be deploying capital and repositioning out of traditional fixed income into private credit, this is that moment. We're excited about this, and we really like this model as we talked about, which is asset-light - we

don't have to take on insurance liabilities - and multiclient. We're not just limited by one balance sheet. We can work with a variety of clients who all benefit from the scale and diversification we can give them.

Brian Bedell: That's very interesting. Thank you.

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

Weston Tucker: Great. Thank you, everyone, for joining us today. 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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