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

Weston Tucker: Thank you, Katie, and good morning and welcome to Blackstone's second-quarter conference call. Joining today are: Steve Schwarzman, Chairman and CEO; Jon Gray, President and Chief Operating Officer; and Michael Chae, Chief Financial Officer. Earlier this morning, we issued a press release and slide presentation which are available on our website, and 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.

Also note that: nothing on this call constitutes an offer to sell, or a solicitation of an offer to purchase, an interest in any Blackstone fund. This audio-cast is copyrighted material of Blackstone and may not be duplicated without our consent.

So on results: We reported GAAP net income for the quarter of $1.2 billion. Distributable earnings were also $1.2 billion, or $0.93 per common share, and we declared a dividend of $0.79 per share, which will be paid to holders of record as of July 31st. With that, I'll now turn the call over to Steve.

Steve Schwarzman: Thank you Weston and good morning. Thank you all for joining the call.

Blackstone reached a remarkable milestone in the second quarter. We surpassed $1 trillion of assets under management – the first alternative manager to do so, and more than three years ahead of the aspirational roadmap we presented at our Investor Day in 2018. This achievement is significant in many ways, including for me personally. I founded Blackstone with my partner Pete Peterson in 1985 with $400,000 of start-up capital. We sent out 450 personal announcements of our new venture and published a full-page newspaper ad with the expectation that the phone would start ringing off the hook. It was a humbling experience when no one called, other than a few people wishing us luck. When we started raising our first private equity fund in 1986, with a $1 billion target, we discovered that getting a $5- or $10-million commitment was a substantial accomplishment. Fortunately, we hung in there, and we were ultimately successful.

Looking at Blackstone today, I feel an immense sense of pride. We've established an unparalleled global platform of leading business lines, offering over 70 distinct investment strategies. We believe our clients view us as the gold standard in alternative asset management, and this milestone reflects the extraordinary level of trust we've built with them over nearly four decades. We've delivered for them in good times and bad, generating $300 billion of aggregate gains with minimal losses. In fact, virtually all of our drawdown funds we've launched in our history have been profitable for our investors. Our performance has helped secure retirees' pensions; fund students' educations; pay healthcare benefits; and protect and grow the savings of individual investors. We are tremendously proud of the role we've played in driving these outcomes. Our ability to create excess returns over long periods of time, in support of these critically important objectives, is what distinguishes us as a firm and powers our growth.

This milestone is also reflective of Blackstone's distinctive positioning as the leading innovator in our industry. At our founding, we determined that building a great company required us to be in a continuous innovation mode, which we have institutionalized as a core competency of the firm. Our original strategic plan was to start in corporate advisory and then quickly move into private equity, followed by a succession of other asset management businesses over time. We only entered a new area when we saw the opportunity to generate great risk-adjusted returns for our customers; we identified a remarkable leader; and the new area created intellectual capital that benefited the rest of the firm. For example, we entered the hedge fund-of-funds business in 1990; real estate in 1991 when values had collapsed following the savings and loan crisis; and credit in 1998, which we expanded substantially in 2008 ahead of the generational investment opportunities that arose from the global financial crisis. In 2011, we launched a dedicated private wealth business. The following year, we created tactical opportunities, and the year after that, we entered the nascent secondaries market for drawdown funds. In 2017, we launched our infrastructure strategy; in 2018, we started both our insurance solutions management and life sciences businesses; and in 2020 we launched our first growth equity fund. Today, nearly all of these major lines of business are market leaders in their respective asset classes, with exceptional long-term performance.

There are many advantages that come from our unique scale. With our portfolio of over 230 companies, 12,000 real estate assets and one of the largest lending businesses in the world, we believe that we have more information than just about anyone competing with us. We specialize in the production and analysis of enormous amounts of data, which we review every week in our Monday morning meetings with each of our major product lines. This process, done over 35 years, helps us identify trends before others and adjust where we invest our clients' capital. This also allows us to maintain a hands-on management style, keeps our professionals fully connected, and supports centralized decision-making.

Our focus on data aggregation and analysis also led us to establish our own data science group as early as 2015. We started building a team of exceptional data scientists, which today numbers over 50 people, and we are rapidly and significantly expanding our capabilities in artificial intelligence. We have been using AI to help improve operations in our portfolio companies as well as at Blackstone itself. We believe that the new generation of AI has the potential to transform companies and industries, and the timeliness and effectiveness of its implementation

will be determinative of who the winners and losers will be. Blackstone fortunately is in an enviable position in the alternative asset world, with an eight-year head start in this field, and we are committed to further expanding our leadership position there as quickly as possible.

Our growth, along with our commitment to meritocracy, have also allowed us to attract and retain great talent. Many of the best people in the world want to work here at Blackstone. This year we had 62,000 unique applicants for 169 first-year analyst positions, equating to a selection rate of less than 0.3%. Getting an entry-level job at Blackstone is twelve times harder than getting into Harvard. I doubt I'd be able to be hired today! Not sure that's a great thing.

Our scale has also made the firm even safer. We were an A+ rated manager of third-party capital, distributed across hundreds of segregated investment vehicles. We don't depend on deposits for our funding, and the vast majority of our capital is under long-term contracts or perpetual, which we carefully aligned with the duration of our investments. We don't operate with a cross-collateralized balance sheet like depository institutions. We have virtually no net leverage at the parent company, compared to U.S. banks with an average of twelve-times leverage, and we have no insurance liabilities. We've always believed in extreme conservatism in managing our capital structure and the structure of our funds.

As the largest manager today, Blackstone has led the adoption of alternatives which have revolutionized the field of investment management. When we started in 1985, alternatives were basically limited to private equity, and there were only a few public pension funds and insurance companies who invested in the asset class. Endowments, sovereign wealth funds and retail investors, for example, had virtually no participation. Over the subsequent four decades, alternatives have grown to $12 trillion of assets. But this is still small compared to the $225 trillion of liquid stocks and bonds. With a minimal share of total investable assets today, we expect alternatives to expand substantially in the future. I believe that Blackstone, given our unique brand and global reach, is the best positioned firm in the world to capture future opportunities for growth in the alternatives area. The most compelling of these today include: private credit and insurance; infrastructure globally; energy transition; life sciences; the develop of the alternatives business in Asia; and the private wealth channel, where the democratization of alternatives is in its early stages. Jon will discuss these areas in more detail.

Our mission, since 1985, is to be the best in the world at what we choose to do. Even as we've grown, we've never strayed from this mission or from the core values that have defined us, including excellence, integrity, meritocracy, teamwork and dedication to serving our customers. To work at our firm, you must believe in our mission and embody these values. Blackstone is an extraordinary place, and our prospects are accelerating. We never rest on our achievements and we're always looking ahead, striving to lift the firm to new heights. I strongly believe the best is ahead for Blackstone, investors in our funds, and our shareholders.

And with that – I'll turn the ball over to Jon.

Jon Gray: Thank you Steve, and good morning everyone.

$1 trillion is a mile marker on a much longer journey, and we are early in our expansion into markets of enormous potential.

Of course, it all starts with investment performance. In our drawdown funds, we've delivered 15% net returns annually in corporate private equity and opportunistic real estate for over 30 years; 15% in secondaries; 12% in tactical opportunities; and 10% in credit. In our perpetual strategies, which remain continuously invested, we've generated 14% net returns in infrastructure; 12% for BREIT's largest share class; and 9% for our institutional core-plus real estate funds. And for our major insurance clients, we produced over 150 basis points of excess spread over the past six quarters compared to investment grade credit with similar ratings – or said another way, without adding incremental risk.

There are a number of drivers of our outperformance, but as we've grown, picking the right sectors and markets has become more important than ever. Where you invest matters, and we continue to benefit from our thematic emphasis on winning areas like global logistics, digital infrastructure and energy transition. In the second quarter, these sectors were among the largest drivers of appreciation in our funds. It's worth noting, we're also seeing strong signs of inflation slowing across our portfolio, which we view as extremely positive for the rate environment going forward, along with valuations for companies and our real estate holdings in particular. Michael will discuss our portfolio positioning and Q2 returns in more detail.

The strength of our investment performance over decades allows us to raise scale capital, even in a very challenging fundraising environment. Total inflows reached $30 billion in the second quarter and $158 billion over the past twelve months, positioning us with record dry powder of nearly $200 billion. The greatest demand today is for private credit solutions, and our corporate credit, insurance and real estate debt businesses comprised over 50% of Q2 inflows. In our drawdown fund area, we raised additional capital for our corporate PE flagship, bringing it to approximately $17 billion, and we expect a total size in the low-20s billion-dollar range. We also held an accelerated first close of $1.3 billion for our European real estate flagship and expect another close later this month. Overall, we've raised nearly 75% of our $150 billion target and remain on track to substantially achieve it by early 2024.

Stepping back, Steve highlighted a number of areas with particularly attractive long-term dynamics for our business.

Starting with credit, where there is a structural shift underway in the market. Traditional financing providers are cautious while, at the same time, both LP demand and borrower need for credit solutions are accelerating. Long-term investors, including insurance companies and institutional LPs, hold large portfolios of liquid investment-grade credit assets, typically purchased from banks and intermediaries. With our $362 billion platform in credit and real estate credit, we have leading capabilities to directly and efficiently originate high-quality assets on their behalf. We're also partnering with banks and other originators that are facing greater lending constraints but want to continue to serve their customers, in areas like home improvement, auto finance and renewables. We've closed or have in process five of these partnerships totaling $6 billion, and plan to add more.

In the $40 trillion insurance channel, we manage $174 billion today. Inflows from this channel were over $7 billion in the second quarter, with more than $4 billion from our largest four clients. We expect a strong pace of inflows from them going forward - including from two of our clients who, on a combined basis, are the second largest sellers of fixed annuities in the U.S. - along with a pipeline of additional prospects. Other areas in our credit business are showing strong momentum as well. Our global direct lending platform is over $100 billion today, and we see attractive expansion opportunities in the U.S., Europe and Asia. BCRED raised $1.8 billion in the second quarter, up nearly 60% from Q1, plus approximately $900 million of monthly subscriptions on July 1. And we expect to complete raising our green energy credit vehicle in a few weeks at over $7 billion.

Turning to infrastructure. Our perpetual BIP strategy is one of our fastest growing areas, up 25% year over year to $37 billion. There will be massive funding needs over the next 15-20 years for infrastructure projects globally, notably including digital infrastructure and energy transition, where we are building sizable platforms. First, in digital infrastructure: there's a well-publicized arms race happening in AI, and the major tech companies are expected to invest $1 trillion over the next five years in this area, mostly to data centers. In 2021, we privatized the QTS data center business in BREIT, BIP and BPP for $10 billion, and it's showing extraordinary momentum, with more capacity leased in the last two years than in the previous seventeen. We expect our investors will benefit significantly from the powerful tailwinds in this rapidly growing sector.

In energy transition: Decarbonization is projected to require $4.5 trillion of annual investment over the next 25 years, further supported by legislative action globally. This has been one of our busiest areas, in BIP and also our dedicated energy transition private equity and credit funds. The firm's two largest commitments in the second quarter were: a stake in a major utility to support its transition from significant coal-powered generation to 0% in five years; and additional growth capital for our portfolio company Invenergy, the nation's largest private renewables developer. We believe the need for scale capital and expertise in this area will only increase over time.

Moving to life sciences. Major advances in genomics and precision medicines, coupled with a historic shift in the funding model for drug development, have created an unprecedented opportunity. We've established an extensive life sciences ecosystem at Blackstone, with substantial capabilities and portfolio holdings across the firm. Our dedicated BXLS business, has been actively deploying capital in partnership with major bio/pharmaceutical and med-tech companies, most recently to support development of vaccines for pneumonia. We've also assembled the world's largest private lab office platform in real estate, concentrated in great markets like Cambridge, Massachusetts.

Asia represents another significant opportunity for our firm, cutting across both business lines and distribution channels. India is projected to remain one of the fastest growing major economies in the world, and it's no coincidence the country is our third-largest market for equity investing, after the U.S. and U.K. In real estate, we even changed the landscape by working alongside regulators to launch India's first public REITs. Meanwhile, Japan is in early stages of its trajectory, both in terms of large investors starting to allocate to alternatives, as well as deployment opportunities as the market opens to outside capital. Overall, there is substantial runway ahead for our business in Asia.

Finally, moving to our private wealth platform. We've established the world's leading alternatives business, with approximately $240 billion of AUM. But this is an $80 trillion market, with low single-digit allocations to alternatives today. Morgan Stanley's research team recently cited estimates of allocations rising to 10%-20% over time. This is further substantiated by the discussions we have with the major distributors, who tell us they want significantly more exposure to our products. Although we do face some near-term headwinds, BCRED's flows have been accelerating as I mentioned. And for BREIT, June was the lowest month so far this year in terms of share redemption requests – down nearly 30% from the January peak. Longer-term, we remain confident in the re-acceleration of growth in this channel given our portfolio positioning and exceptional performance.

In closing – we are highly energized about the firm's prospects. We're focused on the open space in front of us, and we are building simple, scalable, and repeatable businesses to tackle opportunities of tremendous size. I could not have more confidence in Blackstone's future.

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

Michael Chae: Thanks Jon, and good morning everyone.

In the second quarter, which began amid the bank crisis and related market volatility, the firm delivered steady financial results and resilient fund performance.

Starting with results. Our expansive breadth of growth engines lifted AUM to new record levels, as you've heard this morning. Total AUM increased 6% year over year to $1 trillion. Fee Earning AUM rose 7% year over year to $731 billion, driving management fees up 9% to a record $1.7 billion. Notably, the second quarter marked the 54th consecutive quarter of year over year growth in base management fees at Blackstone. Fee related earnings increased 12% year over year to $1.1 billion, or $0.94 per share, powered by the growth and management fees coupled with the firm's robust margin position.

FRE rose 10% sequentially from Q1, as fee related performance revenues nearly doubled quarter over quarter to $267 million, even without contribution from BREIT, driven by multiple other perpetual capital vehicles in real estate and credit. As noted previously, we expect these revenues to further accelerate in the second half of this year, concentrated in Q4, with a number of scheduled crystallization events in the BPP platform.

Distributable earnings were $1.2 billion in the second quarter, or $0.93 per share, which was largely stable with Q1. The year over year comparison was affected by a material decline in net realizations from last year's record quarter. As expected, sales activity has remained muted against a slow transaction backdrop generally. However, we did execute the sales of public stock in certain of our private equity holdings; along with a portfolio of U.S. warehouses to Prologis for $3.1 billion, at an attractive cap rate of 4% - a positive indication of value for the $175 billion of warehouses we continue to own, which are the firm's largest exposure. Realizations in the quarter also included BREIT's sale of a resort hotel for $800 million, reflecting a 22% premium

to its December carrying value and a multiple of invested capital of 2.2 times. These sales illustrate the exceptional quality and embedded value of our portfolio.

Stepping back, our model, focused on long-term committed capital, keeps us from being forced sellers when markets are less favorable. During these periods, as we've seen in past cycles, the portion of our earnings related to realizations is interrupted, but ultimately re-emerges as markets heal. In the meantime, the firm's underlying earnings power continues to build. Performance revenue eligible AUM in the ground increased in the second quarter to a record $504 billion, and has more than doubled in the past three years. Net accrued performance revenue on the balance sheet – the firm's "store of value" – grew sequentially to $6.5 billion, or $5.31 per share. In the context of more supportive markets, we are well positioned for an acceleration in realizations over time.

Turning to investment performance. Nearly all of our flagship strategies reported positive appreciation in the second quarter. The corporate private equity funds appreciated 3.5%, with our operating companies reporting robust revenue growth of 12% year over year, along with expanding margins overall. These trends reflect our favorable sector positioning and focus on high-quality businesses with pricing power, coupled with cost deceleration.

In real estate, the core-plus funds appreciated 1.7% in the quarter while the BREP opportunistic funds were stable. We are seeing sustained strength in our key sectors in terms of cash flow growth. Half of our owned real estate is in logistics, student housing and data centers, which have experienced double-digit year over year growth in market rents. In our U.S. rental housing holdings overall, fundamentals are stable, with cash flows increasing at a high single-digit rate. For BREIT, over 80% of the portfolio is concentrated in these sectors, leading to strong same-store NOI growth of approximately 7.5% in the first half of the year. Looking forward, an environment of lower inflation and lower interest rates should be very favorable for our real estate portfolio overall.

In credit, the private and liquid credit strategies appreciated 3.3% and 2.8%, respectively, in the second quarter, reflective of a healthy portfolio generating strong current income. Despite a moderate uptick in broader market default rates, which we do expect to rise further, in our non-investment grade portfolio defaults remain low at less than 1%. Finally, in BAAM, the BPS Gross Composite Return was 1.9% in Q2, representing the 13th consecutive quarter of positive performance. Over the past several years, BAAM has done an outstanding job protecting investor capital in an environment of significant volatility in liquid markets. Since the start of 2021, the BPS composite net return is up over 14%, compared to 1% for the traditional "60/40" portfolio.

Overall, the resiliency and strength of the firm's returns, over many years, is the foundation of the extraordinary growth we've achieved.

In closing, the firm continues on a path of an expanding asset base, reaching $1 trillion today and, we believe, ultimately well beyond. From the beginning, we've taken a very long-term view towards building an enduring business at Blackstone. Today, as the reference institution in our industry, we have the distinctive assets of our brand and reputation, our scale, and our culture –

a culture defined by decades of performance and innovation. This is what has powered our success to date, and what we believe will propel our future.

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

Moderator: Thank you. Just a reminder please press star one on your telephone keypad to ask a question. We ask you limit yourself to one question to allow everyone an opportunity to ask their question. We'll go first to Craig Siegenthaler with Bank of America.

Craig Siegenthaler: Good morning, Steve, Jon. Thank you for taking my question and congrats on hitting $1 trillion. It feels like just a few years ago you were around $70 billion at the IPO. My question is on the expanding opportunity inside the U.S. banking industry. So first, forming partnerships: I heard in the prepared remarks you have about five now, so building that out. Two, buying and originating assets, and three, maybe supplying capital at some point. So now that we're four months outside of the Silicon Valley Bank failure, can you provide us an update across these three verticals?

Jon Gray: Sure Craig, and thank you for the kind words.

You know, what we've seen here now is banks really recognizing that there's a natural partnership between their origination capabilities and some of the long-term capital we manage, particularly for insurance companies. So what we referenced in the prepared remarks was a number of these partnerships that we have formed and have executed or close to execute. We also have a decent pipeline behind that. And if you think about a bank with those strong customer relationships, if they're making five-, seven-, ten-year home improvement or equipment finance loans, to have a partner like us to take some of those makes a lot of sense. And so we're involved in a number of discussions with banks who want to maintain their relationships with customers, but either shrink their balance sheet or do other things to create capacity. I would also point out with the larger financial institutions, there are things to do with them to provide some balance sheet relief. We've been doing a number of those items with different pools of capital. So, I think what's happening is good for the financial system. It's good for the banks and it's obviously good for our customers, and we expect this will grow significantly over time.

Steve Schwarzman: One thing I'd add is it's just not a U.S. phenomenon. This is very much U.S. and European, where everybody's feeling the pinch from regulatory pressure. They like to keep their customer, they like to keep producing assets, but they just don't have the balance sheets to hold all of them. So that's a particularly interesting area for us.

Craig Siegenthaler: Thank you guys.

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

Michael Cyprys: Hey, good morning. Thanks for taking the question. So big-picture question for you guys on a credit cycle. If we look across the financial system, credit loss is coming in better than feared, whether it's C&I loans at the banks or in credit and private credit. Some of this perhaps relates to limited debt maturities, perhaps, but also it seems like the impact of rate hikes

is maybe less potent than feared. So just curious to your views and outlook here. And if we look at the private credit markets, maybe you could just remind us how much of the rate risk is hedged, and for how long, and how do you see this all playing out?

Jon Gray: So Mike, I would say everybody has been surprised, given the rapidity at which the Fed has raised rates and how high they've taken rates, that there hasn't been more distress. Interestingly, today, if you look at the overall market, default rates, in leveraged loans for instance, are still below the long-term average. They're approaching it, they're at 2.7%. I think the long-term average is 3%. They got up to 13-14% during the Global Financial Crisis. What I would say, and by the way in our own portfolio, those defaults are still less than 1%. So, I think it's a function of a couple things. It may be some hedges certainly in place, as people put in place some longer-term protection. But I think the biggest component of it is the strength of the earnings of the companies. Michael referenced in our own portfolio that 12% revenue growth. We're seeing strong revenue and EBITDA growth across our borrowers and that is obviously helping. Companies in areas like technology are obviously looking at their cost structures, becoming more profit focused. I think it's earnings growth that has supported this. I think it's a fair question, which is as you look out over time, if the economy does moderate as we expect, rates stay elevated, would you expect more defaults going forward? And I think the answer to that is yes, but I don't think this is like ‘08, ‘09. I don't think we have the kinds of over leverage we had back then. And just to point it out, if you look at BCRED, our non-traded BDC, its average loan-to-value was 43% on its book. And much of that, of course, was originated prior to this rate hike. And if you contrast that to the ‘06, ‘07 period, when leverage levels were 70+%, I think that's another reason people don't focus on why you have more of a cushion here and less distress. So, picture today on the ground, certainly better than people would expect. Going forward, we'd expect that things will get tougher, but not nearly as bad as that last cycle.

Michael Chae: Hey, Jon, let me just add in on that. Hey, Mike, it's Michael.

Just focusing on our outperformance versus the overall market with respect to default rates. And it has been pronounced. It's important, I think to highlight sort of our relative position and focus. And our team would call it the three S's: scale, sector selection and seniority. On scale, we're obviously a large player. We are focused on larger issuers. And we believe, overall, it's already been shown in a high-inflation world, larger companies are more resilient with respect to performance through the cycles. And, again, that's been shown, I think, in terms of more options to respond to a rising cost inflation environment recently. Second, on sector selection, if you look at our portfolio versus sort of the industry average, our focus in recent years, away from cyclicals, some consumer discretionary companies, certain industrial companies, has, I think, really paid off. And then, with respect to seniority, which Jon touched on in addition to loan to value, 98% basically, of our direct lending portfolio in BCRED is senior secured. And actually, even our peers in the direct lending area are substantially lower than that, in some cases 70-75%. And so that is the top of the capital stack, and that is very protective. I think Jon talked about the overall sort of default rates in the path, and we do expect them to rise for the market overall and for us, but our sort of experience and outperformance on default rates, which has been both historical and current, I think has some underlying drivers that are important to highlight.

Michael Cyprys: Great, thank you.

Moderator: We'll go next to Glenn Schorr with Evercore ISI.

Glenn Schorr: Hi, thanks very much. Maybe big picture on real estate in general, I'm curious if where the 10-year has been kind of in the same range for a while now, even as we get in the last of the short-end rate hikes. So, I think cap rates have leveled off as well. Maybe you could take a snapshot on where you think we're at leverage-wise, debt service coverage-wise, and what the sales pitch for real estate in general is going to be if that's an environment that we're in over the next handful of years. Thanks.

Jon Gray: Well Glenn, I would say that there continues to be pretty significant bifurcation in commercial real estate. We've talked about it in the past. Certain sectors face real underlying fundamental headwinds. That would be notably the office space in the U.S., which we've talked about is less than 2% of our own portfolio. And there I still think we have a ways to go in terms of what will be, I think, continued challenges going forward, and there will be more foreclosures and more markdowns coming in portfolios. We continue to see in a number of sectors, particularly our largest sector, logistics, very strong underlying fundamentals where rents are growing globally around double-digits, other areas like student housing with real strength, data centers, which we talked about in the remarks, again, real strength. And then other sectors, I'd say somewhere in between. Those top three sectors I mentioned represent 50% of our global portfolio. And so what I would say is, in better sectors, where the fundamentals are good, the fact that rates seem to - the long end - seem, to have reached a level and may be heading lower, we'll see, I think they'll stick around here given the short end, and at some point here, 12, 24 months from now, the Fed will start to take the short end down. That's obviously positive. Because to your point, cap rate pressure is very tied to rate, and so, if we're at a point in the cycle where the risk of rates going much higher is off the table, that's helpful to real estate. The other helpful pitch in real estate is you're seeing a sharp decline in new supply. So in logistics for instance, we've seen a decline of new starts around 40-50% depending on markets. Housing supply is down aggregately about 20+% from where it was, and you're seeing it in hotels and other areas. And so, if you think about coming out of this over time as investors, if you can invest in sectors where the underlying vacancy rates are low today, there's going to be less building and interest rates are no longer a major threat. If the asset's been marked to sort of the new market, then we think there's significant opportunity, and that I think is really the pitch. Today the area we're most active in is actually European real estate, particularly in logistics, because the sentiment around European real estate is so negative, and yet if you look at, for instance, rental growth in UK logistics, it's incredibly strong. I think we're in a moment where everybody's extrapolating what's happening in office buildings, becoming incredibly negative about the sector, but that's going to create some real opportunities. And to your point on debt, there will be need for people to sell and inject capital because of the higher debt costs that are out there. So, I think sector selection really matters as we talk about, and then these tailwinds around rates leveling off and new supply coming down should be very helpful to the asset class over time.

Glenn Schorr: Thanks so much Jon.

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

Brian Bedell: Great, thanks. Good morning. Maybe if you could talk about maybe two of your fastest-growing platforms – direct lending, I think you mentioned $100 billion, and then also the energy transition platform. If you add up all your products together, maybe if you could size that? I know it can be difficult because obviously some of the infrastructure and energy products are a blend of transition and core. But I don't know if you can decide that. And if you think about over the next three years, I don't know if you can actually have a sort of a projection on where the size of those platforms could be in three years. If not, maybe I don't think that they will be a larger share of your overall franchise or not.

Jon Gray: I would say on the energy transition side, we're in early days. We just are finishing off raising this $7 billion energy transition credit fund. We're in the market with our energy equity fund, which we expect will be probably $4 billion plus. And then energy transition, energy is a meaningful chunk of our $37 billion infrastructure business, it's probably a third of that capital, but probably the fastest growing. If you went, and by the way we also have embedded in our private equity business, a bunch of energy transition investments there, and in our core private equity business, so you would have to go through it. I don't have the numbers handy is where this would be, but you've got a number of areas we're deploying capital in energy transition. If you looked in the quarter, as I said, the two biggest investments we made were an investment in a Northern Indiana utility business, a couple billion dollars we invested to help them facilitate the energy transition. And then we also had another $1 billion we put into Invenergy, our large-scale renewables developer. So I would say because the size of the market is growing so quickly, and investor desire for exposure to this is growing as well, we think this can be a lot bigger. I don't know if we have a number, we said publicly a couple of years ago that we expected to invest $100 billion over the decade; we said that two years ago. I would say when you look at Blackstone over time, this will be an area of a lot of capital needs. And the good news is, the investors want it; it can be very large, very scalable. And so we expect that this will accelerate. The IRA in the U.S. has made a big difference. There was 250 billion of large-scale renewable projects announced in the last seven years, and there was an equal amount announced in the last year basically since the IRA passing. We would say very large-scale opportunity and should result in a new area for us to grow and generate incremental fees and returns for investors.

Michael Chae: Right, just to add to that with the numbers, it's Michael. The sort of fair market value of our energy transition portfolio today is over $20 billion. And there's committed capital that, shortly that's going to be invested and increase that number. And obviously we have funds pointed at investing in that area in the near term. That number will grow, but in terms of what we own today, it's in that ballpark.

Brian Bedell: Yeah, that's great. And then on the direct lending side, I know you said $100 billion, and you've got obviously the bank partnerships and the strong pipeline. Any capacity constraints that would limit the growth potential of that franchise, just in the context, obviously, of the good trends versus with banks coming back?

Jon Gray: Well, I think near term, the opportunity set is pretty large. Private equity firms and other companies need this access to capital. The certainty direct lending provides, I think has proven to be very valuable, particularly for new transactions. We would expect, as deal volume picks up, this area should pick up as well. We've seen our pipeline grow more than double in the

last 90 days in direct lending. We don't see a reason why this should slow down. You know, at some point markets change and so forth, but if you look at direct lending as a percentage of the overall leveraged lending and high-yield market, I still think there's plenty of room for this to grow. So, we think it's early days still in this shift.

Weston Tucker: Great, thanks Brian.

Brian Bedell: That’s great, thank you!

Moderator: We'll go next to Alex Blostein with Goldman Sachs.

Alex Blostein: Hi everybody, good morning, thanks for the question. So Jon, maybe a question on the broader capital markets environment. We've seen some green shoots with a couple IPOs, a couple of deal announcements – how are you sort of thinking about capital velocity for Blackstone over the next call it six to twelve months or so? And importantly, as some of that flywheel activity resumes, how do you expect it to reaccelerate fundraising? Meaning are there some strategies that are likely to see more pent-up demand once this capital market cycle sort of resumes versus less? Just curious to kind of get your thoughts on environment/fundraising.

Jon Gray: Yeah, Alex, you're right. It's all interconnected, right? Because if you think about our clients and their numerator and denominator, it's obviously very tied to what's happening in the market. So, their denominator is...and today their challenge is, in many cases, they're over their allocations. Let's say they have a 13% allocation to private equity and they're at 15 or 16%. As equity markets rally, then that frees up capital for them to potentially allocate to privates again. At the same time as equity markets rally, IPO and M&A activity picks up and so private equity sponsors, real estate sponsors can sell assets, again reducing the exposure in the numerator. So, these things are tied, we've been through these cycles many times. Our expectation is you will see a pickup in activity. The reason why is inflation uncertainty makes it hard to do M&A and IPOs. You had a lot of uncertainty around the banking issues, you had uncertainty around inflation and uncertainty in how far the Fed would go. And the contours of that looks a little more certain and I think that's one of the reasons why markets are getting more enthused. Now, is it possible we see an economic slowdown, the markets pull back a bit? It's too early to sort of put out an all-clear sign here, but I think we are beginning to see to see this pick-up in activity, and as markets rally, that tends to lead people to have more confidence to transact, which plays its way through ultimately to our customers. Right now, we're still, there's a bit of a lag as you think about it in terms of fundraising activity, but a sustained good period for markets is very helpful for our ability to raise capital, particularly from institutional investors, also from individual investors.

Weston Tucker: Thanks, Alex.

Moderator: We'll go next to Adam Beatty with UBS

Adam Beatty: Oh, thank you and good morning. Want to ask about the retail wealth management channel. Seems like even though redemptions are still elevated, on

the BCRED side, looks like subscriptions are relatively healthy and accelerating. So, it seems that the channel as such is definitely improving. On the BREIT side, gross subscriptions maybe not quite so much. Just wanted to get your thoughts on what you're hearing and seeing from the channel and maybe the outlook for the back half. Thank you.

Jon Gray: Well, you hit it. In BCRED, there's obviously a lot of enthusiasm for private credit today given the attractive risk return, the equity-like returns, taking debt-like risk. And so, we have seen strong flows there. Q2, I think we said, we're up 60% versus the flows in Q1, and that's obviously a positive. In BREIT, there is more negative sentiment, obviously around commercial real estate and there was a lot of focus here. As we said in the remarks, the good news is share redemptions are down nearly 30% from where they were at the beginning of the year. The subscriptions remain muted, but we would expect that continued strong performance. We did have three positive months here in a row which is obviously helpful. Some of the overall negative sentiment in markets and negative sentiment in commercial real estate, some of that abating will ultimately change that dialogue. When that happens, it's hard to project. I think the key thing, if you think about the product, is the customers have had a really terrific experience inside of BREIT. They've been delivered in the largest share class a 12% net return over six and a half years, three times the public REIT market. And it's that performance which ultimately, we think, will drive people coming back to the product and the structure, the redemption structure, the semi-liquid nature, still allowing people to get capital out, but doing it over time and preserving value, I think has been really important. Our confidence in BREIT remains really high. When that turns, it's hard to say, but certainly getting through the redemption backlog over time will be helpful in that regard.

Weston Tucker: Thanks, Adam.

Adam Beatty: Appreciate it. Thanks Jon.

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

Patrick Davitt: Hey, good morning everyone. Yesterday, the FTC released its planned draft merger guidelines which appeared to crack down particularly hard on platform and roll-up strategies that private equity firms have used to create some of their best outcomes. Firstly, do you have any initial thoughts on how big of an impact those changes could have on how your investment process works? And secondly, if you can, try to frame how much of your historical deal volume has been a result of platform and roll-up strategies? Thank you.

Jon Gray: We believe that what the FTC announced was really just a codification of the way they've been operating the last three years. They have had this more assertive approach towards mergers, and we've been operating in that environment already. For us, we haven't seen it as large of an impact as one might expect because oftentimes, we're not present in a given market, so buying things is not as big of an issue. We have had some strategies where we have done additional acquisitions, roll-ups; that hasn't been a huge portion of our activity in corporate private equity. And remember, so many of the things we do, secondaries, real estate, private credit, are not related here. But in corporate private equity on the acquisition side, it hasn't been a major issue. I'd say where it's more impactful is when we're looking to exit some of our

businesses and we're talking to strategics. And there, there's a real consideration now about what is the likelihood of something getting through. And so that has had an impact on our thinking on what relative attractiveness of non-strategic players relative to strategic players. I would say that this has been a reality of the marketplace for some time. We've been navigating through it, and we feel confident we'll continue to navigate through it and the key area of focus is really when we're looking at dispositions potentially to strategic players.

Weston Tucker: Thanks, Patrick

Patrick Davitt: Helpful, thank you.

Moderator: We'll go next to Ben Budish with Barclays.

Weston Tucker: Hi Ben, you're live on the line.

Ben Budish: Hi, sorry about that, still on mute. Thanks for taking the question. I wanted to ask about your fee-related performance revenues. They kind of surprised in the quarter, and it sounds like you're still expecting an acceleration in the back half. Is there any way you could sort of size up, a little bit, kind of the magnitude of that acceleration? And then just sort of thinking about next year, I know there's often like a three-year crystallization schedule outside of what we expect from BREIT, so any thoughts on what we should expect from '23 to '24 based on what you're seeing right now? Thanks.

Michael Chae: Sure, Ben. It's Michael. We've been saying since early in the year that, specifically that on BPP fee-related performance revenues, we were scheduled to have four, and we are scheduled to have four times more AUM crystallizing this year than last year with a ramp really in the second half of the year and that's what you're seeing playing out. Just to put some further granularity on that, right now about 60% of the net accrued performance revenue balance for BPP, which you can see in our quarterly report, represents vehicles with scheduled crystallizations in the second half, and that's substantially weighted towards the fourth quarter. So that should give you some texture around it. That sort of AUM schedule to crystallize next year for BPP will be lower than this year, but alongside that, our infrastructure fund will see a significant crystallization event next year. And then I'd actually also highlight on fee-related performance revenues, and we don't necessarily talk about a lot, we're not asked about a lot, but on BCRED and BXSL, our two credit direct lending perpetual vehicles, they have sort of steadily expanding earnings power, and you can actually see it in the numbers, and obviously both generate quite predictable fees each quarter based on investment income. And in the second quarter, those comprised approximately half of our fee-related performance revenues, and taken together, they're up 67% actually year over year. So that is a steady sort of embedded, I think, positive thing in our fee-related performance revenue. As I said in my remarks, there are multiple products at work here that are in position to generate fee-related performance revenues over time.

Weston Tucker: Thanks for the question, Ben.

Ben Budish: Great, thanks, bye.

Moderator: We'll go next to Brian McKenna with JMP Securities.

Brian McKenna: Great. Thanks. Good morning, everyone. So just following up on your comments on Asia, performance for your first BCP Asia fund has been strong with net returns of 27%, and then it looks like the second fund is off to a strong start as well. Could you talk about what's driving the healthy performance here? And then just in terms of building out your capabilities and scale in the region more broadly, I'm assuming you look to do this organically, but would you ever look to strategic M&A to help accelerate growth here?

Jon Gray: So, the real story for us in Asia has been India. Our team there has really delivered, particularly in private equity. Amit Dixit and the team have delivered amongst our highest returns globally in India. And it's represented, frankly, in real estate and private equity, about half of our Asia activities. And we had different weightings, I think, than others in the region, and that's going to have turned out to be a very good decision. We've been a control-oriented investor in India, which we think is the right strategy. We're also seeing very good opportunities in Japan today. That market is opening up to corporates selling off non-strategic divisions. We think we'll see more volume there. And frankly, across the region, there is more opportunity. China is a little more challenging, as you know because of the economic headwinds and some of the geopolitical issues, but in general, Asia can grow to be much larger. We don't really think we have the need to do an acquisition. We have eight plus, I guess, offices across the region, I was there this quarter. Our momentum in places like Australia, Korea, really strong, and we think it's a market that is underpenetrated as it relates to alternatives. And ultimately, we hope to have virtually all of our strategies in Asia at scale. So, we have a sizable Asia private equity fund, sizable Asia real estate fund, we've got a core-plus real estate fund in Asia and we're doing more on the credit side in that part of the world, hopefully we'll add growth. There are a lot of opportunities there given the scale of the place. Certainly India, which has been our largest market, I think will continue to be a mainstay for us just given the incredible tailwinds that country has today.

Brian McKenna: Helpful, thanks Jon.

Moderator: We'll go next to Mike Brown with KBW.

Mike Brown: Great, thank you for taking my question. So, you're 75% of the way through the $150 billion drawdown fundraising target. Can you just touch on the key funds that will allow you to substantially achieve it by early 2024? And then outside of the drawdown fund, in the wealth channel, how do you think about the growth opportunities of this channel in coming years and are you anticipating launching some new product into that channel either later this or next year?

Michael Chae: I'll just start, Mike, on the path from 75% to substantially completing that by early next year. Obviously some of the big funds we're in the market with is: BREP Europe, where we expect, we've had a first close, and we expect that to continue; BCP IX, obviously completing that over the coming quarters; our fifth real estate debt fund; and a number of other funds. Next year, we'll also be fundraising around our successor vehicles in life science, and also in our GP stakes fund. One thing I'd say as it relates to financial impact, we talk about sort of

75%, but importantly, less than half of the $150 billion flagship fund is currently earning management fees. And so, because it obviously lags fundraise, because based on deployment, you light funds later after you close them, and that percentage will accelerate over the coming quarters into 2024. So that's sort of the picture on the path.

Jon Gray: And then the question was around individual investor wealth, new products. Yeah, we are, I don't know if we're prepared to talk about the latest funds, but we do think there's more opportunity doing what we do today at greater scale in a different range of products. I think later this year we'll launch something new in one of the areas; we've already started small in Europe with some other products. There's a lot of opportunity, individual investors are just discovering the benefits of alternatives. These semi-liquid structures are new to many investors, and we think this is a long process. Our major competitive advantage is we started this much earlier than other people. We have a very large private wealth organization, Joan Solotar and her team have done a terrific job. Many people around people around the world. We've built up relationships with financial advisors. And then I think the thing that is hard to capture in numbers is the power of the Blackstone brand. We're able to start products, it's no different than us doing insurance on a capital-light basis. Our ability to create new products and for financial advisors and their customers to allocate more to us because of the confidence in the brand is really important. The real consideration for us is when we launch a new product, we have to make sure the structure is right and that the returns we generate are sufficient because ultimately, this is a very long-term partnership with the financial advisors and their underlying clients, so what we do has to work. And that's why we're so focused and we're deliberate in terms of the way we launch new products, but we definitely see more opportunity over time.

Weston Tucker: Thanks for the question, Mike.

Mike Brown: Great, thank you very much.

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

Rufus Home: Hi, thanks very much. Maybe if you could spend a minute on the FRE margin, you've done 58% through the first half of 2023. How do you think about that through the back half of the year? And if you could give some color around the expense side, you've shown some discipline on the fee-related comp ratio. I guess, can you help us think about core expense growth through the rest of the year? Any detail there would be really helpful, thank you.

Michael Chae: Sure Rufus. Thanks for the question. As we've said pretty consistently, we encourage everyone to look at full year periods, not intra-year or quarterly periods with respect to margins. There's puts and takes from quarter to quarter and intra-year. So again, I'd say looking at full year 2023, we would just reiterate our prior comments around margin stability as compared to fiscal '22, the full year. In terms of components, I think you referenced this, recognizing that we've reported other operating expense down 2% in Q2, and that we do think that we bring a pretty disciplined approach to managing our costs. There are a couple caveats on that as you think about the second half. As you know, OpEx is seasonally higher in the second half typically, and also OpEx growth in the first half of the year benefited from the absence of

COVID costs in this first half versus the presence of it a year ago. And so, we're all happy to say we're through those now, but the second half OpEx growth rate will not have that benefit. So that's a little bit of texture around it, but around both margin overall, comp ratio overall, I would just point you to the kind of full year period.

Weston Tucker: Thanks, Rufus.

Rufus Home: Thank you.

Moderator: We'll go next to Arnaud Giblat with BNP.

Arnaud Giblat: Good morning. If I could come back to private credit. You talked a lot about the golden moment here, certainly looks like it when we look at the yields and terms. I'm just wondering about the deployment, which has been understandably slow. How does this evolve going forward if I suppose it's linked to capital markets healing, in which case perhaps there's a comeback from the leveraged loan market and more competition so the market share shifts? I'm just wondering how to think about that. Thank you.

Jon Gray: So it's obviously tied to transaction volume, and as I said, we have begun to see a pickup which should lead to an acceleration of deployment in credit. These things are tied together. And yes, when people get enthused about credit, the leveraged loan market could and should see more flows. But I do think there is, on the direct lending side, a structural advantage of private credit because if you don't need to distribute that, if you're in the storage business, you can deliver to the borrower, the private equity sponsor, price certainty. And that's very hard for a financial institution who is selling it down and obviously wants to manage their risk. I think where it becomes more competitive is on existing loans, where somebody starts to look to refinance and when spreads tighten at some point, that's where the leveraged loan market becomes more competitive or the high yield market, if people believe that long rates have come down and spreads have come down. But in the new origination business, that's an area where I think direct lenders have a real sustainable advantage. It I think becomes more competitive for existing loans when in such time that the existing market tightens a fair amount. That hasn't happened yet, but that could in a better market. But overall transaction activity, to your point, is obviously tied to originations. And when both those things pick up, we think that's a positive thing.

Arnaud Giblat: Thank you very much.

Moderator: There are no additional questions in queue at this time.

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

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