

**Blackstone Third Quarter 2023 Investor Call
October 19, 2023 at 9:00am ET**

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 would 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 would 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 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 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 certain non-GAAP measures, and you'll find reconciliations on the shareholders' page of our website.

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On results, we reported GAAP net income for the quarter of \$921 million. Distributable earnings were \$1.2 billion, or \$0.94 per common share, and we declared a dividend of \$0.80, which will be paid to holders of record as of October 30th.

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

Steve Schwarzman: Good morning, and thank you for joining our call. Before we begin, I wanted to take a moment to acknowledge the recent events in Israel. We were shocked by the horrific terrorist attacks that occurred, which are an affront to our shared human values, and we are deeply saddened by the violence and tragic loss of life unfolding in the region. Our thoughts are with the people of Israel, our colleagues there, and all of those enduring pain and hardship throughout the region.

Turning to our results – the third quarter of 2023 was a volatile period for global markets, including a dramatic increase in bond yields. Most major equity indices have declined, and the median US stock is negative on a year-to-year basis. Higher interest rates, along with a confluence of other factors, including economic uncertainty, geopolitical turbulence, high fiscal deficits, political dysfunction, and labor unrest have adversely impacted investor sentiment. Today's environment is an extremely challenging one for investors to navigate. Against this backdrop, Blackstone generated distributable earnings of \$1.2 billion in the third quarter, which were stable with the second quarter. The environment today is less favorable for realizations, so we've chosen to sell less.

But the firm's underlying earnings power continues to build, and we remain focused on executing the operating plans for our companies and driving the long-term value of our holdings. Our limited partners continue to benefit from the favorable positioning of our portfolio, with resilient fundamentals in the sectors where we've focused, which Jon will discuss further. The result is that nearly all of our flagship strategies outperformed market indices in the third quarter, as they have for nearly 40 years.

The firm's global scale gives us deep insights into what's happening in the real economy, which inform how we position the firm and construct our portfolios amid changing conditions. We've been saying consistently that we believe the Fed will keep rates higher for longer, and we didn't share the previous consensus view that they would cut rates by the end of this year. What we are seeing in the data, an economy that's strong today, but decelerating. We also see that significant progress is being made on inflation, perhaps more so than other market participants, based on the movement in bond yields recently. In our portfolio, we estimate input costs were largely flat year over year. Wage growth is moderating and job openings are declining. While it will take time, we believe the collective weight central bank actions will bring about the intended effect of cooling the economy, leading to the conditions for a more accommodative Fed stance and eventual easing of the cost of capital.

Meanwhile, Blackstone's unique diversity and breadth, with over 70 distinct investment strategies, position us extremely well to navigate any environment. The balance of our firm allows us to pivot to where we see the greatest opportunities at a given point in a cycle. For example, our credit businesses are thriving today in the context of a very favorable operating environment given higher base rates along with challenges to traditional lenders. Investment performance has been outstanding, including 14.4% appreciation over the last 12 months in our private credit strategies and 4.6% just in the third quarter. Unsurprisingly, client demand in this area is accelerating across all channels; institutional, insurance, and individuals.

In keeping pace with this evolving opportunity, we recently announced the integration of our corporate credit, asset-backed finance, and insurance groups into a single new unit, BXCI. We expect this integration will create a more seamless experience for clients and borrowers, allowing us to offer a one-stop solution across corporate and asset-based private credit, including both investment-grade and non-investment-grade. We believe these changes will further accelerate growth, and that BXCI and real estate credit collectively could grow AUM from approximately \$370 billion today to \$1 trillion within the next 10 years, given the powerful secular tailwinds and strength of our platform.

In addition to credit and insurance, we are seeing compelling near-term dynamics in several other areas where Blackstone has established leading businesses, such as infrastructure, notably including digital infrastructure, energy transition, and life sciences. The private wealth channel also remains a tremendous long-term opportunity for the firm. Jon will discuss the positive developments in these areas in more detail.

Overall, limited partners continue to move away from the traditional 60-40 liquid portfolio, and despite market headwinds, they are allocating more capital to the best alternative managers across more asset classes.

Blackstone is extremely well-positioned to capture future opportunities for growth in the alternatives area, which remains early in its long-term development. We are the reference institution among global LPs, a position that has been continually reinforced across market cycles of nearly 40 years. We have led the industry's evolution, and I expect we will continue to lead it in the future. Last month, we were gratified that S&P Dow Jones chose Blackstone as the first major alternative manager to be included in the S&P 500, the largest benchmark index, and the last one that Blackstone was not yet a part of following our conversion to a corporation in 2019. This milestone is a further reflection of the firm's leadership position in our industry and the broader market, as well as our progression as a valuable and widely owned public company.

Most importantly, we've continued to generate exceptional long-term results for both our fund investors and our shareholders. This is our mission. It's what drives us forward as a firm. While the market environment will undoubtedly present challenges, it'll also provide opportunities we are well-positioned

to capitalize upon with over \$200 billion of dry powder. These are the times that best highlight the distinctiveness of our firm and the enduring nature of our culture. Everyone at Blackstone is completely focused on delivering for all of our stakeholders. And with that, I'll turn it over to Jon.

Jon Gray: Thank you, Steve. And good morning, everyone. The investment performance we've consistently produced over decades has created a huge reservoir of goodwill with our customers, allowing us to grow, even in difficult periods. Meanwhile, our platform expansion provides multiple ways to win for them across market cycles. And as Steve noted, virtually all customer channels are increasing their allocations to alternatives over time, many in a material way. These key pillars give me great confidence in the future of Blackstone, starting with investment performance. Our funds generated positive appreciation overall in the third quarter, compared to declines in nearly all major market indices, with significant strength in private credit, infrastructure, and life sciences. Against a backdrop where the cost of capital has risen considerably, it is critical to own high-quality businesses with secular tailwinds or assets that benefit from higher rates, like floating-rate credit.

In real estate, Blackstone is in an extremely differentiated position. The majority of the equity portfolio is in logistics, data centers, and student housing, which continue to benefit from robust fundamentals. Our data center business, QTS, held in BREIT, BPP, and our infrastructure vehicle, was the single largest source of appreciation at the firm, driven by explosive growth in data creation that is being accelerated by the AI revolution. Since privatizing the company two years ago, lease capacity has grown six-fold with the development pipeline pre-leased to major tech companies. And we are evaluating additional deployment opportunities in the space.

In logistics, the firm's largest exposure overall, trends remain favorable, with releasing spreads in our US warehouses of over 60% in recent months. And similarly, strong dynamics in many of our other major logistics markets globally. At the same time, market rents continue to move higher. In certain other areas of the portfolio, including our US apartment buildings, we're seeing moderation in growth, but cash flows are stable or increasing across the vast majority of our real estate holdings. That said, higher interest rates are impacting valuation multiples in the sector. This is also having the effect of meaningfully reducing the new supply pipeline, which is favorable for values longer term. Construction starts are falling sharply for virtually all types of real estate, including year-over-year declines of 30% to 70% for US apartment buildings, warehouses, and hotels. And in the dislocated market, having \$66 billion of dry powder and real estate is a significant advantage.

In corporate private equity, our operating companies reported resilient, high single-digit revenue growth in the third quarter, with strong margin performance, as cost pressures continue to abate. In credit, the increase in base rates has been very positive for our clients. Today, we can originate high-quality senior loans with all-in yields of over 12% at sub-40% loan-to-value ratios. Meanwhile, our existing portfolio is stable and default rates remain historically low at under 50 basis points for our non-investment-grade holdings. In our investment-grade credit portfolio, in 2023, we've delivered 140 basis points of excess spread to our major insurance clients while materially improving credit quality.

And finally, BAAM had its 14th consecutive quarter of positive performance for the BPS composite. Since the start of 2021, BAAM has achieved a 17% cumulative composite net return compared to a 2% decline in the 60/40 portfolio, equating to exceptional outperformance in liquid markets.

The strength of our returns and the breadth of our firm allow us to continue raising significant capital in a very difficult fundraising environment. Total inflows were \$25 billion in the third quarter and \$139 billion over the past 12 months. The greatest demand today is for private credit solutions, as Steve discussed, and our credit, insurance, and real estate credit businesses comprised over 50% of total inflows again in the third quarter. In the insurance channel, our major clients allocated \$5 billion to us in the quarter, bringing

AUM to \$178 billion with a promising pipeline of additional prospects. We also finished raising our energy transition private credit fund, BGREEN, with the strategy reaching \$7.5 billion, the largest of its kind in the world. And in the individual channel, BCRED, raised \$2.5 billion in the third quarter, up 36% from Q2 on the back of strong performance.

Outside of credit, other major fund closings in the third quarter included our European real estate flagship, which has raised over €4 billion to date. Over half of our investment activity in real estate this year has been in Europe given greater dislocation and pressure on sellers in the region.

We also raised \$1.2 billion in tactical opportunities, \$1.1 billion for secondaries vehicles, and an additional \$500 million for our corporate private equity flagship.

We previously highlighted several other growth avenues with favorable momentum. We've been innovating and planting seeds in these areas, which have now blossomed into major businesses at Blackstone. Our infrastructure platform has grown to \$40 billion in only five years, including 28% growth in the last 12 months. Performance has been extraordinary, with 17% net returns annually since inception for our BIP vehicle. Given the immense funding needs for infrastructure projects globally and our performance, we believe this could be a \$100 billion business over time. Key areas of focus include digital infrastructure, such as QTS, along with the energy transition. BIP's largest investment in Q3 was a wind and solar portfolio from AEP, which is part of a broader renewable asset strategy. Other significant investments by the firm recently in energy transition include additional capital in the nation's largest private renewables developer, and a stake in a major US utility to support its transition to green energy.

And in credit, we committed \$600 million in Q3 to a platform we're building to provide preferred equity financing to leading renewable companies. With BIP and our dedicated credit and private equity energy transition vehicles, we are extremely well positioned to benefit from the massive tailwinds in this rapidly growing sector. In life sciences, our BXSL business had a terrific quarter, and is experiencing strong momentum. Our funds appreciated 11.7% with notable positive developments for several life-saving medications and technologies, including an anticoagulant drug to help prevent strokes, a treatment for hypertension, and a next generation implantable defibrillator. We're also actively deploying capital, most recently to help fund a leading biotech firm focused on treatments for rare diseases. We plan to start raising our next life in our next Life Sciences flagship vehicle early next year.

Finally, in private wealth, we raised \$3.3 billion in our perpetual vehicles in the third quarter, led by BCRED. For BREIT, while sales remain muted due to the environment at \$724 million, repurchase requests have declined materially, down nearly 30% from Q2 and nearly 60% from the January peak. BREIT's largest share class has delivered 12% net return since inception approximately seven years ago, nearly four times the public REIT index. Meanwhile, all investors that have been submitting repurchase requests during the proration period have been substantially redeemed in six months or less. BREIT's semi-liquid vehicle has worked exactly as intended, by providing liquidity for investors in a deliberate and thoughtful way, while protecting performance. Blackstone has established the largest private wealth alternatives platform in the world. Now, in addition to our perpetual strategies in real estate and credit, we're extending our leading franchise to include private equity with the launch of a new perpetual vehicle, BXPE. This diversified vehicle will leverage the firm's unique breadth of investment capabilities across the PE spectrum, including buyout, secondaries, tactical opportunities, life sciences and other opportunistic strategies. We are working with several distributors and expect inflows to start early next year. We're excited to add this new vehicle to our product lineup and remain optimistic about our long-term growth trajectory in this vast and underpenetrated channel.

In closing, despite the market's near-term challenges, we remain focused on delivering for our investors over the long-term. We are executing our asset-light, brand-heavy strategy with minimal net debt and no

insurance liabilities. And we have powerful momentum across a multitude of growth channels of enormous size. With that, I will turn things over to Michael.

Michael Chae: Thanks, Jon, and good morning, everyone. The headline for the firm's financial performance in the third quarter is stability amid a challenging external operating environment. Despite executing fewer sales in less favorable markets, we are generating a consistent and attractive baseline of earnings and dividends for shareholders. Meanwhile, we continue to expand the foundation of the firm's earnings power across multiple drivers of growth.

Starting with results. As Steve and Jon highlighted, the firm's extraordinary breadth has supported continued growth in AUM despite the broader market declines. Total AUM increased 6% year over year, moving beyond the \$1 trillion milestone, led by 10% growth in the credit and insurance sector. Fee AUM rose 4% to a record \$735 billion, driving base management fees up 6% to \$1.6 billion, reflecting the 55th consecutive quarter of year-over-year base management fee growth at Blackstone. Fee-related earnings were \$1.1 billion in the third quarter, or \$0.92 per share, largely stable with Q2, underpinned by steady top-line performance, along with the firm's strong margin position. The year-over-year comparison was affected by a decline in transaction fees, which are activity-based, as well as lower fee-related performance revenues. Notwithstanding these headwinds, the firm generated \$275 million of fee-related performance revenues in the third quarter across multiple perpetual vehicles and real estate credit, notably reflecting a growing contribution from BCRED along with the material year-over-year increase from the BPP platform.

Distributable earnings were \$1.2 billion in the third quarter, or \$0.94 per share, again stable with Q2. On a year-over-year basis, net realizations declined given the market backdrop. However, we did execute the sales of public stock in the London Stock Exchange Group and our stake in an India-based software company, along with certain other holdings in private equity. Realizations also included a significant sale in BREIT, which, as a reminder, does not earn performance revenues based on individual asset sales, but on NAV, subject to a hurdle. The sale was of a self-storage company for \$2.2 billion, one of the largest-ever transactions in the sector, which generated a profit of over \$600 million and a gross multiple of invested capital of 1.8x in less than three years. BREIT's asset sales since the beginning of last year, when interest rates began moving materially higher, have occurred at an average premium to their prior carrying value of 4%. Overall, we've been highly selective in terms of realizations, and activity is likely to remain muted in the near term, given the environment. But the firm's FRE continues to provide real ballast to earnings, and Q3 represented the eighth consecutive quarter of FRE over \$1 billion.

Meanwhile, our long-term fund structures let us focus on building value in the portfolio while we wait for market conditions to improve. Performance revenue eligible AUM in the ground increased in third quarter to a record \$505 billion and has nearly doubled in the past three years. Net accrued performance revenue on the balance sheet, the firm's store of value, stands at \$6.4 billion, or \$5.29 per share. We hold an expansive portfolio of exceptional quality and embedded value, including \$16 billion of public stock in our private equity and real estate drawdown funds. When markets ultimately become more receptive, we are well-positioned for an acceleration and realization activity as well.

Moving to the outlook, we remain highly confident in the multi-year expansion of the firm's earning power and FRE, with several embedded growth drivers. First, in our drawdown fund business, we've raised nearly 80% of our \$150 billion target, but less than half was earning management fees at quarter end. We launched the investment period for the new European real estate flagship in September, which will earn management fees after an effective four-month fee holiday for first closers. Over the next several quarters, subject to deployment, we expect to activate the new flagships in corporate private equity, private equity energy transition, growth equity and infrastructure secondaries, followed by their respective fee holidays. Second, our platform of perpetual strategies has continued to expand, including

BCRED, which generates fee-related performance revenues quarterly based on investment income, and our BIP infrastructure vehicle with its next crystallization scheduled to occur in the fourth quarter of 2024 with respect to three years of gains. Third, in the insurance area, AUM has reached \$178 billion as Jon noted, up 18% year-over-year, driven by robust inflows from our major clients from whom we anticipate substantial, largely contractual inflows in the years ahead. In closing, the firm's all-weather business model provides resiliency and staying power in difficult markets. Meanwhile, our underlying earnings power continues to build, and we have greater investment firepower than ever before. With multiple growth engines driving us forward, we are well positioned for the future.

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

Moderator: Thank you. As a reminder, please press star one to ask a question. We ask you limit yourself to one question to allow as many questions as possible. We'll go first to Glenn Schorr with Evercore ISI.

Glenn Schorr: Hi. Good morning. I'll try to simplify this because you just went through some of the building blocks for '24 and beyond. But it feels like there has to be a little bit of reset down just because in this environment, performance fees can only be so much. So maybe my key question is if you've had good, strong double-digit FRE growth in the past, can we see double-digit FRE growth in '24 given the building blocks that you just ran through? And maybe a sidebar to that is, can real estate and private equity work in a higher-for-longer rate backdrop, which we seem to be in? Thanks.

Michael Chae: Glenn, Thank you for the question. It's Michael. I think on the first one, I think Jon will handle the second. Obviously, at this point, especially for 2024, we're not going to give granular guidance. I would say there are a number of key drivers that certainly inform our view over the long term of sustained double digit FRE growth. In the nearer term, I think it's really important, the point that I spent time on in my remarks, which is the idea that management fee revenues, which were stable quarter over quarter, really have an underlying ramp based on activation of a number of these funds, that will be a tailwind for our top line growth. And so as I said, \$150 billion flagship fundraising cycle, as we've talked about, nearly 80% raised and less than half, about 45%, earning management fees as of the end of the quarter. We expect that percentage to move up to a substantial majority of that total amount in the coming quarters by sort of the middle of next year. So that is a built-in thing. And the reason why, if you step back again, why that ramp has been somewhat slower than maybe was expected a couple years ago is because of market conditions and deployment because basically in a lower deployment environment, in the context of these markets, the investment periods last all else equal longer for the predecessor funds and the launch of the new funds are delayed. So the money is substantially there from a fundraising standpoint. From a management fee earnings standpoint, it will come on as these funds launch, as after fee holidays as is the case with the European fund. I think on fee related performance revenues, you know, if you step back, I highlighted the credit fee related performance revenues. If you look in the segment financials, those were up in the credit segment, 31% in third quarter, 57% in the nine months year to date. So there's real expansion going on there. And as you know, that earns incentive fees every quarter on the NAV base based on investment income, which is a very steady growing source of fees.

And then BREIT, we think is a portfolio that is well positioned. And in BPP, we have a scheduled crystallization in the fourth quarter. We have a meaningful amount next year. And then we have a very significant, as I mentioned, scheduled crystallization on infrastructure in the fourth quarter of next year. That is a fund that's appreciated 17% net historically, and we'll have another five quarters of gains built into whatever the ultimate incentive fee is late next year. So, I would just give as the framing for the underlying earnings power, that we certainly see is very much intact long term and in the nearer term and next year, there's significant, I think, underlying momentum.

Jon Gray: Well, I'll just add, Glenn, to your question on can the firm operate in real estate and private equity maybe more broadly in a higher rate environment. And I would just point to over decades this firm has delivered for customers in higher rate environments and lower rate environments. And the reason is what we do at our core is what creates the incremental return. So if you buy a business or asset, you improve the management, you allocate capital in the right way, you can generate higher returns even if borrowing costs are higher. And so we have a lot of confidence that we can do that. The other thing I would point out is when you get to an environment of higher rates, as we're seeing on the screen, asset prices can come down. So your entry point in a higher rate environment allows you to set up transactions better over time as rates come back down. Maybe you then see some more multiple expansion. So there's more opportunities for deployment. And I would also add that at a moment like this, dislocation comes about. And so when you're sitting on \$201 billion of dry powder, there can be situations where people need to raise capital in a hurry, need to sell something quickly. And again, that's advantageous for our model. Because if you think about what we do, we're not forced sellers of assets on the one side, and yet we have the ability to move very quickly when there is dislocation to take advantage of an opportunity. And then more broadly, a bunch of our capital solutions businesses related to private credit, certainly, tactical opportunities, which I think will be super helpful in people deleveraging their portfolios, our secondaries business, which provides liquidity as well – they're well positioned in this environment. So the environment changes, we move from low rates to high rates, but it doesn't mean the basic business of delivering better returns has gone away. And the client's desire for this continues to be extremely high.

Glenn Schorr: Thank you both for all that.

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

Michael Cyprys: Good morning. Thanks so much for taking the question. I was hoping you might be able to elaborate on the deployment and realization environment activity. It seemed like activity levels were starting to pick up in August, but then slowed a bit in September as yields went higher. So what will it take for the green shoots that we were seeing just a couple of months ago to convert to sustained capital markets activity? And if current levels of rates persist for the next year or two, what sort of impact might that have broadly on activity levels, perhaps in forced sales and real estate, but also what sort of impact might higher rates have on the broader system and the potential for credit losses?

Jon Gray: Okay, Mike, there's a lot embedded there. Let me go on-on transaction activity, it's not a surprise when you see in the third quarter and now in the fourth quarter, long rates moving as rapidly as they are, that market participants pause. And you see a suppressing of transaction volume. And we've seen this in the past in moments of market volatility and instability. And so, until you get some settling out of that, I think it will mute the transaction activity on all sides. I think the positives here are the Fed, I believe, is pretty close to done. We believe that based on the progress they're making against inflation. Also, the long end, I think, will start to do a fair amount of work for them as it drives up mortgage rates, as it drives up consumer loans like auto loans. And so, I think getting stability in the rate environment, starting with the Fed on the short end, and some settling here on the long end will be important. What's important to remember of course, is there is cyclical to the transaction environment, but there's ultimately underlying demand for people to buy and sell businesses. Could be a company that needs to sell a division. Could be a family. Could be somebody who needs to refinance because of a maturity. And you look back over the long history of the firm, again, over four decades, there are periods, certainly after the financial crisis, where things were slow. Very slow for a few weeks, of course, during COVID. You can go back to other periods of time. But eventually, it comes back because people need to transact. So, it's hard to put a date on this, but I would say, as a predicate for transaction activity to pick up, you want to see a little bit of settling of rates. If we get that, I do think you will. Our pipelines and our various businesses actually are reasonable today. We've got some transactions we're doing. It's certainly not an elevated level, but I do think we need a little I think we need a little settling in the environment. And so, I

would say, we have extremely high long-term confidence that there'll be plenty of opportunities to deploy the capital we've raised. It's very hard to put your finger on exactly when that's going to happen.

You also asked about the, I guess, the financial system and so forth. Whenever you have sharp movements, that does create some additional risk. So far, we haven't seen anything out there. But there are incremental risks, given the sharp movement we've seen in rates. I think that the Fed and the fiscal authorities did a good job in March handling that banking issue. It's hard to predict where the next spot may be. The good news is, the underlying US economy has shown remarkable resilience. That's provided some balance. And then I would say the financial system overall, is so much less leveraged than what we experienced in the '06, '07 period. Consumers don't have nearly the same kind of leverage they did in housing, businesses are so much less leveraged. So there's always a risk that something, there could be some bump out there, but the system just is healthier as we go into this more dislocated time in the market.

Michael Cyprys: Great. Thanks so much. Appreciate the thoughts.

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

Alex Blostein: Hey, good morning. Thank you for taking the question as well. Jon, I'd love to get your perspective on the impact this higher interest rate environment is going to have on investment performance and portfolio marks, especially into year-end in real estate and private equity as kind of higher discount rates get reflected, or, maybe the flip coin, some of the higher rates already reflected in your assumptions. So just try to get a better sense of like, is there another sort of leg down based on the 10-year having done what it's done, or the works in the marks is largely behind you guys?

Jon Gray: Well, Alex, obviously things are fluid, the 10-year has moved a fair amount in the last month or so, but we, the good thing about our businesses is as background has been how we position the portfolios. We said here in the remarks that our private equity portfolio had 8% revenue growth and margin expansion in the quarter, which was obviously quite positive. In real estate, our positioning majority of our portfolio that we own in logistics, in student housing and data centers has made a big difference for us. Faster growth allows you to absorb a higher rate environment, but no one's immune. It's hard to predict where things are going to sit a couple months from now, what's going to happen over time. Higher rates do have an impact across valuations, but obviously there's an interplay with cash flow. So, I certainly don't want to get in the business of predicting what it's going to be. But this is a headwind out there in markets, and you're seeing it on the screen right now.

Alex Blostein: All right. Thank you.

Moderator: We'll go next to Craig Siegenthaler with Bank of America.

Craig Siegenthaler: Good morning, Steve, Jon. Thanks for taking my question.

Jon Gray: Go ahead.

Craig Siegenthaler: So if we take the last question and we look a little bit further out, most economists are expecting the US economy to weaken next year, and most bond investors are forecasting rising defaults broadly. So, I wanted your perspective on how you think this will impact private asset returns, especially in private credit and real estate, and could this lead to more investing opportunities next year at Blackstone?

Jon Gray: Well, I think it's reasonable to assume if you have elevated levels of rates and you have the economy slow down, that that puts more pressure, and I think most market forecasters are anticipating higher default rates in various sectors. I would say that we're starting off of very low default rates today. I mean, in our private credit portfolio, less than half of 1% in our BCRED vehicle. I think we have just one asset that's on non-accrual. So we certainly are starting off in a very good spot. Overall, if you talk to the banks, you guys are closer to that. I think default rates are fairly low. They're starting to pick up a little bit in subprime, but I think it is reasonable to assume there's going to be more pressure. In real estate, certainly in some of the most challenged asset classes, I think we'll see higher default rates, the cost of capital and less availability will have an impact. And having this large pool of capital, that huge amounts of dry powder really in almost every part of the firm should help us a lot. And one of my partners, Kathleen McCarthy, said this is when we do our best work. And I think that's a good description, that when there's high uncertainty, people need capital in a hurry, and you're willing to take a longer-term view on asset values and normalization, you can step-in in these times and make attractive investments. So, yeah, when we think about what makes us enthusiastic, having this large pool of capital with some more pressure out there, that should create opportunities. But overall, we would go into this environment with the financial system and default rates pretty healthy at this point.

Michael Chae: Thank you, Craig. It's Michael. I'd just add to that, that, and this is particularly focused on a private credit, non-investment-grade portfolio, that we're talking about quite low loans-to-value against a very healthy portfolio today, quite performing portfolio today. So, as you know in our direct lending area, the average loan-to-value of this portfolio that we've built over the last few years, is around 40%. So when you just, and the underlying companies in quite good position, supported by very supportive financial sponsors in many cases. And so, when you think about even a rising default rate from a very low starting point, as Jon mentioned, against anything resembling sort of historical recovery values on a theoretical basis, and then you combine that with sort of the total return available right now in the private credit area with those portfolios, and I think that performance can absorb what may come from our point of view.

Craig Siegenthaler: Thank you, Michael.

Moderator: We'll take our next question from Finian O'Shea with Wells Fargo Securities.

Finian O'Shea: Hi, everyone. Good morning. A question on retail. Can you talk about the potential for BXPE, given it's formatted as a private offering. Can it be distributed as broadly as, say, BREIT and BCRED, or is it meant for different market channels? Thank you.

Jon Gray: So, I'm not sure how much we can talk about the description of these individual vehicles, but BXPE is structured a little bit differently, which means the universe is a little more limited, but I would say it's still very large. We think the response to this, a more accessible private equity vehicle that offers private equity, secondaries, tactical opportunities, growth, life sciences, opportunistic investments, we think this is going to be very attractive. So, the short answer is yes, a little bit of a different structure, but I think the bigger answer is we think the TAM for this is quite large, and we think this can scale up quite a bit.

Weston Tucker: All right, thanks Fin.

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

Ken Worthington: Hi. Good morning. Thanks for taking the question. Would love an update on the secondaries business – returns here over the last 12 months have trailed just about all other asset classes at Blackstone with the exception of real estate. So maybe first, what's weighing on returns there? And as we

think about the deployment opportunities, is it still really LP-driven, or are we starting to see, I'm sorry, still GP-driven, or are we starting to see more LP activity picking up as well?

Jon Gray: Well, I'd start by saying we love our secondaries business. Vern Perry and the team do a terrific job. Structurally, what's happening in that market is alternatives continue to grow, and therefore there's a need for liquidity, and there's a very limited number of players who are invested in, say, 4,000 funds. And so, it leads to this favorable discount and premium you get in terms of return for providing liquidity. Having a \$20 billion plus fund is obviously well-timed. We have additional funds in the infrastructure and real estate beyond private equity. But we think we're super well-positioned. The markdowns or the low growth in this space reflects what's happening in underlying private equity portfolios. But if you look at the returns across our various funds, they remain incredibly strong. And there is a lag, of course, where you're looking at funds that are six or nine months old or so. If there were better quarters more recently in private equity, you'll pick those up later. It's not the same real time you're seeing, let's say, in our direct private equity or real estate activities. In terms of transaction activity, I would say the pipeline is starting to build. It will be more LP-driven because distributions have slowed, and in many cases, there's a denominator effect, and they're thinking about ways to open up capacity to commit to new funds, and we think that will lead to more transaction activity. I would say, we've been patient, because we think it's possible the discounts could widen again, and that would be a better timing in terms of entry points. So, it's a business we like a lot. We think the environment should be favorable here, just given the relatively limited amount of capital against what we think is a scale opportunity. And so, we think that business will pick up in activity over time. It may take a little bit as sort of sellers readjust their expectations.

Ken Worthington: Great. Thank you very much.

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

Brian Bedell: Great. Thanks. Good morning, folks. Thanks for taking my question. Maybe just similar to the deployment outlook question, maybe flipping that around that you answered earlier, flipping that around to fundraising in terms of this environment where it sounds like obviously activity across the board is freezing up a little bit as people watch rates. But how do you see that impacting the fundraising outlook, and if you maybe can contrast a few different segments where it might be slower near-term versus areas where it could be stronger. And I guess certainly in terms of LPs decision making versus retail would play into that.

Jon Gray: So, Brian, I think the biggest backdrop to keep in mind is the vast majority of our clients continue to increase their allocation to alternatives across institutional, insurance, and individual investors. And despite the environment, we still see a lot of interest. I've been all around the world in the last six weeks meeting with major clients, and I can't point to one of those meetings where somebody said, hey, I want to reduce my exposure. Now there are some who are saying, I'm more cautious on real estate, or I'm more cautious on growth equity or private equity. But there's obviously a lot of enthusiasm for private credit. Some investors are just starting to move into the infrastructure space or the secondary space. So I think that's the key backdrop. In terms of different channels here, I would say the institutional or pension fund channel is where the allocations are higher. And in some cases, there is a denominator effect. And so fundraising is a little, is certainly tougher. We've talked about that over the previous quarters. It has certainly gotten better since the lows of March. We'll see, given the current environment, what happens. But I feel pretty good about our relationships and our ability to fundraise, even in a difficult period. I would point out European real estate. Given Europe and real estate, the fact that we raised \$3 plus billion in the quarter says something powerful about Blackstone. And the fact that we had \$25 billion of inflows in this quarter, and \$139 billion over the last year, again, says something powerful. So, I think the institutional channel is a little more constrained in this environment, but their desire for

alternatives remains very high. I would say, as you move towards insurance companies, they're in early days of not moving, as we know, to the higher-returning alternatives, but to private investment-grade credit. That is what the opportunity is. It's about providing them higher returns with the same or lower risk, which is what we've been doing for our major insurance clients and for some of the SMAs. We believe we're still in the early stages of that. We think that business can continue to grow significantly with our existing clients and some additional conversations we're having. And then I would say in the individual investor channel, we've talked about this as well, there's \$80 plus trillion in that market of individuals around the world with more than \$1 million of investable assets. We think they're allocated in the low single-digit percentages to alternatives today. You've seen obviously, the strength in what we've built up with BREIT over time, the strength in BCRED certainly today. We talked a little bit about BXPE. I think there are opportunities around the world, and I think some investors will do drawdown funds. I think many more will do these semi-liquid products. And as long as we produce outperformance and have structures that work for them, I think the opportunity remains very significant. And so, our long-term confidence in the private wealth channel is significant. The fact that we have nearly a quarter of our firm's assets there – much, much larger than anyone else. An enormous amount of relationships with financial advisors around the globe and underlying customers, 300 plus people on the ground. We just elevated a new head of our Asia region. We think there's a lot of opportunity here. Markets go up and down, but the long-term opportunity for individuals coming to alternatives remains quite significant.

Brian Bedell: And so the growth in that effort, you think, can cut into any kind of reticence on the retail side in the near to intermediate term and continue to propel that channel forward in the intermediate term?

Jon Gray: It's always hard to say what the market's going to do. When there's more volatility, people become a little more cautious. But we're not living or building our business week-to-week or month-to-month. We're building it for decades. It is an enduring institution where we're building a brand, where we're so incredibly focused on performance. I know everybody looks at the quarter and says, oh, realization's down. You missed earnings by this amount, or the flows were this. What we're focused on is we deliver performance because when we sit with the customers, that's what they look at. They may be more hesitant in a more volatile market, but their desire to allocate capital to Blackstone actually goes up when we outperform. And when they get confidence again, they come back to us if they're institutions, insurance companies or individual investors. So that's what gives us a lot of confidence about the future. Projecting what's going to happen in the next month or two, that's of course very challenging.

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

Moderator: We'll go next to Steven Chubak with Wolfe Research.

Steven Chubak: Hi. Good morning.

Jon Gray: Morning

Michal Chae: Morning

Steven Chubak: So I wanted to start off with a question on the fundraising outlook for BCRED. I mean, as you noted, Jon, the flow trends have remained robust, but the non-traded BDC market has grown increasingly crowded. It's going to get even more saturated given a growing number of funds in registration. So, while you have a head start on a lot of your peers in this space, I was hoping to hear your thoughts on the growth outlook for BCRED, as well as any potential sources of pressure, such as fees, as the markets become increasingly saturated here.

Jon Gray: So, I'd say a couple of things. I think it's hard to overstate the power of the Blackstone brand, what that means to financial advisors and individual customers. You know, this is not a decision when

somebody thinks about putting \$50,000 in a non-traded BDC That's a significant decision. And the Blackstone brand means a lot. Also, the performance we've delivered here, I think approaching now 10% since inception in this product. The current yields, 10 plus north. Actually, the vehicle's earning 200 basis points higher than that. The default rate, because I believe we've done a great job focusing on larger companies in the right sectors, default rate remains extremely low. For us, delivering for customers, the strength of the brand, the performance, the relationship with financial advisors matters. And I would point out, unlike the institutional business where there can be thousands of players, if you think about our large distribution partners, I think they're unlikely to put very significant numbers of players on their platforms in these different areas. So if you think about in credit or in real estate or in private equity, I think there'll be a handful of players. I think we'll have a slot in each of those, and we have these really deep long-term relationships and we're delivering for the customer. So yes, the market is getting more competitive. There are other entrants, but we think we have some things here that are very differentiated, and I think we've done a particularly good job in BCRED where we've deployed the capital. I think we're going to do quite well even as the environment gets more difficult because we focused on big companies at much lower loan-to-values on average, 43% at origination. We think that'll make a real difference and when we outperform and you do that against our brand, that tends to be a powerful combination.

Steven Chubak: Very helpful color, Jon. Thanks for taking my question.

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

Patrick Davitt: Hey, good morning everyone. I have another question on wealth. There's always been a lot of reporting on your efforts to more successfully penetrate the European wealth channel and within that theme chatter of a lot of new products coming to market. So could you update us on what is currently in the market, how traction is evolving on those, and then what the pipeline looks like for things coming online in the coming quarters? Thank you.

Jon Gray: So I would say on Europe, it is definitely a harder market to penetrate. Certainly, the US is the largest market and the most open to alternatives. Asia would be next – Hong Kong, Singapore, increasingly Japan. Europe has several challenges. One is just regulatory. Virtually every country has slightly different rules, and many of the rules make it a little more challenging there. The second thing is investors there have not had a lot of exposure to alternatives. There tends to be, particularly on the continent, more aversion to anything that's perceived as riskier, even though we would point out the returns we've generated, the risks we've taken have been very favorable over time. So it's a little bit of a, it's certainly a tougher terrain. We have a couple of small products today in credit and real estate. But right now, it's not a meaningful piece of what we do. We are a persistent group. We do want to try to build scale products in Europe. We've got a number of people on the ground, but it's going to be a little bit tougher sledding. But I think over time, there should be opportunity because the same outperformance relative to liquid markets, this basic idea of trading liquidity for higher returns makes sense. I think it should happen in Europe, but it's certainly slower today.

Moderator: Thank you. We'll go next to Brennan Hawken with UBS.

Brennan Hawken: Morning. Thanks for taking my question. So, you clearly built a leading capability in real estate and it's incredibly impressive. Curious to hear your view about maybe what narrows the bid-ask spread in that market. And we heard from Goldman actually earlier this week that they've got a portfolio of \$15 billion CRE, and they're looking to sell a significant chunk of that, and they've marked it down 15% across the board to do that. The office position is down 50%, right, but I know you're underexposed to office. So sort of the 15% probably more relevant. And we're hearing other banks are coming to market too. So, while they're not all for sellers, they have different motivations than profit

maximizing. So, what do you think the implications of these transactions are going to be on the market? And is it going to lead to downward pressure on marks?

Jon Gray: Well, I think transaction volume has been slow for the reason we've talked about. Obviously, the moving cost of capital has certainly slowed things down. I don't know, given the size of the real estate market, that if any individual transactions are enough to move the market. In fact, I don't know the specifics of Goldman, but I think that's a bunch of different companies and portfolios. So, it's not one large trade. I think the market will ultimately clear based on where buyers and sellers are willing to transact. And you'll see that now, I'm sure, over the coming months, as things start to settle in and if we stay here at this higher rate environment. I think it's very hard to predict exactly what happens. But ultimately, there will be real estate to buy and real estate to sell, and with our \$66 billion of dry powder, I think we're going to be in a really unique position. I mean, we raised this \$30 billion plus global fund. I think we've invested less than 5% of that fund today. We have the vast majority of our Asia fund uninvested, and our Europe fund we're just raising, so by definition is uninvested. So, we think we're well-positioned in this environment, particularly if banks pull back and there are liquidity shortfalls. We're also raising capital for our real estate debt business, so we think it'll be a favorable environment, and like everybody, we'll be watching what happens on the transaction side.

Brennan Hawken: Thanks for that color.

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

Ben Budish: Hi there. Thanks for fitting me in at the end. I wanted to ask about BREIT. I know you don't often comment on the performance of, very specific funds, but just since it's also public and investors are following this quite closely. It looked like there was some kind of nice momentum and performance coming into September. And maybe if you kind of parse out what sort of changed in the month, was it cap rate assumption revisions? Was it a slowdown in operating performance? And is there any color you can share perhaps on the performance of the hedge? And how that either impacted September or how you would expect it to sort of benefit the fund over the next couple of months based on the current outlook? Thank you.

Jon Gray: So, what I would say on BREIT is, is you really hit on it. In September, the tailwinds in the business were twofold. As you've heard from us, I think we did a very good job hedging out the balance sheet for long duration. That's proven to be very beneficial to the shareholders of BREIT. The second thing is we have a quite sizable position, I think it's now 8% of the portfolio, in data centers. Again, that turned out to be a really, really great decision for our shareholders, and has benefited us. And there was very significant appreciation, which we talked about in the remarks. On the headwinds side, yes, we, of course, raised cap rate assumptions in the portfolio in light of the higher movement in the 10-year treasury yield. And so those were the forces that you saw reflected in the valuations in the month and the quarter.

Ben Budish: Great. Thank you very much.

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

Mike Brown: Okay, great. Thanks for taking my question. Just wanted to touch base on the insurance channel here. You said that you had \$5 billion of inflows in the quarter. Can you just touch on what were the key contributions there and then maybe expectations for next quarter? And then if you could just touch on Resolution Life specifically. Was that part of the \$5 billion inflows this quarter? And how can that partnership progress here over the coming quarters. Thank you.

Jon Gray: So, for clarity, I think we had \$5 billion from the big four accounts in insurance, \$7 billion overall because we have some SMAs with other major insurers, but not for nearly as large pieces of their portfolio. I'm not sure I'm going to go into any of the individual clients, where the money's coming from and so forth. But obviously, some of the clients are issuing fixed annuities, which is a fast-growing area. That would be namely there, I guess I'd point out, Corebridge and Fidelity Guarantee. And we're helping them with that by deploying capital on their behalf and generating attractive yields. I think Resolution as a platform has a lot of opportunity around legacy books, closed books, buying those from insurers who are trying to reallocate their portfolios. And as part of the recapitalization we did with them, we put a significant amount of capital from our LP community into the company that gives them some firepower to grow.

And then I would just add we're having other discussions. Investors are seeing what we're doing, taking up credit quality. I think if you look at the numbers in the quarter, on average our clients had BBB portfolios. This year we've originated on average single A credit quality fixed income, and the spreads have been 140 basis points higher over comparable liquid BBBs. So higher credit quality and still higher spreads. And so, this is something that our existing clients are happy about, our SMA clients are happy about, and it's leading to more discussions. I still think we're in early days. It's hard to predict the timing of these, but this is becoming something that I think is increasingly important for major insurers to have more of these private credit origination capabilities, and they're excited about being partners with us, particularly because we're not an insurance company. We're not directly competing with them.

Mike Brown: Okay. Great. Thank you, Jon.

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

Arnaud Giblat: Good morning. I just had a follow-up question on BXPE. I'm wondering how much capacity you're warehousing there. Is there an opportunity, I think, to scale up this product rapidly if demand is there? How do you manage that? Is that perhaps by having a large proportion that you can allocate to secondaries to absorb any rapid uptakes? Thank you.

Michael Chae: Arnaud, it's Michael. On the first part about warehousing, we have, as we often do, when we help support the launch of a product like this, we have a relatively modest amount in the grand scheme of our balance sheet in warehouse for the support of the launch of this in the coming months. We expect that will grow somewhat as we approach that point. And then once we're up and running, the needs from a warehousing standpoint will be much more modest. Jon, if you want to comment on asset allocation.

Jon Gray: Well, I think we will have a mix of things. Secondaries will certainly be part of the mix. I think we'll do a bunch of opportunistic things in this environment. I think we'll do large scale private equity, some middle market private equity, as I said, life sciences, growth. One of the unique things about Blackstone is the scale of our private equity platform. It's not just one area, and when you think about the individual investor channel and money coming in on a monthly basis, having a very broad platform is important. So, we're going to take advantage of our platform as we deploy capital. And the key thing as we design this product is to deliver strong returns to the customers, because that's how we build something of scale over time. So, if we do a very good job deploying into this dislocated environment, build a track record, then we do believe the scale opportunity is significant.

Arnaud Giblat: Great. Thank you very much.

Moderator: With no additional questions in queue at this time, I'd like to turn the call back over to Mr. Weston Tucker for any additional or closing remarks.

Weston Tucker: Great. Thanks, everyone, for joining us today and look forward to following up after the call if you have any questions. Thanks very much.

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