BLACKSTONE Fourth Quarter and Full Year 2015 Earnings Investor Call
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Operator: Great day, ladies and gentlemen, and welcome to the Blackstone Fourth Quarter and Full Year 2015 Investor Conference Call. My name is Operator and I'll be your operator today. At this time, all participants are in a listen-only mode. Later we will facilitate a question-and-answer session. If at any time during the call you require assistance, please key star followed by zero, and a coordinator will be happy to assist you. As a reminder, this conference is being recorded for replay purposes. I would now like to turn the presentation over to your host for today's call, Mr. Weston Tucker, head of Investor Relations. Please proceed.

Weston Tucker: Thanks, Katina. Good morning, and welcome to Blackstone's Fourth Quarter 2015 Conference Call. I'm joined today by Steve Schwarzman, Chairman and CEO, Tony James, President and Chief Operating Officer, Michael Chae, Chief Financial Officer, and Joan Solotar, Head of Multi-Asset Investing and External Relations. Earlier this morning, we issued a press release and slide presentation illustrating our results, which are available on our website. We expect to file our 10-K report later next month.

I'd like to remind you that today's call may include forward-looking statements which by their nature are uncertain and outside of the firm's control and may differ from actual results materially. We do not undertake any duty to update any forward-looking statements. For a discussion of some of the risks that could affect the firm's results, please see the Risk Factor section of our 10-K report.

We will refer to non-GAAP measure on this call. For reconciliations, you should refer to the press release. I'd also like to remind you that nothing on this call constitutes an offer to sell or a solicitation for an offer to purchase any interest in any Blackstone funds. This audio-cast is copyrighted material of Blackstone and may not be duplicated, reproduced, or rebroadcast without consent.

So a quick recap of our results. We reported Economic Net Income or ENI per unit of $0.37 for the Fourth Quarter and $1.82 for the full year, which were down from the prior year period due to lower appreciation across some of the funds.

Distributable Earnings were $878 million in the quarter or $0.72 per common unit, and $3.23 per common unit for the full year 2015. That full-year amount is a record and is up sharply from 2014 due primarily to greater net carry in our private equity and real estate businesses.

We'll be paying a distribution of $0.61 per common unit to unitholders of record as of February 8th, which brings us to $2.73 paid out with respect to 2015, and that equates to an 11% yield on the current stock price, which remains one of the highest of any large firm in the world. With that, I'll turn the call over to Steve.

Stephen A. Schwarzman: Good morning, and thank you for joining our call. 2015 was a year in which Blackstone achieved several milestones including reaching record Assets Under Management of $336 billion; continued expansion of our leadership positions in every business were earned, as illustrated by record capital raised of $94 billion and record capital invested of $32 billion, both stunning; our best year ever for capital returned to our shareholders at $2.73 per common unit, as Weston just mentioned; and of course we celebrated our 30th anniversary.

We enter 2016 with great confidence in our business and its prospects. The public markets, however, have certainly had a challenging start to the year, with a narrative that's been dominated by concerns over global growth, energy prices, high-yield credit, China, the Fed, and the U.S. Presidential elections. Investors have been caught in down cycle of pessimism and over-sold conditions as markets have corrected. In times of turbulence, having locked-up capital can be a tremendous performance advantage, both in the ability to deploy scale capital at very good prices and to hold our investments during inevitable downturns.

While it's always possible that a market correction becomes something more significant, we at Blackstone do not see a recession in the U.S. We do believe that global GDP growth is slowing but we've seen a slowdown within certain sectors and regions in our global portfolio as a result. On balance, however, our portfolio companies remain in terrific shape. Our private equity companies grew EBITDA in the fourth quarter versus the declines in the broader market which we've witnessed now for several quarters running. And in real estate, our properties are reporting healthy fundamentals across the board, including mid-single-digit growth in office rents in the U.S. and the UK, and continuing, albeit somewhat slowing, hotel rev par growth. And our company CEOs mostly expects solid growth in 2016.

Overall, our investment returns were quite strong in 2015. You'd never know it looking at our stock, but they were quite strong, with most of our funds well ahead of global markets. Our Corporate Private Equity funds, for example, appreciated 7.4%, while our Tactical Opportunity funds were up 9.3%, and Strategic Partners, our secondaries business, rose 19.4%. Our Real Estate and our Opportunistic funds appreciated 9.7% while our Newer Core Plus platform was up 19.1%. Our products, which we do for our limited partners as a group, dramatically outperformed the S&P total return of 1.4%, typically by multiples of 5 to 7 times. – Not exactly something you should be punished for. We delivered these results despite the ongoing public pressures in our public stock portfolio, which are baked into these returns.

Importantly, the locked-up structure of most of our funds means that we're never forced sellers, and can wait until markets improve before exiting public positions. Having ten-year funds, for example, means that things that happen over a few months or even a year don't impact us the way they do other investors. We don't have redemptions in our drawdown funds; and even in our liquid funds, capital flows remain healthy. Our hedge funds solutions area, for example, reported strong net inflows in 2015, including in the fourth quarter when we typically see seasonally higher redemptions. One reason for that is we've outperformed public markets in that area as well, quite significantly.

We're seeing strong demand for credit products, as high-yield spreads have gapped by hundreds of points, and liquidity has declined, our credit business overall is benefiting from these trends with great demand for financing at much higher rates of return than 6 months ago, and we are deploying much, much more capital as a result. In fact, the fourth quarter was a record quarter of deployment for GSO as it was for our Private Equity and Real Estate segments. GSO's existing investments are being negatively impacted on an interim mark-to-market basis but that doesn't reflect the inherent credit quality of the overall portfolio or its ability to have principle returned and interest paid.

Blackstone stock, as I've referenced, has been under severe pressure, and the Alternative Asset Management Group has been one of the hardest hit in terms of stock price declines. Despite this, I have every confidence in our firm and our current position. While our stock has declined 40% from market high levels last year, I think it's important to ask what's different for Blackstone today versus earlier last year when the stock was significantly higher. What has happened to our business?

Well, we're 16% larger in terms of AUM than at year-end 2014, with sharp growth in every single business. The $94 billion we raised last year is the size of many of our peers, and exceeds the annual fundraising of our next four largest public competitors combined. We invested over $32 billion in our drawdown funds, and committed another $6 billion to investments that haven't closed yet. That is by far a record for us, with a heavy tilt towards later in the year when the investing environment was more favorable, and we returned $43 billion to our fund investors through realizations. I believe our sustained high level of capital deployment over the past several years is planting the seeds for eventually harvesting significantly larger future distributions than what we're generating today.

Blackstone is, I would argue, the best-positioned firm making long-term investments to capitalize on the changing investment landscape. We have the industry's largest dry powder at $80 billion, and I expect we'll raise tens of billions more in the coming quarters as limited partners look to a franchise they trust, a safe pair of hands, one that has navigated these types of environments successfully like we've done for 30 years now. And our LPs continue to allocate greater amounts of capital to the fast-growing alternative space, particularly to Blackstone, as the *Wall Street Journal* reported last Friday on its front page. Our Public Equity sales have been slower in the past two quarters, for obvious reasons, but that didn't materially slow the overall pace of realization activity in 2015. That also means that there's more in the ground today, compounding value which will eventually be realized for our investors, and despite that we still had a huge year, a record year for realizations.

We've also launched several new funds in businesses in the past year. This is where Blackstone really sets itself apart from other firms in our industry, and frankly most others in the world. The foundation of our culture and therefore our success over the past 30 years is innovation with safety. While most companies struggle to build great businesses outside their original success, it is a core competency of our firm. We continue to quickly launch and scale new products, leveraging our talent, knowledge and brand in order to take immediate advantage of market opportunities.

For example our Real Estate Core-Plus business has grown to $11 billion in size in only two years after its launch, and it has incredible runway ahead of it. In our Hedge Funds Solutions area, our new Multi-Manager hedge fund platform has grown rapidly to $2 billion in AUM using only eight portfolio managers currently, and we've been very pleased with their performance so far.

Our secondaries business, SP, which Tony James was instrumental in founding at DLJ before Blackstone acquired it in 2013, is now raising its seventh buyout fund and several new funds targeting $10 billion, or many multiples the size of their main fund when we acquired this platform just 3 years ago. Our Tactical Opportunities business, launched 3 years ago, is already $15 billion in size, and is benefiting from many of the opportunities opened up by the banks' pullback in certain areas.

And in Real Estate, our commercial mortgage REIT, BXMT, is benefiting from the same trends. BXMT is exclusively a senior mortgages lender with floating rates so you don't have to worry about rates going up, which people seem to be fixated on, with collateral underwritten by our world-leading real estate platform. Yet it is today trading at a 10% yield for senior floating rate debt. It's trading below book, which means you're now basically getting the Blackstone Real Estate franchise for a negative value, and that makes no sense. – But that's the world right now in equities and leveraged credit. We've seen versions of this movie many times before with always the same outcome: outsized returns for someone.

So to answer my earlier question, what's changed for Blackstone over the past year – we've continued to build and extend our leadership position in basically every area we're in. Our stock price decline is reflective of what's happening in the public markets and the mark-to-market movement of certain of our assets which we do not believe is indicative of their fundamental value, as measured by their operating results and their prospects. This temporary decline in value should normalize over time. Our firm is in terrific shape with strong momentum in every area.

We continue to generate high levels of current cash flow for our unit holders with distribution yield, as Tony mentioned on our earlier call, based just on fee earnings with some other flows that is at the top quartile of the S&P 500, and that is without the help of any realizations which constitute the majority of our earnings over time. And the trajectory of our fee earnings is sharply upward, which you'll see, in the future, which Michael Chae, who is going to speak next, will discuss in more detail. We remain highly profitable with strong growth prospects and downside protection in the form of stable and growing fee earnings and a rock-solid, A-plus rated balanced sheet with about $ 4 billion in cash.

And right now, you're getting Blackstone on sale. As I've shared, we've done an implied stock price analysis for the next 10 years based on what we believe to be conservative assumptions of AUM growth of 8% to 12% -- and by the way, last year it was 16%, so we just like doing some numbers for you – at 8% to 12%, as well as lower than historical returns for our drawdown funds, in the mid-teens instead of higher, and mid-single-digit returns in our liquid strategies which historically has been much higher. The implied total value for Blackstone shares over that 10-year period would be in the $100 to $125 per share area. That is including distributions and using what I believe is a reasonable yield of 5% to 6% on our cash flows. That $100 to $125 per share value equates to a multiple of money, to you as investors, of between 4 and 5 times today's stock price, or an IRR of about 19% to 22% annually, compared to the 10-year Treasury which as you know is around 2%.

So I guess the question is would you prefer 2% or 20% annually? It doesn't seem like a tough decision to me but it apparently is to many of you, so I'm in the minority. If an investor can do better than 4 to 5 times their money in 10 years, then they ought to go ahead and find something to do it with. I'm personally not selling my BX units, and I believe great things are ahead for this firm. At Blackstone, we continue to benchmark ourselves against the best-performing companies in the world, and feel quite good about our progress, delivering strong growth, high margins, and terrific returns for our LPs.

Nevertheless, we're always striving to do better and to do more, and 2016 will be no exception. Our shareholders can be assured that Blackstone will never stand still. We will keep blazing the trail forward, and I hope you will all remain with us, or join us if you're not already a shareholder for this wonderful adventure. So thank you for joining our call today. I'm going to turn things over now to our Chief Financial Officer, Michael Chae, who's doing a really terrific job, and I guess this is his second earnings call.

Michael Chae: Thanks, Steve, and good morning, everyone. Despite the significant down-draft in markets that we experienced for much of the second half of last year and which has continued into this year, Blackstone generated favorable earnings, cash, and capital metrics for both the fourth quarter and full year. The fundamental pillars of our business remain extraordinarily strong regardless of market conditions.

Our full year distributable earnings of $3.8 billion, up 25% from the prior year, was our best ever, and also the best ever for the Alternatives industry, with the prior record being our own 2014 performance. The primary driver of this was a $610 million increase in net realized performance fees and investment income from $2.3 billion to $2.9 billion, with year-over-year increases in both Private Equity and Real Estate.

Reported fee-related earnings declined modestly from $1 billion in 2014 to $936 million in 2015, with the underlying strong trajectory of our Asset and Management fee stream growth offset by two items. First, we completed the spin of our advisory businesses on October 1st, and so 2015 was without what is typically those businesses seasonally strongest quarter. Second, as discussed last year, we changed the deferral policy for our equity-based comp plans in the fourth quarter of 2014, which provided a benefit in that quarter to FRE. Adjusting for these items, FRE was up strongly in 2015 and we expect it to be up strongly again in 2016.

ENI was $2.2 billion for the full year 2015, down from a record 2014. In the fourth quarter, our ENI was $436 million, reversing the $416 million loss of the third quarter. The lower rate of fund depreciation in 2015 was due in part to the declines in our publics, and to a much lesser extent certain unrealized markdowns in energy and credit, and currency translation effects on some of our non-U.S. holdings. Importantly, the locked-up structure of most of our funds means that we are never forced sellers and can wait patiently until the time is right before exiting. In fact, including our Hedge Funds Solutions business, 94% of our fee earning AUM are in funds with long-term lock-up structures, and have a weighted average remaining life of approximately 8 years. This is the heart of our business model and fundamental competitive advantage.

In this context, I think it is informative to look at our historical experience with public market exits. In the past 10 years, we have IPOed and fully exited 11 companies through the public markets, representing $3.7 billion of invested capital. We took them public at 40% gain on average from the prior quarter mark, patiently timed our secondaries, generally at successfully higher values not withstanding market fluctuations, and realized a final cumulative multiple of invested capital of 3.6 times on average.

Today we have $24 billion in publics in our Private Equity and Real Estate funds, which of course is greater than in past periods given the significant growth of the firm. Although our publics have been under pressure with the broader markets so far in the first quarter, which could impact ENI in the near-term, we feel good about our companies and remain confident in our ability to exit them over time at attractive rates of return. Currently, our public stocks are marked at a 1.8 times multiple of cost in aggregate, reflecting significant built-in gains even at current levels.

As a companion point, we feel very good about our private portfolio. At times of stress in the markets, it is worth noting that our portfolio remains marked at a material implied discount to the multiples in market comparables, and as you know, over time our IPOs and private sale values have consistently come at large average premiums to prior carrying values.

Let me now dig in a bit more into our 2015 performance at the business unit level. How did we navigate the truly tricky year? First, performance. The competitiveness and growth of our firm begins and ends with investment performance. In 2015, our Private Equity segment funds outperformed the S&P 500 by approximately 1,000 basis points. Our Real Estate's BREP funds also outperformed the S&P by about 1,000 basis points, and the REIT index by over 1,100 basis points. Our Hedge Funds solutions composite outperformed the S&P by over 300 basis points, and HFRX Hedge Fund index by over 600 basis points.

Second, realizations. As Steve highlighted, we returned to our investors $43 billion in realizations in 2015, following a $45 billion year in 2014. That's $88 billion in 24 months. In Real Estate, $21 billion this year and $41 billion over 2 years. In Private Equity, $13.5 billion in 2015 and $29 billion over 2 years. In Credit, $8 billion this year and $17 billion over 2 years. We feel very good about having capitalized on favorable market conditions from a realization standpoint.

Next, deployments. How did we navigate the tricky year from a deployment standpoint? In corporate Private Equity, we stepped carefully through what we saw as a challenging terrain. We committed $3.5 billion in capital in a sense quietly in 12 deals, with an average deal size of less than $300 million, largely on off-the-run value-oriented plays with an average purchase multiple of under 8 times EBITDA, average leverage of under 4 times EBITDA, and we did none of the large, highly-leveraged LBOs, a number of which are now hung up in the financing markets.

In Real Estate, we leveraged our singular platform and consummated hallmark deals that we were uniquely positioned to do, and which often capitalized on the increased market dislocation – the GE deal, StuyTown, four public to privates among others. In BAAM, we launched our

Multi-Manager platform at a time when subsequent market turbulence revived opportunities for short alpha, and our team capitalized on this environment.

As critical were the things we didn't do. In Energy, we have raised over $8 billion of dedicated capital in private equity and GSO to take advantage of the current dislocation, and almost all of it remains undrawn. In terms of existing exposures, we are mark-to-market, and the full-year impact from our Energy investments in 2015 was about 5% of our ENI of $2.15 billion. That includes all of our Energy investments in Private Equity and Credit, not just Oil & Gas and E&P, and so that includes investments in Energy sectors such as power & renewables that are not directly affected by oil and gas prices.

In terms of our credit area in general, the fourth quarter was a difficult one for the market overall and for parts of our portfolio, particularly certain energy-related and event-driven situations. This situation has obviously continued in January. The vast majority of impact was from unrealized markdown and in companies where we feel good about their prospects. Historically, I would note, GSO has experienced realized losses of less than 50 basis points in its drawdown and direct lending funds. While in the near-term we should plan for continued market pressure that may further affect these marks, we expect that eventually markets will bottom, stabilize, and recover.

In the meantime, we bring to a credit market that is seeing unprecedented dislocation and increasing liquidity pressure structurally, the ideal investment platform where approximately 80% of our capital base is in locked-up or permanent capital structures where we are not forced sellers and are poised to strike as buyers opportunistically. Indeed, with some $15 billion in dry powder, our team at GSO has a record amount of funding at what in their view will ultimately be the best time to deploy capital in the credit markets since 2009.

The last topic I’d like to address this morning is the outlook for distributable earnings which includes both our growing fee-related earnings as well as our expectations for performance fees. We have significant embedded growth in our fee earnings just based on capital that has already been raised and also fundraising initiatives currently under way. 2016 will include the full-year benefit of BREP VIII. In Private Equity, BCP VII will launch, though there is a 6-month fee holiday which will delay the onset of fees. In addition, we have multiple new funds being raised which will positively impact this year including, among others, in European Real Estate, Real Estate Debt and Core-Plus, Strategic Partners’s flagship secondaries fund and other SP products, Tactical Opportunities products, GSO’s Mezzanine fund and other products, Core Private Equity, and inflows across a wide range of BAAM products. These fundraises are progressing very well across the board and we expect in the aggregate another very robust year of inflows that will add meaningfully to FRE in the near-term.

With respect to realizations, we have a significant pipeline of situations with the potential to be monetized at the right time and in the right conditions. Although the near-term could be impacted by more limited public market sales, we have other means to generate realizations including potential private sales as well as the current yield portion of our performance fees. As of year-end, approximately half of our net accrue performance fee receivable, that is from vintages 2010 and prior, is nearly all public and/or liquidated.

And in the vintages since 2010, we've deployed $104 billion in capital in our drawdown funds alone, or about $21 billion per year on average over that 5-year time period, a substantial portion of which is still in the ground in companies that are fundamentally strong and performing well. While the investments in these funds are seasoning, their ultimate potential is not reflected in current marks. Although we've had several years of significant realization volume, the ratio of capital deployed to the cost basis of realizations has averaged 1.6 times for Private Equity and Real Estate, meaning we've been putting well more into the ground than we've been taking out. The cupboard is not emptying but on the contrary has been refilling, and today we sit with $80 billion of dry powder, $34 billion or some 73% more than this time last year, facing into an even more interesting investment environment.

In closing, although the environment has become more volatile for investment management, it is exactly in these types of environments that our firm thrives and builds upon our existing leadership position. We believe we have a powerful and valuable business model advantage. Over the last 8 quarters, our fee revenues per dollar of fee AUM have averaged 3.5 times those of the largest traditional asset managers, and our total revenues including performance fees per dollar of fee AUM have averaged 8 times those of traditional managers. Our AUM has grown at over 20% average annual rate for the last 5 years, and we expect to stay on a robust trajectory. The vast majority of this AUM, as I mentioned, is locked up for an average of 8 years, and most importantly we bring to this environment a record over three decades of having approximately doubled the return to the public market and other benchmarks.

So, while we reached several new records in 2015, we believe we have never been better positioned to capitalize on the many opportunities in front of us and to achieve even greater milestones in the years to come. With that, we thank you for joining our call, and we'd like to open it up now for any questions.

Weston Tucker: And Operator, before you prompt for questions, I'd like to just remind everybody if you can just limit your questions to one main question and one follow-up. We've got a pretty full queue and we want to make sure we get to everybody. If you have additional questions, you can queue back in.

Operator: Thank you. Ladies and gentlemen, if you wish to ask a question, please press *-1 on your touchstone telephone. Your first question comes from the line of Luke Montgomery representing Bernstein Research. Please proceed.

Luke Montgomery: Thank you. Just in terms of deployment in Energy and other commodities, I think you had $7 or $8 billion of dry powder last quarter, which also suggested that the Energy P fund and GSO were biding their time at least through the first half of the year. But I think I hear you saying now you feel the opportunities are riper for capital deployment so maybe you could speak to your appetite in the current environment, and flesh some of the things you're looking at it.

Tony James: Yeah, Luke, it's Tony. Let me just clarify a couple of things. Michael said over 8, I think I said 8.5 of dedicated Energy funds, but most of those funds co-invest with another fund. For example, our Private Equity Energy fund takes about half of the deals, and so it drags along and a similar amount of Private Equity capital. If you add all of the capital we have available for Energy, it's closer to $15 billion, so just to clarify so there's no confusion.

And yes, it's hard to call the exact turn, but as I said before, these prices are not sustainable. The nice thing about oil and gas wells are they decline, the decline curve is fairly sharp, so they deplete quickly. There aren't copper mines which can produce for 50 years, and if you're not drilling a lot of new wells and you're producing – which is what's happening, which is why there's a surplus – very quickly supply self-corrects. So whether it's sometime in the next few – we could survive these prices for several years with the investments we're making and still we expect prices to be up 65, 75 in 4 or 5 years, and we'll make some very, very nice returns. So when we looked at Energy investing, we look at surviving a long time where prices are today, and then still getting very, very nice returns if we get back to prices 60 or above, which are well below prior peaks.

And ironically, the lower prices go today, the higher they will be in 5 years from now because the more other new drilling and whatnot gets shut off. So yes, we think it's a very interesting time to put money out now. There's a lot of companies that desperately need capital. You can come in some cases at the top of the risk stack, top of the capital stack, and still have equity-like returns. In other cases, great companies with good assets just have no alternatives. And actually, I think as the cycle unfolds, it'll get better and better and better because as prices start to move up, the activity level will pick up quite quickly, and so I think it will actually even get better as prices move up as a way to deploy capital.

Luke Montgomery: Okay, thanks, really helpful, and then I think one of the questions we get is around how you're marking the private positions in Private Equity and in Real Estate, and because it's DCF-based, those marks might not reflect what you can sell them for today. My understanding is that you actually aren't allowed to mark to sale, and I heard you that the fundamental cash flow growth looks strong, you have a long horizon. I think you might have even addressed the question indirectly already but I was hoping you might speak to the concerns that private marks could be masking a decline and distributable earnings over the immediate terms.

Michael Chae: Sure, Luke, it's Michael. As I mentioned in my remarks, our Private portfolio remains marked at a material implied discount to the multiples of market comparables, and over time, again as we talked about, our IPOs and sales have consistently come at large premiums to prior carrying values, and if you step back, that's because our private valuations, you know, we focus intently on fundamentals and what the right long-term historical average and multiples are for a given asset or an industry, and at the same time we do keep an eye on whether our implied carrying multiples at a given point in time are appropriate relative to current market multiples, which we consistently feel they do and definitely do today. So we feel good about it, and that's a little bit of an insight into our process.

Tony James: Well, let me comment a little differently on that. First of all, last time as you know, when we went through this we did not have big markdowns in the portfolio much less in the public markets, and when we sold we had bit markups and realized big gains. I mean, even BCP V will be coming in gross to double investor's money. Why is that? It's because we're not just buying public stocks here that mark up and mark down. When we buy, we're buying companies. We're going in there and we're creating value by significantly increasing their earnings and their growth rates and their margins and their return on capital, and enhancing their management teams, and that goes on whether the stock market goes up or down. So we create a lot of our value so that our private companies appreciate even in declining markets.

Luke Montgomery: All right, thank you very much, appreciate it.

Operator: Your next question comes from the line of Bill Katz representing Citigroup. Please proceed.

Bill Katz: Okay, thank you. I appreciate you taking my questions. The first question is on just the pricing backdrop. One of your competitors was out recently at a talk mentioning that there is potential for downward pressure on sort of both the two and the twenty**,** and I was wondering if you could comment on what you were seeing or what you would anticipate if any type of pricing change as it relates to some of the drawdown businesses that you run.

Stephen A. Schwarzman: Yeah, I was surprised at that actually. We haven't been experiencing that, and we have sold out or, or better characterization, blown out every fund that we have marketed over the last x number of years, and occasionally we have some sort of negotiation over massive amounts of money in the multi-billion dollar categories that would be a special account spread over a whole lot of different Blackstone products, but what that other group was saying we have not experienced that. And if you look at the kind of returns that we've talked about, and Michael had a lot of stuff he was saying, but I think his last sentence or two said something like we've averaged around double the S&P, something of that type, on funds that are trying to get those kind of returns. When you provide that kind of super performance, what you find is you end up having great long-term partnerships with limited partners where it's a win-win type of arrangement, so that's pretty much what we're experience.

Michael Chae: And let me comment on that. In one of our businesses, Tactical Opportunities, we're seeing the precise opposite. We're having a significant increase in fees and carry in Fund II than we had in Fund I, and they're both over-subscribed. They're both over-subscribed.

Bill Katz: That's helpful. All right, Steve, I was debating whether or not I was going to ask you this but since you spent a lot of time on it in your prepared remarks, I figured why not. In your reported third-quarter earnings, your stock was 33. By your math, you can get a 4x return on your investment if you would have purchased Blackstone today. If I look at page 23 of your supplement, which is one of the better supplements, by the way, you lay out all your MOICs both realized and full invested, and none of it comes close to 4x. So how do you think about capital return or capital priorities as you look forward, and has your thinking changed at all in terms of buyback given where the stock is today since those things "changed" in the business model?

Stephen A. Schwarzman: You know, we get asked about stock buybacks, and for us, first of all our model of predicting what we're doing we think is actually quite conservative, and so the question is why aren't we doing a massive stock buyback now, and one of the reasons is that I like cash. I like it, like a lot of entrepreneurs like cash. Whether it was the Microsoft people or the Google people or the Apple people, you like cash because it gives you the opportunity to take advantage of opportunities. What happens is we're being approached, for example, by a number of different organizations that want to affiliate with Blackstone because we pay out. We're trying to please people, including ourselves, and we pay out almost all of our earnings, and we have sort of sky-high yields by the standards of other companies.

And so for us if we buy stock in, then we're leveraging ourselves up, and we need our cash for two reasons. One is acquisitions, and the other is that at the rate we're growing, we have to keep putting money into funds. Limited partners believe that if you don't invest in your own funds, you don't show confidence or alignment, and so we always want to have a lot of money around because our ability to start new products is really remarkable. Last year we grew at 16% after giving all this money back, and we keep coming up with new products. To put ourselves in a position to do major share buybacks and not be able to fund the growth of the business which puts money in the ground for long-term, and we grow from fund one to subsequent funds very rapidly, would not be investing in effect for the long-term.

There's nothing wrong with buying stock at this price, nothing, but if we think we're compromising our ability to grow one of the greatest companies in the world, it's just a question of how do you allocate that, and they're all good allocations, but I'm a great believer in taking advantage of every investment opportunity for the benefit of our limited partners, and if we do a great job for them, they have trillions and trillions of dollars, and if we keep getting a vastly disproportionate amount because of the performance, that's great for our public shareholders over the long-term. That was a long answer but I wanted to tell you how at least I think about it.

Michael Chae: Bill, let me add a little color from my perspective to that. First of all, we absolutely think the stock is an unbelievable buy, and we're all in on it personally. I mean, I don't know exactly how much Steve owns these days but it's a lot of stock.

Stephen A. Schwarzman: Same as I always do.

Tony James: He hasn't sold share since the IPO, so we're all in on the stock and we think it's a fantastic buy. Secondly, the value that Steve talked about of $100, one of the things that drives that is the organic growth rate that we've got that takes capital to funds, so if we stopped having the capital to fund the growth, I'm not sure we'd necessarily be ahead of the game, but that's really not the point. We're here to build a great institution that takes place with enduring great companies of America. And we've got an amazing opportunity and a clean shot to do that with nothing in our way. And we've got daylight between us and all the other competitors, and we think we're supposed to go build that, build that legacy, and do something really special here, and not take advantage of short-term trading opportunities, because – buying in a few shares because they're a little low.

Michael Chae: Bill, and if could just clarify one thing you stated in the set up to your question. I think you alluded to the page in our AK with our investment records and our historical MOICs, you know, which range 1.8, 1.9 times. The assumptions underlying the sort of analysis and model that generates Steve's discussion and view on our long-term equity value creation, it's premised very much on that 30 year history of producing those types of multiples of money;

which then produces DE over time, which supports the yield that supports the stock price Steve mentioned. So I just wanted to be very clear about that.

Bill Katz: Thank you guys.

Operator: The next question comes from the line of Mike Kim, representing Sandler O'Neill. Please proceed.

Mike Kim: Hey guys, good morning. First, Tony, I think on the media call you mentioned the range of something like one to three dollars of distributable earnings this year, depending on realization activities. So first, is the low-end essentially just based on fee-related earnings? And then at the high end, what sort of general market backdrop would you need to generate that level of realizations?

Tony James: Well, let me be clear, I was not in any way making a projection about what we might be in 2016. I was simply pointing to the structure of our business, where we're in a position now, depending on realization, to get somewhere between $1.00 – in any year - $1.00 which is driven largely by fee-related income and some of the recurring income investments we have, like interest on debt and stuff like that that you get every year, regardless of markets; to this year, where we got over $3.00 in DE. And so we're a one to three dollar payer, on a stock of mid-20s, what kind of yield is that that makes any sense? And so all I was – what I was pointing out is, I wasn't trying to make a projection as to what the realizations would be in 2016, although I will say, I don't see any reason why we can't have significant realizations in 2016 on top of the $1.00 that comes largely from fee-related and other recurring income.

Mike Kim: Got it, okay. Understood. And then Steve, since you mentioned wanting to maintain cash on hand for potential acquisitions, just curious if you could maybe comment on where you might be focusing your attentions and then what you're sort of seeing in terms of the competitive landscape, in terms of competition and/or pricing trends?

Stephen A. Schwarzman: Well, you know, giving away inside information on widely spread calls is a bad idea. and you know, we get approached by different types of managers, whether they're long only managers, alternative managers of all sizes, because what's happened is every time that someone has affiliated with us, their business has exploded with growth. So we have our own sort of list of priorities which we think make sense, and then we get over the [inaudible] type of inquiries and what we're interested in doing is expanding when it makes sense, with businesses that we can really enhance, with people who share a similar value system. We are not trying to do anything for the short term. For us to actually buy something, there has to be a pit of values and culture and risk aversion. Because what I've figured out is that there are no brave old people in finance. Usually you get wiped out by being brave when you're younger. And so we have a number of things we're looking at. What tends to happen is we have an advantage, actually, of real liquidity in our stock. We typically are about half the market cap of our whole industry. And if anybody is interested potentially in liquidity, we're a very good home, but we're quite discriminating. We don't want to do anything that dilutes ourselves and changes the culture of the firm. We like building them ourselves.

We have found really terrific opportunities and more of this stuff comes out of the woodwork when you have adverse market cycles than when you're at the top. At the top, everybody's self-confident and happy, and you know, when the tide goes out, you see who's wearing bathing suits and whatever. We're seeing some activity now – we'll see what happens with it.

Tony James: And you know, I just want to comment, we've made seven or eight acquisitions. The returns on all of them have been terrific. I don't think you'll see transformational things that change the course of the firm overnight, but we'll continue to do smart acquisitions where we can build a lot of value. And none of them will be ego driven, by the way, to have bragging rights for more AUM or something.

Mike Kim: Got it, that's helpful. Thanks for taking my questions.

Operator: Your next question comes from the line of Patrick Davitt representing Autonomous. Please proceed.

Patrick Davitt: Good morning, guys. My question's around the credit comments that Tony made on the media call. Could you walk us through from GSO's perspective what kind of leading indicators they are looking at to give them comfort it's a good time to ramp up investments as much as they have? In other words, what leading indicators do they see that show that the issue is not broader than energy? And in that vein, at what point do you worry about the liquidity-driven price declines bleeding into real credit issues?

Hamilton E. James: Okay. Well, so let's put energy aside. I think if you look at – and Michael can help me out here. If you look at the implied default rates on the pricing of low investment grade credit today away from energy, there is something like – Michael, 4% or 5%?

Michael Chae: I think about 4%.

Hamilton E. James: 4% or 5% -- and yet we see to actually achieve those default rates you would have to go into a recession and a financial crisis similar to what we went into in 2008 and 2009. We don't see that at all. So leading indicators is not quite the way we view it. What we view it is inherent value right now. So the yields are too high for the embedded credit risk. And, therefore, it's a good buy. And so we're putting money into the market, we're getting additional money from investors to continue to do that. I don't think this is something we're going to plunge it all in one day, though. We're somewhere in a good part of the cycle and we'll continue to take a series of bites in that part of the cycle. Incidentally, I would say the same thing for energy about where we are in the cycle and the bites we're taking, although obviously in energy you're going to have some fairly high actually default rates. And so we're embedding that into our scenario, too. But I think the illiquidity of the market has driven pricing of less than investment grade credit unreasonably low, yields too high for the risk. And so, we're taking advantage of that.

Stephen A. Schwarzman: Yeah. Just to give you one idea, without a name. But there's one security we were discussing the other day with sort of yield of 17% at somewhere around six times EBITDA in terms of value through the debt. Well we buy companies all the time at six to seven times EBITDA. And if you could get like a 17% cash yield, gee whiz, remember treasuries are 2% so it's not so bad. But the market's gapping out. I mean you have to hand it to the regulatory environment. When you get rid of basically dealers, stuff just gaps. And our job is to take advantage of that for our investors.

Patrick Davitt: Thank you.

Operator: Your next question comes from the line of Ken Worthington, representing J.P. Morgan. Please proceed.

Ken Worthington: Hi. Hi. Good morning. In terms of financing, you're putting a lot of money to work. How are
you finding the financing markets, are they less accommodative?

Hamilton E. James: We're still getting fund—

Ken Worthington: Let me try it again. You're putting a lot of money to work. How you finding the financing markets, maybe where are they less accommodative? And to what extent are you seeing others having a hard time closing deals. You mentioned some hung deals. How wide spread is that really? And I assume that you insist on and you get preferred financing treatment. So is the financing market inconsistent enough yet for this to be an advantage to you?

Hamilton E. James: Okay. We're getting financing on the deals we want. Actually in most of the cycle before the credit markets turned down, we felt the credit markets were giving too much debt for the companies. And we weren't taking all that was available. We just didn't think it was healthy to have capital structures that are overleveraged. Those have come down a little bit. But we're still getting five, six, sometimes six-and-a-half times debt to cash flow for our companies. However, as Michael pointed out, a lot of the investments we're making are lowly leveraged and we're getting the returns that we target, sort of 20% plus without much leverage by driving the operational change and the growth of the business. So we're not – our returns as I've said over the years don't come from leverage. They come from what we do with the companies number one. And number two, excessive leverage environments push up prices that sellers get when they sell the company and force us to pay more and lower our returns as an industry. So that's not good. So this backup is good for private equity, make no two ways about it. And there's more values, there’s fewer buyers and there's lower prices out there when we make the investments.

In terms of others’ problems, the problems were concentrated in the really large deals at very high prices where sponsors were mostly doing public to privates, there was one big carve out where that was a problem and the market's working through those. Some of those deals are being re-priced, some of those lenders have taken their lumps and moved on, some of them have gotten done pretty well actually. So it depends on the specific situation. The market likes plain vanilla solid businesses right now. You can still finance those well. If it's a turnaround or a falling knife kind of deal, it's hard.

Ken Worthington: Great. Thank you very much.

Operator: Your next question comes from the line of Mike Carrier representing Bank of America Merrill Lynch. Please proceed.

Michael R. Carrier: Right. Thanks a lot. First question I guess just on the current portfolio. I guess it's two parts. Just first I think you mentioned that they're still seeing EBITDA growth but any details there. And I think as we're later in the cycle people worry about or investors worry about slower growth. And so maybe from an economic standpoint versus what you guys can do or the portfolio companies can do to drive growth, like what's the outlook? And then when you look at the returns, whether it's this quarter or for the year, any breakdown for the public returns versus the private side of the portfolio.

Hamilton E. James: Well, I'll let Michael deal with the second part. Our corporate companies are having EBITDA growth in the low single digits, low to mid single digits depending on the company. Our real estate I would say are mid to high single digits.

Michael Chae: And I would add that in our portfolio if you look at the economy overall in the U.S. for corporates, the most pain, as Tony has alluded to last quarter and now, is around kind of the industrial companies that are most export-exposed to the sort of global economy. Our private equity portfolio happens to be lighter on that kind of thing, heavier on some other industries, which we think, which for a reason, we've selected sectors carefully and tend to be relatively growthier. So that is why in aggregate, as we talked about, while we see some deceleration, even our own portfolio, we are still outgrowing the sort of public market overall meaningfully. On the performance of our publics and privates, we don't sort of break that out per se. I'd say two sort of dimensions to it. One is obviously over the course of the year there were some fluctuations. The third quarter publics generally were down and the fourth quarter they recovered and you saw that flow through our E&I in the third and fourth quarter in terms of us basically having an ENI decline in third quarter and then more than reversing that in the fourth quarter. I'd say the other dimension is certain sectors have been hit more than others. So in the real estate area where lodging is a significant component, lodging stocks have been hit harder than other sectors. So you see some sort of sector differentiation in there and then through the course of the year you saw obviously ups and downs.

Michael R. Carrier: Okay. That's helpful. And then, Michael, maybe just a quick follow up. You mentioned just on the FRE outlook given some of the funds that will be – fees will be turning on. Just want to get a sense, when you think about maybe the net of fees turning on and step down of funds and probably more importantly like the FRE margin as we go into 2016 and 2017 because I guess 2017 you'll have kind of a full year of both of the flagships. But just wanted to a get a sense on where that would typically range as the fees are starting to ramp up.

Michael Chae: Yeah. I would say overall, Mike that sort of we have a lot of visibility on FRE for 2016 based on funds that have been raised and will be activated this year and the trajectory is really good. It's really good. And that is notwithstanding that, for example as I mentioned, BCP VII will activate this year sometime early midyear and there's a six-month fee holiday. And so in fact, the real contribution, substantial contribution from that fund will occur in 2017 when there's a full year effect. So I make that comment about the trajectory 2016 notwithstanding that and that obviously will help further in 2017. So overall we feel we have a lot of visibility on that and we feel good about that.

Michael R. Carrier: Okay. Thanks a lot.

Michael Chae: In terms of the margin Mike I think if you look at kind of historical over the years – last year the margin, as I alluded to, was – reflected a bit that change in the deferred comp policy. But when you sort of adjust for that, we've been on an upward march from a FRE margin standpoint for years now and we believe we can stay on that.

Hamilton E. James: An interesting – I note for the group here an interesting statistic. While we raised $94 billion last year and I think I mentioned this year – of course, we don't have our two humongous flagship products coming to the market but we still have plenty to do and we have lots of fund raisings – but our fee earning AUM, getting to your point, was up about 14%, 15% last year. We actually think it will be up comparably in 2016 over today. So it continues to chug along. And part of that is the fundraising cycle. But part of that is when the fees kick on and part of that is deployment. And all of that plays through at a very steady rapid growth in fee earning AUM.

Michael R. Carrier: Got it. Thanks.

Operator: Your next question comes from the line of Mike Cypress representing Morgan Stanley. Please proceed.

Mike Cypress: Hey good morning. Just to start off with a question more on the broader macro environment. It seems as if there's a circularity right now in the marketplace. China's currently devaluing. The U.S. dollar appreciating. Oil prices collapsing and equity prices falling. So I guess just how bad is it? What's the containment risk? What gets out of this kind of funk here? And what's the real risk to the U.S. economy?

Stephen A. Schwarzman: I think it's sort of -- it's always hard to know what everybody thinks. But sort of from trying to feel a consensus, It’s been very negative towards China. And I think that's because people have looked at the way China has dealt with its securities markets by first of all running them up to unsustainable levels. And now having them sort of go down and trying to intercept them on the way down to cushion the fall and that’s been reasonably unsuccessful and it’s given a bad tone and a bad perception to China. And similar with the stop and start on the currency which has really hurt confidence in the non-Chinese world. China itself has about 52% of its economy in services which are growing from what everybody can see in excess of 10%. It's got – last year, it hired 14.4 million people – more than they hired when they were growing much faster. Wages, last year, were up significantly in China. So it doesn't have the feel of something that's like certainly in free fall because it's not. The other sort of 48% of the, their Chinese economy is having a more mixed picture from sort of declines in the steel business and sort of backing up against building infrastructure. They've got a lot of infrastructure. And so, there's going to have to be some rationalization in that sense. But if you have half of your economy growing at 10+ and the rest is a mixed picture, you're not in a world of hard landings, other than the fact that people have lost confidence in some of the policy directions in the marketplace.

So I think that's, that's a bit overdone. And so as we look at the world, commodities – China buys about half of the world's commodities and they're not buying as much, although this may be shocking to you that their purchase of oil in the last year was up 10%. I don't think most people know that. Not all commodities are down but the wash through the developing economies of the world as less commodities are bought and the prices sort of really collapse has put a lot of minerals, mining and that kind of stuff in structural oversupply and people are shutting mines and stopping development and that's a long cycle type of approach, which will lead to slower growth in the emerging market. It has to and it's not just emerging markets, it's a country like Canada, for example, which is a big resource country. They're not growing. They're – some quarters they're in recession. So we sort of looked at it as sort of a slowing of the world and the U.S. is experiencing that to some degree. And Europe's being sort of going through stimulation with QE and Draghi and we own a lot of stuff in Europe. And Europe seems pretty solid to us. I mean, it might even do 1.5, I don't know and the U.S. probably ought to do – it's anybody's guess, 1.5, 2. That's like half of the world and China's going to do – forget what's reported, I don't know whether it's 4, 5, 6, you know, call it 5 – and then that's 14% of the world. So you start running out of difficulties, although some of that remaining part is really falling into a bad position, whether it's Brazil in recession, Russia in recession. India's doing sort of quite well. They're reporting seven. Some of that's got an inflation adjustor in it or whatever. So maybe it's 5, 5.5 but India is a pretty big place. So places that were growing – Columbia at 6, they're going to grow maybe 1.5, 2 – so it's just a bit of a slower world. And part of the issues of why people ask these questions is that some of this stuff's happened so quickly like with oil, for example. It's just potentially de-stabilizing certain producers. And you saw this morning that the IMF is in Azerbaijan. I mean, I was in Azerbaijan like three years ago and it was really humming and now they've got the IMF visiting and that's what happens with very quick moves. And some of these things will reverse.

They don't reverse in one quarter to convenience anybody, but when – if you have 20% declines in CapEx going into oil exploration with a 4% decline curve, gee whiz, do that for a few years and something's going to change and it will.

So I think we look at all this and say okay, if that's what's going on in the world, where do we play? Where are we worried? Where do we play? Can we play in size? We do things that are conservative with big upsides, add a lot of value and certain of our overall businesses are really in great shape, the industries we invest in. And so it's not the end of the world. If you look at the stock market, I mean, you have to conclude it's like the world is ending.

Well I don't think the world is ending. I think we're going through an adjustment and people like ourselves, who own long-term things, who can add enormous value end up at the end of the day being mega winners. That is my view and it's also because it’s empirically been true and nothing has changed within the firm in terms of capability of people, capital, all the great things that enable you to do this stuff. So that's sort of how I see things.

Hamilton E. James: And I would add I think people are overreacting to the stock market. I mean, we had a whatever a seven-year bull market without a correction. We were like just statistically got to be way overdue for a correction. And the backdrop of the S&P companies' net income is weak. It's been zero. So fees have gotten high. I mean, people look at the average S&P – that's kind of a distortion. Look at the median company in the S&P because the average has dominated, because the market's valuated by Apple and a few huge names. Look at the median S&P, it's high.

So we had a correction, big deal. There's enough going on. I think people are overreacting to that. And I just want to – the implications in what Steve said about China are it's healthier than it feels to people that trade with China because a lot of where the growth is, is internal services part of the economy, which doesn't drive their imports or someone else's exports. So I think a lot of people that try to trade with China – it feels slower than it really is for that reason.

Stephen A. Schwarzman: I mean, I was watching TV and the head of P&G was on and they asked him about China. He said it's my second biggest market both revenues and profits. Things have slowed down a little bit, but it's still terrific for us. I think that's – it's a more nuanced world, not a simple world.

Mike Cypress: Great. Thank you so much for that. Just if I could ask a quick follow-up on the leverage financing markets comment from earlier. But the markets are still open it seems for you. How do you think about the risk in terms of credit availability drying up? What parts of your business could be most impacted? And also, what parts would be least impacted? Because I think there are some areas where you use less leverage and not much of any financing. Can you just help us think through that and how you have managed around that in the environment?.

Hamilton E. James: Okay. Well. I think all of our businesses will earn more money on the new investments they make in that scenario. I think in terms of the private equity business which is one that people will go to right away – an awful lot of what we do, things that don't require much leverage because they are growth equity, they are building new infrastructure. When we build a solar field in Mexico or an offshore wind farm in Germany, or things like that, they're not leverage driven obviously, and so we are not doing, as Michael mentioned, we are not doing a lot of big highly levered public to privates. So will it impact, us. Yes. I think it will impact us by giving us more buying opportunities, but even in – in every environment since I've in the 25 years or more, that I've been doing this, we've always been able to get access to credit. Always. And the amount of credit may go down, the source of the credit may go down, the structure of the credit may change. But we have always been able to access credit in the private market to some degree.

And it's usually more than compensated by the lower prices. And if anyone is going to get credit in that market, it's Blackstone.

Now on the Real Estate side again, Real Estate is somewhat impacted, but it's a different credit market, and we were able to do secured Real Estate finances even at the depth of the crisis, we will still be able to and so I – if you're right that somehow the credit markets completely dried up for real estate, boy that would be interesting. Again, we've got the capital, we've got the equity capital. Other buyers won't have access to either the equity or the debt, I would think that would be great long-term. Our credit business again locked up money, they'll be the lender of last resort, they will be able to basically write senior loans at 20% kind of returns, equity kind of returns. And if you look at what happened with their mezz returns, they are in the 18% to 20% area. So that will be fantastic for them. So all in all, I just don't – I think in that scenario by the way you probably have massive down legs in the stock market too. It's not – I don't see how you're going to have a shut-down credit market and not some kind of panic associated with it. Steve?

Stephen A. Schwarzman: Yeah, one thing. There's a cycle to this stuff, right? So what happens is when credit really tightens because it's salable, prices go down as Tony was alluding to. So we'll look at something, and we were just looking, debating something the other day in our Tac Ops business – what's the unleveraged rate of return that we should get for something? And so with no credit we were debating on this one, well should it be 15%? Should it be 16%? And this is no leverage, right? So if you can buy something that's making 15%, 16%, as soon as markets normalize – make pretend that your worst scenario comes true, there's no, really, credit available, and you can set things up at 15%, 16%, oh my goodness, this is like Nirvana. Because credit always comes back and then you put credit on it and you're making like 24%, 25%. This is how we got into the real estate business.

In 1992 there was no credit. You couldn't borrow anything, right? You really couldn't. We went out and started buying real estate from the RTC and other people. I didn't even know how to price it, so I just did it at 16%, right? 16% sounded good to me, right? So what happened is that 16% when you put leverage on it became like a 24%. And in that case with real estate we just filled up the empty units in the buildings and the 24% became like 45% compounded, and then rents went up and we made 55%.

So when you enter this type of period, I mean Tony was pretty joyful I thought, and excited about it. And asking the question, you obviously think it's like horrible, which is why you ask the question. But when you live through this game, right, there is big money to be made and it's not because of the credit thing. You use that credit cycle. And GSO will make tons, right, because everybody needs credit.

The idea that credit is like an optional in the global economy, credit is not optional. You'll get it at whatever price from whatever the purveyor is that's got it for you. And then you get way more options to extend credit. It's safer to extend credit. So it just is unfamiliar to be in that part of the cycle if you have a monolithic model of how the world works.

Tony James: And specifically to Steve's point in each of private equity, Tac Ops, and real estate we've done deals now on the assumption there's no credit, we still meet our return hurdles, but we're also very confident that somewhere, two, three years we'll have credit. So it's not an issue, I don't think.

Mike Cypress: Thanks for that.

Stephen A. Schwarzman: That was a longer answer than you asked for, but we get excited about this stuff.

Operator
Your next question comes from the line of Dan Fannon representing Jefferies. Please proceed.

Daniel T. Fannon: Thanks. I was hoping to get a little more color on hedge fund solutions? And some of the strategies that are seeing increasing demands currently and in the fourth quarter?

Tony James: Okay. Well I think the real star there is our Senfina business, which is our new, sort of proprietary multi-strategy business, which has had fantastic returns.

Stephen A. Schwarzman: We're not allowed to say what they are.

Tony James: We're not allowed to say how fantastic they are, but they're fantastic.

Stephen A. Schwarzman: But trust us.

Tony James: And that, I think is – we could almost sell an unlimited amount of that, number one. Number two, the daily liquidity product we have, where we are actually offering institutional quality BAAM returns to individual investors who can come in or out as will. I think we could sell an almost unlimited amount of that right now. And then, we're getting some very good responses to our draw-down funds, which either provide seed capital or buy minority stakes in established hedge fund managers. Those are all, sort of, hot areas for us. They're all high-margin areas for us. So that's where a lot of the growth is. But in the core hedge fund solutions business, they continue to raise money. They continue to have money, inflows that exceed outflows. So I think that's solid as well. And this is the environment where that business shines. That business, I mean – they're a way to play public markets in a lower-risk way, with much less volatility, 20% to 25% of the volatility. They're set up to protect the value on the downside, but not quite participate fully to the same degree as the market averages in the up market. So right now, their outperformance is, sort of, really surging.

Joan S. Solotar: And just one other area, they're actually getting quite a lot of inflows in their mutual fund type product both here and in Europe.

Tony James: That's what I said – liquidity.

Joan S. Solotar: Which is – that's been the biggest driver.

Stephen A. Schwarzman: It's through the other channel.

Daniel T. Fannon: Great. Thank you.

Operator: Your next question comes from the line of Devon Ryan representing JMP Securities. Please proceed.

Devon Ryan: Yeah. Thanks for taking my question. Appreciate the remarks on the dynamic of the public markets right now. Understanding that you guys have the ability to be patient, you still have to have a view on when you believe your price objective's going to be met for a specific investment, which I assume has been pushed out in some cases recently. So, to the extent that capital markets reopen here at current valuations, how do you balance that element of timing on some of the more mature investments today? And then, related, is there an increasing number of positions that were on a path to an IPO or follow on that are now moving into the M&A bucket?

Tony James: Well all of our investments are always in both the M&A and the IPO bucket, and the recap bucket, for that matter. There's not a bucket that we put them in. A lot of times, when we sell something, it's a dual process. So I don't think anything's much changed there. We have a number of investments that, frankly, we'd happy to execute sales at current prices. So we'll continue to take some money off the table. We have a number of assets that are for sale in the private markets that'll move forward. To the extent that we delay an exit, I guess what we look at is the return we can earn by waiting. And we expect to earn a 12% to 15% return each year by waiting. So, actually, our – we and, our LPs, and I actually think our shareholders – get richer if we wait.

Devon Ryan: Got it. That's helpful. Thank you.

Operator: Your next question comes from the line of Alexander Blostein representing Goldman Sachs. Please proceed.

Alexander Blostein: Hey good afternoon, guys, I'll keep this one real quick. So in your comments around realized performance fees and a chunk of that is being driven by just kind of the, call it, current yield or sort of interest, the coupon, essentially, you guys are getting on your investments. Any sense to help us size that? Again, just getting back to the question of folks that are trying to address the downside in distributable earnings that would obviously be much stickier part of realized carry or realized incentive fees. Any way to size what that was in 2015? And the second part to that, I guess, as we move forward, and I hear your comments on deployment in credit opportunities at the yields that you're seeing right now, should we think of those type of incentive fees kind of I guess growing over the next year or so?

Tony James: Well, this is maybe something you should take offline with Joan and Weston, but I'll make a general comment.

The bulk of our sort of low end of the distributable range, of about a buck, is fee-related earnings from fees. The other stuff adds a little bit to it, but they're not huge dollars. When you get in our, "realized" form of incentive fees, the bulk of that are asset sales, the vast bulk of that.

Alexander Blostein: Yeah. No. That makes sense. Thanks.

Operator: The next question comes from the line of Glenn Schorr representing Evercore ISI. Please proceed.

Glenn Schorr: Hi. Thanks very much. I wonder if you could just help fill in blanks. Throughout the commentary I heard today of the $15.7 billion of capital put to work I see in the slides the $5.3 billion in private equity and your comments around $2.6 billion in energy and European direct inside credit. I'm just looking for a top down view of where money's being put to work right now besides the things that I just called out.

Tony James: Well – sorry, where it's being put to work now?

Glenn Schorr: Well I apologize, in the fourth quarter – out of the $15.7 billion.

Michael Chae: Yeah. Glenn, out of the $15.7 billion real estate was a bit more than half of that. Private, the private equity segment was about kind of a third, 40% and you cited the corporate private equity component of it and then there's Tac Ops, which was very active as well and SP, and then GSOs the balance at around call it 20ish% of that $15.7 billion. And as we talked about the environment as the year went on got more and more interesting for them from the mezzanine standpoint as the leveraged finance markets kind of locked up, et cetera.

Tony James: In fact, that deployment for GSO was an all-time record quarter for them.

Glenn Schorr: Okay. That's helpful as people think about the deployment going forward. And then last one – where are we on the catch up for BCP V? I would imagine the marks – just market did what it did in the fourth quarter.

Michael Chae: Yeah. There's I know in the – over time we've had kind of different metrics to measure this. We talked a bit about the percentage through the catch up. That was around 83% a couple quarters ago and down to 73% or so more recently and right now it's around 70%. Now maybe a different way to look at it is kind of what portion of our LPs are in full carry versus catch up and that last quarter I mentioned kind of 50/50. Now it's a little less than 50% in full carry, a little more in catch up. So that will move around based on various factors.

Glenn Schorr: Okay. Thanks very much.

Operator: Your next question comes from the line of Brian Bedell representing Deutsche Bank. Please proceed.

Brian Bedell: Hi. Thanks for taking my questions. Most have been asked. Just maybe just to zone in a little bit more on the realization and exit backdrop, mostly in both the private equity and real estate segments. Just looking into 1Q and 2Q in terms of your pipeline and sort of where the market sits, can you – and I know it's always hard to do, but somewhat frame the size, the potential for both of those two segments over the next two quarters as sort of the market sits now for what we can move back up toward a $10 billion type of gross realization trend? Or are we going down from current levels, from 4Q levels?

Tony James: I really don't want to get into projecting realizations by quarter going forward. We are opportunistic and nimble.

We definitely will have realizations in this market at these prices. But if you want to get some more color from that I think Joan or Weston can talk to you.

Weston Tucker: As always we move into a new quarter with some contracted sales that will close in the first or second quarter. So there is that.

Brian Bedell: And do you view it more robust for the real estate segment rather than private equity, at least right now?

Tony James: Most likely, yes.

Brian Bedell: Okay. Great. And then just a follow-up on energy, just to – maybe I missed this but can you just
outline again what you have in energy-dedicated dry powder and then energy invested – energy currently invested? Just size those two numbers.

Hamilton E. James: I'll deal with the dry powder. I think as we've mentioned, we have $5 billion in private equity of dedicated energy capital, and to invest that in every investment that takes about 60% of each investment.

Well, today 50% but it will move to 60% so call it somewhere in between. And the private equity funds take the other 40% to 50%. So that, you should think of that as $9 billion to $10 billion of dedicated energy capital. In GSO we have a dedicated energy sleeve of about $3.5 billion and there's another about $1.5 billion in the other products that are associated with that similarly. So it's about $15, 14, 15 billion, all in sort of to dedicated energy and it is virtually all dry powder at this point. In terms of – so I'm not sure we – how much is invested in energy? Yeah, Michael, do you want to answer that?

Michael Chae: Yeah. I think obviously private equity and credit are the main areas of the firm where there's energy. In credit, where energy generally as you know is a significant portion of kind of the high-yield bond market, for us across all of our GSO assets the percent in energy is sort of in the, call it low teens. And in private equity, as Tony mentioned, we obviously have general funds, the BCP funds and then we have BEP. BEP is, of course, dedicated to energy but importantly those energy investments are sort of half and half assets that are E&P oil and gas assets that are directly affected by those commodity prices and the other half are in sectors like power and renewables that are not. So that's sort of the structure of our holdings in private equity.

Brian Bedell: Okay. Great. Thanks very much.

Operator: Your next question comes from the line of Chris Shutler representing William Blair. Please proceed.

Christopher Shutler: Hey, guys, good afternoon. On the new products and innovation front, could you maybe just give us an update on core PE, when we should start to hear a little bit more about that? And then beyond core, private equity, I know you can't mention specific products but how many other new products do you kind of have in the pipeline ready to launch this year?

Stephen A. Schwarzman: Core PE is really a neat thing and it's neat because the core plus area in real estate is about three to four times the size of the opportunity market. And our performance across the board in real estate is perhaps the best in the world and has been for a very long time. And so there is enormous potential growth in that business and the deals we've done so far look like they're really, really attractive from the perspective of our investors.

So this is the kind of business where it's really like locked in money, very long period of time, and I have very aggressive expectations for that business. I think I scare our people internally on a regular basis. I think that business, which has done $11 billion in its first two years, and it's in a ramp up, will be able to really hit stride. And I was doing some back of the envelope numbers myself this morning because we were looking at projecting sort of growth rates for the firm, as part of the model that I talk to you about. And if we raised, when this business is more mature, $10 billion a year for something like this, that's almost like a 3% growth in our AUM and we were projecting like an 8% model and this is like just one product of many products at the firm. So it's a natural for us, investors like it, we’ve done principally in the U.S., we can expand this all around the world and we do have a pool of capital for Asia. So this is like a wonderful adjunct to real estate. We've got some other fixed income products we're looking at. It's just very exciting.

Tony James: Let me address your question. First of all, core PE which you asked about. We'll finish the fund raising early this year and you should start to hear more about it, so to speak to use your words, later this year as we start to do the first deals. The number of new products across the firm’s probably not a terribly meaningful number. But we've got I would say five to ten really cool new things. At least one, usually several, in every major segment.

Stephen A. Schwarzman: Right.

Tony James: And we are working on them all.

Stephen A. Schwarzman: It is really fun, it's just great.

Christopher Shutler: Thanks. And if you don't mind, could I ask, since Steve you mentioned earlier that you are looking at other alt managers, traditional managers all the time. If you were to – I mean would you ever consider buying a traditional manager? And if so, what would be the main criteria that you would look at?

Stephen A. Schwarzman: Well you know, we sort of haven't evolved to that level of sophistication yet. But if you were to do something like that, they'd have to be like special. You know it wouldn't just be a long-only manager because they are interesting numbers on a page. They would have to be unusual. They would have to have an unusual culture.

There would have to be something self-sustaining. You never want to be buying anything, or affiliate with anything that's sort of a generic thing that has some interesting numbers that you can buy cheap. You want to be with the best in an area. We love that, being the best. And look at synergies that could work between the businesses in terms of intellectual capital or different types of distribution or something. So this is not people like ourselves sitting around saying, aha, that's a big area, let's go buy something. We don't operate that way, we don't operate that way internally in the alternative area. We just don't do that. And so it would be a little of a needle in a haystack kind of thing, but if we ever did something like that, you'd say, wow, that’s amazing, you know. And there would be something really terrific with it.

But we are not sitting around saying we are out of oomph in the alternative business, or we're tapped out, let's just start wandering because we've got nothing better to do and we've got some manifest destiny to stupidly grow. And so that's how we think about it.

Tony James: I just want to underscore, something Steve said already, but just because -- so we don't see the wrong thing in the press...

Stephen A. Schwarzman: Yeah.

Tony James: There's hundreds and hundreds of long-only managers that we have a zero interest in. We are looking for something very, very special, if we're looking at all, that would be able to sustain superior investment performance, have real synergies, be a leader, have a something very special franchise. I'm not even sure they exist. They might be unicorns.

Stephen A. Schwarzman: So I wouldn't be sitting around putting that one in your report as “Blackstone is looking for.” If Blackstone stumbles into it, it's – we'd know it if we saw it but it's not like we're out there hustling around sifting through things and you're about to get surprised.

Christopher Shutler: Understood. Thanks for the color, guys.

Operator: Your final question comes from the line of Eric Berg representing RBC Capital Markets. Please proceed.

Eric Berg: Well thanks very much. Thanks for fitting me in at the end here. Earlier in the call you, in a discussion about the marking to market of the portfolios, you described it as, if I took away the correct impression, as being anchored by DCF but sort of mindful of what's going on in the public markets. You don't ignore the public markets but they're not certainly the sole or may not even be the principal driver. And so my question is this. Given that the cash flow, the EBITDA of the companies, the portfolio companies and of the real estate is improving, why conceptually did the mark and the associated unrealized incentive income and carried interest in the December quarter, while it improved from the September quarter, both of those numbers were still negative pretty much across the company. If the value of the businesses is hanging in there and the properties, why did the market-associated incentive income numbers remain negative?

Michael Chae: Well, I think there are a couple things, Eric. First, you have to take into account if you're looking at realized and unrealized, so you look at total performance fees that obviously when we realize things, there's sort of a flip, if you will, of unrealized going into realized.

Eric Berg: No. I'm talking – I was actually talking about unrealized only.

Michael Chae: Right –

Tony James: Right but every time you sell an asset, your unrealized goes down, correct?

Eric Berg: Yes. Fair enough. Thank you. Thanks for that reminder.

Michael Chae: That is what I mean by flip and that is in those numbers because we had another good realization quarter. And then when you can strip all that out, we had positive appreciation and not as high as in some prior quarters. And so that's why you get a quantum of positive economic income that is positive but maybe lower in amount than in some earlier time.

Weston Tucker: Eric, it's the – this is Weston. It's the total performance fee that has to do with the mark on
the asset, not the unrealized performance fee.

Eric Berg: Yep. Thank you for that.

Operator: We'll now go...

Weston Tucker
Great. Thank you everybody for your time today. Thanks everybody for your time today. If you have follow-ups, please give me a call.

Operator: Thank you. Ladies and gentlemen, thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Good day.