BLACKSTONE Third Quarter 2020 Investor Call
October 28, 2020 at 9:00 a.m. ET

Weston Tucker: 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 next week. I'd like to remind you that today's call may include forward-looking statements which are uncertain and outside of the firm's control and may differ from actual results materially.

We do not undertake any duty to update these statements. For a discussion of some of the risks that could affect results please see the risk factor section of our 10-K and 10-Q filings. We'll also refer to non-GAAP measures and you'll find reconciliations in the press release on the shareholder's page of our website. Also note that nothing on this call constitutes an offer to sell or a solicitation of an offer to purchase an interest in any Blackstone fund. This audiocast is copyrighted material of Blackstone and may not be duplicated without consent.

So, a quick recap of our results. We reported GAAP net income for the quarter of $1.7 billion. Distributable earnings were $772 million or 63 cents per common share, and we declared a dividend of 54 cents per share to be paid to holders of record as of November 9th. With that, I'll turn the call over to Steve.

Steve Schwarzman: Good morning. Thanks, Weston, and thanks to all of you for joining our call. Blackstone reported excellent results for the third quarter, with strong growth in distributable earnings and record fee-related earnings. The valuations of our investments continued to rebound sharply. We're experiencing renewed momentum in both capital deployment and realizations.

Two weeks ago, we announced the sale of our life science office company BioMed, which represents one of the most successful investments in the firm's history, and we raised nearly $90 billion dollars over the past 12 months, driving our assets under management to an industry record of $584 billion dollars. Blackstone is the best-positioned firm in the world to help our limited partners, whose beneficiaries include millions of public and corporate pensioners, meet their objectives. The investment solutions we offer are more critical today than ever before, as ultra-low interest rates have made it an extraordinarily challenging environment for global investors to earn an acceptable return through traditional assets classes alone. At the same time, the pandemic is continuing to create enormous disruption and uncertainty in the global economy and society at large, and we're seeing it in the markets today of course.

As history has shown, it is in the difficult periods that distinguish the best asset managers. We saw this during the Global Financial Crisis, when the competitive landscape was dramatically altered. Whether it was in credit, hedge funds, or most notably in real estate, many of the largest managers were either put out of business or severely damaged.

Blackstone's performance, however, was highly differentiated. We emerged from the financial crisis even stronger than before. We extended our leadership position in every area, launched multiple new business lines and strategies and meaningfully deepened our LP relationships.

The current dislocation is again highlighting Blackstone's distinctive position. This is particularly true in real estate, where despite concerns over the impact of the pandemic, our funds continue to outperform significantly. That's because we've actively concentrated our portfolio in fast-growing, resilient sectors. Logistics, for example, now comprises 36 percent of our global real estate portfolio or nearly $90 billion of gross asset value including debt. As a result, while the public REIT index has declined 18 percent over the last 12 months, our opportunistic funds have seen positive appreciation of 3.5 percent.

That's 2,150 basis points of outperformance. Our core plus funds, including BREIT, appreciated 4.9 percent over the same period. So that's almost 2,300 basis points of outperformance. After declining amidst the first quarter market downdraft, BREIT is up nearly 11 percent over the past two quarters with strong performance leading it to a reacceleration of demand that I anticipate will continue. Michael Chae will discuss our investment performance in more detail.

Since founding Blackstone with my partner Pete Peterson in 1985, we have faced many challenging periods and each one has validated the trust our limited partners place in us and further widened the moat around the firm. This month, we celebrated the firm's 35th anniversary. By delivering strong performance through cycles and by innovating, Blackstone has grown tremendously over the last 35 years, becoming one of the largest 110 public companies in the United States by market cap. We have over 3,000 employees across 24 offices worldwide and have created something truly special in virtually every area of alternatives.

Our reputation and brand represent the gold standard in our sector. The foundation of our success is our unique culture. Everyone at Blackstone shares the same core values, including the drive to win, the highest standards of integrity, and an unwavering dedication to serving our investors. It is our culture that has allowed the firm to continue to operate with the same standards of excellence in a remote environment since the start of the pandemic. And it is the desire to protect and perpetuate our culture that informed our focus on reopening our offices once we were confident it could be done safely. There is no substitute for the benefits of in-person collaboration in our work and in our culture, and we must also train our newest professionals in our values and processes.

In this context, we began a careful reopening of our New York headquarters in July and meaningfully expanded that effort in September. We've implemented extensive safety measures, including providing mandatory weekly COVID testing and specialized contact tracing technology on all of our devices. We're performing enhanced cleaning measures across our facilities and we're providing transportation subsidies to support commuting. While attendance remains entirely voluntary, we're gratified that the majority of our investment professionals have been coming into the office. We take immense pride in being consistently ranked as the best place to work in our industry.

And in this extraordinarily challenging environment we believe we're going as far as any workplace to protect our people and our culture. In closing, despite the substantial difficulties the world is facing, Blackstone will continue to be an anchor of stability for our investors. As always, we are enormously alert to risk and attuned to changing conditions and we remain totally committed to supporting our employees, portfolio companies and clients. With that, I'll now turn things over to Jon.

Jon Gray: Thanks, Steve, and good morning everyone. The firm reported a terrific quarter across all metrics. As Steve said, we weathered the worst of the storm and now we're seeing a reacceleration of activity. I've never had more confidence in our business. I say that because across the firm our short and long-term investment performance remain outstanding, including 15 percent annual net return since inception in opportunistic real estate and corporate private equity.

I've also spoken previously about the importance of staying power and firepower, which are the product of our long-term committed capital model. Despite the severity of the downturn earlier this year, nearly all our major strategies have now reversed the unrealized marks we experienced. There were no forced sales at the bottom and we've been able to deploy substantial capital as opportunities emerged. Looking forward, investors around the world are facing an adverse investment environment. Interest rates at nearly zero mean even greater demand for alternatives and from Blackstone in particular.

While liquid markets have largely recovered, it has not been a return to normal for the global economy. A transformation is underway with the pandemic both accelerating and disrupting certain trends. In sectors such as legacy retail and media, secular declines have intensified. Meanwhile, businesses connected to the digital economy and the life sciences revolution have benefitted. We've been emphasizing these winning areas for years, focusing on buying high-quality companies and assets that have the wind at their backs in terms of technological disruption where we can pay a reasonable price and add value. In real estate specifically we've been underscoring the importance of sector selection as Steve noted. Resilient, income-producing assets such as logistics, garden apartments and life science office properties are re-rating higher in value in the current interest rate environment.

Our investment in BioMed is a prime example of this dynamic. Five years ago, we recognized that the rapid growth of biomedical research would transform demand for life science space and where it is concentrated. We privatized BioMed during a downdraft in the public REIT market and grew it into the largest private owner of life science office properties in the US with 97 percent occupancy. We're extremely proud, like we are of Blackstone’s Life Sciences business, of the critical medical research BioMed supports. Two weeks ago, we announced a $14.6 billion recapitalization of the company which will generate $6.5 billion of profits including prior proceeds. We simultaneously raised a new $7.5 billion dollar life science office perpetual capital vehicle on our real estate Core Plus platform in which BioMed will become the anchor holding, subject to a 30-day go-shop period. This is an exceptional outcome for both our fund investors and shareholders.

As with all perpetual capital, our shareholders will further benefit from the long-term compounding of this new vehicle. At our Investor Day two years ago, we highlighted the ongoing transformation of the firm towards a greater mix of perpetual capital and fee-related earnings. Since that time, we've nearly doubled perpetual capital AUM to $115 billion dollars, led by growth in our real estate Core Plus platform even before the impact of this new vehicle.

In corporate private equity we reported an especially strong quarter with double-digit fund appreciation on the back of our large exposure to the digital economy. And on the realization front we closed two major dispositions in the energy space, Cheniere and a partial sale of our stake in Vivint Solar.

With Cheniere we helped grow the company into the largest exporter of natural gas in the US, creating over 5,000 jobs in the process, and we transformed Vivint from a tiny startup with less than 1,000 customers into one of the leading installers of residential solar in the country, installing systems for over 200,000 customers. In both cases our investments helped significantly reduce carbon dioxide emissions while also generating favorable returns for our investors.

We told you on the last call that we had restarted some of our sales processes, which accelerated given the faster market recovery. We also told you we expected more deployment opportunities but that it would take time, particularly for regular-way control deals. Those opportunities have started to materialize. We invested $9 billion dollars in the third quarter and committed $19 billion dollars to pending deals, including several subsequent to quarter end, the largest outstanding commitment pipeline in the firm's history.

In private equity we announced the acquisition of Ancestry.com, a leader in digital family history services, and the corporate carveout of Takeda Consumer Healthcare, the largest private equity investment in Japan since 2017. In Tac Opps we announced investments in Cryoport, a logistics solution provider to life science companies, and Ki, a digitally-enabled insurance platform in partnership with Lloyd's of London. And in credit, we launched a clean energy lending platform and are financing a provider of loans for home solar panels.

Turning to fundraising, inflows were $15.1 billion in the third quarter and $63 billion dollars year-to-date. While there can be lumpiness in fundraising from quarter to quarter, investor confidence in our firm remains as strong as ever. Third quarter inflows included $2.3 billion for growth equity, $2.3 billion for the real estate core plus funds including BREIT, and the final close for our fourth real estate debt fund which reached an industry record of $8 billion dollars.

Demand for credit products remains robust, and our corporate credit segment reported $5.6 billion of inflows across liquid strategies, direct lending and our fourth mezzanine fund. We expect to complete the raise for our BDC in the next few weeks, one of the largest ever, and have built the global direct lending business to $21 billion of AUM, only two-and-a-half years after selling our prior JV in the US. We also launched fundraising for BCRED, a new perpetual capital BDC for retail investors that will invest across our credit platform. Just as we reimagined the nontraded REIT with BREIT, we're doing the same in credit.

And in private equity last week, we completed the raise for our second long-dated core fund at $8.2 billion, the largest ever raise of third-party capital for this type of long-dated strategy. And this is another element of the firm's migration towards longer duration capital. Overall, fundraising momentum remains strong, and with $152 billion of dry powder capital we have tremendous firepower to invest.

One final note from me on ESG; the firm continues to deepen our commitment across a number of important areas, including recently announced programs related to sustainability, diversity and economic mobility. First, we've set a carbon emissions reduction goal of 15 percent across all new control investments within the first three years of ownership. This initiative is a natural extension of our decade-long program of helping our portfolio companies utilize energy more cleanly and efficiently. Second, we've announced a target for the boards of all new control investments to be composed of at least one-third people of diverse backgrounds. And third, we launched a program to create economic opportunities and career mobility at our portfolio companies for underserved demographic groups. We're proud of the impact the firm is making in these areas and we remain fully dedicated to driving positive change.

In closing, we continue to deliver for both our customers and our shareholders. We remain well-positioned to navigate the road ahead whatever it may bring. And with that I will turn things over to Michael.

Michael Chae: Thanks, Jon, and good morning everyone. The firm's third quarter results were characterized by robust momentum across our key metrics. The earning AUM continued on its strong long-term trajectory of double-digit growth, up 13 percent year-over-year to a record $445 billion dollars. Total AUM rose 5 percent year-over-year to $584 billion dollars, also a record, with $89 billion dollars of gross inflows over the last 12 months despite $33 billion dollars of realizations. Management fees increased 20 percent year-over-year to $1.1 billion dollars in the third quarter, the first time exceeding $1 billion in a single quarter, and rose 8 percent sequentially.

The sequential strength was driven by the onset of full fees from BCP VIII, which exited its fee holiday in June, as well as from our life sciences and third private equity energy funds. Fee-related earnings increased a remarkable 39 percent year-over-year to $611 million, powered by the growth in management fees along with significant margin expansion. For the last 12 months, FRE rose to a record $2.2 billion dollars, or a $1.81 per share. Two years ago, we outlined a target of achieving greater than $1.70 per share of FRE in 2020, and I am pleased to say we've delivered on that target ahead of schedule, highlighting the exceptional durability of this earning stream in any market environment, and we remain highly confident in the path forward. Distributable earnings were $772 million dollars for the quarter or 63 cents per common share, up 9 percent year-over-year, a significant achievement given the environment.

Turning to investment performance, it was another excellent quarter across the board. This was reflective of two key drivers; first, the ongoing strength in equity and credit markets, and second, the favorable positioning of our portfolio in terms of sector and asset selection.

In real estate, the BREP opportunistic funds appreciated 6.4 percent in the third quarter and are now down only 1.1 percent year-to-date compared to a 17 percent year-to-date decline in the public REIT index.

The Core Plus funds appreciated 3.5 percent in the quarter and are now up 2.2 percent year-to-date with BREIT up 2.8 percent year-to-date. As I explained last quarter, approximately 80 percent of the portfolio is in sectors showing not just resiliency, but fundamental strength, including our holdings in logistics, suburban multifamily and life sciences office. This positioning is well illustrated by BioMed, which is now being recapitalized at a value nearly 50 percent higher than its carrying value at the end of last year. Travel-oriented and certain urban office and apartment assets remain under pressure meanwhile, given the environment.

In private equity we've now had two consecutive quarters of double-digit appreciation in both corporate PE and Tac Opps. The corporate private equity funds appreciated 12.2 percent in the quarter and have now fully retraced the first quarter decline. The Tac Opps funds appreciated 10.7 percent in the quarter and are up 4 percent year-to-date. Gains were driven most notably by strength in our technology, consumer finance and renewable energy holdings. The firm's largest fully invested fund, BCP VII, is weighted towards the technology sector, including investments like Refinitiv and Bumble, which continue to perform very well. And BCP VI is a seasoned, highly liquid portfolio which has experienced broad-based appreciation in value over the past two quarters, particularly in its public holdings. Overall, strong fundamentals across our key sectors helped drive an acceleration of revenue and EBITDA growth for the corporate private equity portfolio in the third quarter.

Our secondaries funds, which report on a two-quarter lag, declined 13 percent in the quarter, reflective of the first quarter market downdraft. We expect this should reverse over the coming quarters.

In both credit and hedge fund solutions, healthy appreciation in the third quarter has now largely erased the first quarter declines. The credit composite is up 15 percent gross over the past two quarters, including 4.4 percent in the third quarter, reflective of the significant improvement in the credit backdrop and our strong portfolio performance. Indeed, the default rate in our US loan portfolio for the last six months was only 25 basis points, 0.25 percent, compared to a rate of 2.9 percent for the market overall. And lastly for BAAM, the BPS composite has increased 9 percent gross in the past two quarters, including 3 percent in the third quarter.

Strong investment performance across the firm generated over $1 billion of net-accrued performance revenues in the quarter and pushed the balance sheet receivable up to $3.6 billion dollars, a 31 percent sequential increase, and up 62 percent from the March low. At the same time, the firm's invested performance revenue eligible AUM increased to a record $267 billion dollars, up 13 percent year-over-year. Taken together, these indicators bode well for future realizations over the long-term.

Moving to realizations and the DE outlook. Following a more muted period since the onset of the crisis, activity reaccelerated. Realizations were $7.9 billion dollars in the third quarter with an additional $12 billion dollars now under contract. We closed the sale of Cheniere, the firm's largest-ever investment in the energy sector and one of the most profitable of any type, along with stock in two of our private equity public holdings. We also signed up the sales of an electric utility platform in the US, a large pension insurer in the UK, and a number of other public and private sales, including BioMed subsequent to quarter end. In total, realizations in BREP and Corporate PE that closed in the third quarter or are under contract equate to an aggregate multiple of 3.6 times invested capital, a remarkable result and well above the firm's long-term historical average.

In terms of earnings impact, these pending contracted realizations are expected to contribute approximately 54 cents per share to DE over the next couple of quarters prior to the impact of any additional sales. Combined with growing fee-related earnings, the near-term outlook for DE is strong. I'll close my remarks today with a comment on our balance sheet. Last month, we issued $900 million dollars of 10.5-year and 30-year notes with coupons of 1.6 percent and 2.8 percent, respectively, which further fortified the firm's exceptional financial and liquidity position.

The offering was highly oversubscribed, and indeed, the coupon on the 10-year notes set a record for the lowest ever in the asset management space. The rating agencies reaffirmed our A-plus ratings, the highest of any alternative manager, and we ended the quarter with $5.6 billion dollars of cash and liquid investments and effectively no net debt. The weighted average after tax cost of debt is only 2.5 percent with an average maturity of approximately 15 years. Our balance sheet remains a source of considerable strength and strategic flexibility.

In closing, this was an outstanding quarter for Blackstone. The firm's momentum is significant, and the broader environment, despite its challenges, is fundamentally supportive of our business. With that, we thank you for joining the call and would like to open it up now for questions.

Moderator: Thank you. Everyone, just a reminder it's star one to queue for questions, and if we could at this stage just invite you to ask one question at a time, but thank you.

The first question comes from Alexander Blostein from Goldman Sachs. Thanks, Alexander.

Alex Blostein: Great. Thanks. Good morning, everyone. Thanks so much for the question. I wanted to start with the prospect of a blue wave election, and I understand that might be difficult to answer with a lot of specificity, but rightfully or wrongly so, it feels like the narrative around the stock and the sector broadly is that a Democratic sweep would be net negative for the space, and whether it's higher taxes or change in capital gains tax, et cetera.

So help us unpack that a little bit. Where do you see a real impact on the business versus maybe some of the narrative, and then specifically with respect to higher tax rate, if we were to see one, can you just help us think through the implications of that for the public shareholders? Thanks.

Jon Gray: Thanks, Alex. So, I'd start stepping back in saying that this firm's been around for 35 years. We've been in environments that have been all red, all blue, mixed. We've been in environments of rising taxes and regulatory focus, declining taxes, regulatory focus, and the thing that's been consistent is we've delivered great results for our clients and the firm's grown, and we don't expect that to be any different as we look forward. Now in terms of specifics, certainly there could be some headwinds – Michael can talk about the specifics on corporate tax rates – you could see areas that get more regulatory focus, and so those are headwinds, but on the positive side there will be sectors that benefit. Infrastructure, where we have a large fund could certainly benefit, renewables where we've been quite active, and then some of the urban centers like New York and San Francisco where there are fiscal challenges you could see more funding coming from the federal government, which would be helpful.

So yes, we look at it and say, "Yes, we recognize there'll be challenges." I think we still have to wait and see how the election turns out, what happens. But, we feel confident about the business regardless of sort of what comes out of this particular election. Michael, I don't know if you want to talk about the tax.

Michael Chae: Sure, Alex. Good morning. You know, on the tax side let me take it at the firm level and then briefly at the portfolio level, and as you mentioned it's obviously too early to know exactly what the political outcome there will be. There's a lot of permutations of what the details of any new tax plan would ultimately look like. With that said, when we decided to convert to a corporation – let's just take it at the Blackstone level – we certainly took into account the possibility and potential impact of future higher tax rates. And in fact, you might even recall that at the time of announcement of conversion we were asked about higher tax rates, and at the time we said that a 25-to-28 percent future corporate tax rate, theoretically, would result in low single digits of additional average earning dilution the next several years, and that remains true today, and modestly higher beyond that.

So as Jon said, we'll deal with whatever comes our way, and at the portfolio level I think the short answer is the long-term impact of corporate tax changes will be mostly reflected in market multiples and how they take into account tax rate changes and all the other factors, so at that level I would just leave it at that.

Alex Blostein: Great. Thank you both.

Moderator: Thank you. The next question is from Chris Harris, Wells Fargo. Thank you, Chris.

Chris Harris: Thanks, guys. My question is on investment performance. You highlighted it, you guys are really putting up outstanding numbers, but when we look at the return in public markets, you know, you see the NASDAQ in particular up 25 percent or something year-to-date, you know, is that a potential risk for the industry and Blackstone in particular? I'm thinking about potential risk to fundraising or just the private equity business in general.

Jon Gray: So, you're saying the risk that as the public markets perform well that investors would migrate more to publics, away from alternatives, is that the question?

Chris Harris: Yeah, exactly.

Jon Gray: I think our investors obviously take a longer-term approach and they're looking – individual quarters, public markets can outperform, but if you look in the fullness of time the 15 percent net that we’ve produced in private equity, in real estate private equity, has really outperformed, and that's I think the metric they look at, long-term outperformance. I would also point out, of course, the decisions they're making are not just about substitution for public equities but their whole portfolio, and in particular I think the most important thing is to think about in a classic 60/40 model, 40 percent fixed income where long rates are 0 percent or less than 1 percent around the world. And so if you were the CIO of a large pool of capital and you wanted to achieve a 7 percent target, you'd say, "I need to do some different things," and that is really pushing more and more into alternatives.

Just like we've seen an acceleration, I think we've seen in the digital world coming through this pandemic, of trends already heading in one direction, I think there's a dynamic that could be similar in alternatives, that this final leg down in rates is going to push even more into alternatives beyond private equity, into real estate, into private credit and so on. So, we feel very good about our performance on a relative basis and what we can offer to our customers.

Chris Harris: Thanks.

Moderator: Thank you. Next question is Glenn Schorr from Evercore ISI. Thank you, Glenn.

Glenn Schorr: Thank you very much. So maybe I'll follow up on performance but I'll switch over to the credit side. You talked about the composite, which is helpful, but when I look at the slide back in I guess 20, which goes through the funds, I'm looking for guidance on how we were supposed to judge long-term performance across mezz, distress, Europe, BDC – individually obviously you're taking in a lot of money, so I think LPs and allocators are looking at it okay, but maybe you could talk about performance of the most important pieces, and if more money is coming from the retail side, where their appetite is product-wise. Thanks a lot.

Jon Gray: I'd say a couple of things, Glenn. First, in the leveraged loan area where we're the market leader we're continuing to see very good inflows in that area. I would also point out strength in our mezzanine funds which have begun a recovery obviously after markets traded off. You can see we're in the market today raising our fourth fund. You can see the strong performance in a very low interest rate environment from the first fund, second, third fund. We have had more challenges, and we've talked about it in the past, in energy and distress, which have been more challenged areas.

I think going forward, given the dislocation, those areas will perform better, but we've talked about that in the past. If you look at our credit business in its totality, because of the large portion in leverage loans, the strength of our mezzanine business, some of our direct lending platforms which also aren't on this schedule – this is really just our closed end drawdown funds, the performance for our customers has been good and we're raising money both institutionally and from retail customers. So yes, there have been some pockets of weakness but overall the picture has been solid, and that's why you continue to see the inflows.

Weston Tucker: Thanks, Glenn.

Glenn Schorr: Thanks very much.

Moderator: Thank you. This is now Craig Siegenthaler from Credit Suisse. Thank you, Craig.

Craig Siegenthaler: Hey. Good morning, everyone.

Weston Tucker: Good morning, Craig.

Craig Siegenthaler: So the alts are unique among other financial services industries as low rates are generally positive for the firms, but I wanted to see if you could walk us through the different dynamics, including fundraising, investing, and explain how very low rates for an extended period of time could actually benefit the business.

Jon Gray: So low rates – the key benefit is the one we talked about, which is you know, investors, I talked about institutional investors, but individual investors as well are seeking higher returns, and in an environment of 0 percent rates they're willing to trade liquidity for higher returns, and that's the choice that has been made and we think is likely to continue to be made. As it relates to our business, for assets we own it can have a powerful impact in re-rating values of assets, particularly assets that have stable or growing cashflows. So, if you think about real estate or infrastructure or some of our private equity businesses, particularly those in the best sectors, you're seeing this re-rating process take place. I think BioMed in the quarter – after the quarter ends is a great example of this, and that results in significant gains for our investors, strengthens our track record, and allows us to raise more capital.

It also, of course – low rates, when you buy assets, you can borrow at lower rates and still generate favorable equity returns, and as you know we use leverage in a number of our strategies. So, there are a variety of benefits. I think the flipside, of course, is you've got to be mindful at some point in the future rates can normalize, and when that happens what will that mean for values and multiples? And we keep our eyes on that and we don't assume that rates will stay at 70 basis points forever and short rates at zero. So, I think in the near term it feels like a real tailwind but it's something we've got to watch over time.

Craig Siegenthaler: Thank you, Jon.

Moderator: Thank you. So this is now Arnaud Giblat from Exane BNP Paribas. Thank you, Arnaud.

Arnaud Giblat: Good morning. Thank you for taking the question. I was just wondering if you could discuss plans for which asset classes you are the most excited about in terms of being able to deploy capital over the next few years and the ability to add value. Thank you.

Jon Gray: I would say being thematic for us continues to be really important. We talked about this yesterday on our partners call, that big changes are happening in the global economy and you want to have those tailwinds with you, and some of those are obviously well known like technology, what's happening in e-commerce, what's happening in content creation, migration to the cloud, digital infrastructure, what's happening in energy as we move increasingly to a more sustainable energy business as a global economy, what's happening in life sciences. All of those things are advancing and are interesting.

The challenge is can you buy them at reasonable prices, and one of the ways to do that is to buy things that are sort of one derivative off. Maybe you can't buy a media company or tech company but you can own their real estate. In life sciences we made an investment in Tactical Opportunities in the cold storage logistics area. So we're looking for ways to play this and to find businesses – for instance, Ancestry, which is a digital consumer business, but because its growth the last few years hadn't been as strong, we felt we could buy it as a reasonable price, and we're very excited about the potential. So, it's about buying these on-themes businesses but finding the right ways to enter reasonable multiples.

The other area I would say are places where themes have been disrupted, so the travel area, location-based entertainment – think of water parks and Disney World and sporting events, urbanization, people right now are fleeing cities, those are all trends we think that will come back, but there's an opportunity to invest in them at what could be attractive prices. There could be distress. But again, what we're really looking at is these long-term themes, having the wind at our back, and that can create value over time, plus our ability to add value to the assets.

Michael Chae: And then Arnaud, so those are two key dimensions, and the third one I'd add is scale. So, the scale of our platform and the capital solutions we can provide quickly to companies like Alnylam in the life sciences space earlier this year and those larger assets and companies, there's also much more surface area to improve and create value as Jon mentioned. So I would say those three dimensions – sector selection, which is incredibly important, scale, and also the ability to intervene and improve businesses.

Arnaud Giblat: Thank you very much.

Moderator: Thank you. So we now have Michael Cyprys from Morgan Stanley. Thank you, Michael.

Michael Cyprys: Hey, good morning. Thanks for taking the question. I was just hoping if you could talk a little bit about your infrastructure business, maybe how that's come together over the past couple of years, the team and platform that you've built out, where that stands today and what in your view is unique and differentiated about this platform. And Jon, you had mentioned maybe if there's a blue wave, maybe that could be helpful. Maybe you could just elaborate on that and how you're thinking about catalysts that could accelerate the pace and deployment and growth in your infrastructure business. Thank you.

Jon Gray: So we raised a $14 billion dollar fund, which we talked about over the last year or two. I'd say the good news is we were very disciplined in putting out the capital. We did a couple of investments in the energy infrastructure space which we feel good about, but we were patient. The dislocation in infrastructure, particularly around transportation infrastructure, is starting to create opportunities for us. I would expect over the next six months we'll be able to make some investments there, potentially in digital infrastructure as well, although that is more competitive, and it is an area I think if you can buy high-quality assets, you can improve them, their value will go up over time in this low-rate environment we've been talking about. And as we continue to deploy capital, I think we'll raise more capital, and ultimately this will grow to be what I believe will be a very large business at Blackstone.

In terms of the blue wave, it's possible here you could see a multitrillion-dollar infrastructure package that could lead to more public-private partnerships. There's a need for capital, there's a need for operating expertise, and given our team and our capital I think we can do some interesting things.

And then in terms of our advantages I would say there are a couple. One is just the scale of what we do. Many of the deals in infrastructure involve real estate and being the largest real estate investor in the world is hugely helpful. Our private equity team is very helpful on the operating side with infrastructure assets.

I think scale for us continues to be, as Michael noted, a calling card, the fact that we can write very large checks not just from the fund but from co-investors as well puts us in a pretty unique category, so we can move quickly when we find things of high conviction and we have an overall firm that can add a lot of value. So, we think we're well positioned in infrastructure. It's a huge scale area and we think it'll grow a lot here over time.

Michael Cyprys: Great. Thank you.

Moderator: Thank you.

Weston Tucker: Thanks, Mike.

Moderator: Thank you. It's Mike Carrier from Bank of America. Thank you, Mike.

Mike Carrier: Hi. Thanks for taking the question. Jon, you mentioned the opportunity with BCRED and just in the direct lending in the BDC space. If you can just provide a little bit of context around the product structure, what the opportunity is. Obviously you guys had big success with BREIT. I just want to understand that a little bit more. Thanks.

Jon Gray: The thought process has been retail investors want access to private real estate, private credit, to higher returns potentially and to the Blackstone platform, and the question is can we create products that work? We did that in private real estate. As you probably recall, historically private REITs charged very high fees, generally didn't deliver great performance, and we showed up with something where we sort of re-thought the business and investors have reacted quite positively. That business has grown to a very large scale today, $20 billion dollars of equity under management. What I would say as it relates to BCRED, the thought process is again could we create a structure of fees that are favorable to individual investors, also use the breadth and depth of our credit platform and provide lending and access to private debt, to individual investors and deliver a solid yield in this very low rate environment, and that's the objective.

Our expectation is given the Blackstone brand, which is really one of the most powerful things in this firm and I'm not sure everyone fully appreciates what it means, why we are able to grow so quickly is the confidence that investors have in us, bringing that here to the private debt market and to retail investors, we're hopeful like a BREIT, we can build something of scale over time.

Mike Carrier: Thanks.

Moderator: Thank you. We now have Adam Beatty from UBS. Thank you, Adam.

Adam Beatty: Good morning and thank you for taking the question. I wanted to ask about the secondaries business. I appreciate you explaining the dynamics around the lagged performance reporting, which it sounds like you expect to rebound. I think you also closed on a couple secondaries funds in the quarter. So in that context, I'd like to get your thoughts on sort of the health of private capital management beyond Blackstone, which in some sense is reflected in that secondaries business and what the deployment opportunities look like there. Also, maybe the level of LP activity and interest and any effects of the pandemic, plus or minus on that. Thank you.

Jon Gray: Starting with the results, you hit on it; what our SP secondaries group's results reflect is the weather six months ago, so that gives you a high degree of confidence about what they'll be reporting over the next quarter or two. I think more importantly this is a megatrend. We talked about some technology-driven megatrends, but alternatives are a real megatrend, and this business is derivative of that, which is today there's over $6 trillion of alternatives and only about $100 billion a year that trades hands, and obviously as an asset class grows there are needs for liquidity. Institutions change strategies, they change CIOs, and yet this business just does not have many scale players.

So SP, Vern Perry who leads it has done a tremendous job. We broadened the business, as you noted, beyond just private equity secondaries into real estate and infrastructure. We think there are more opportunities in that space. I think we've grown that business since we brought it into the firm fivefold, something like that, to nearly $40 billion dollars, and we think you know investors have seen very positive net returns in that business, have been extraordinarily good. And so the combination of those returns and the growth in the underlying asset class is a real positive for this business, and we would expect that business to continue to be on an upward slant.

I think next year we'll raise what will be the ninth vintage I think of SP private equity given its investment pace, and we expect, given performance, a strong investor response.

Adam Beatty: Excellent. Thank you, Jon.

Moderator: Thank you. We now have Gerald O'Hara from Jefferies. Thank you, Gerald.

Gerald O'Hara: Great. Thanks. Perhaps we could actually just get an update on the insurance initiative and how you're looking to position that platform within Blackstone overall. Thank you.

Jon Gray: Insurance really is undergoing a structural change here, and again, it ties back to what we keep talking about, low interest rates. Insurers have long duration liabilities, and with interest rates coming down so sharply it's creating a real challenge in terms of meeting those liabilities with the returns on the asset side. And so what you see happening across the industry is insurance balance sheets are lining up with asset managers who can originate credit, can underwrite structured credit, can maybe add some alternatives to help that return mix, and so we think this trend will continue. We are in a number of active dialogues today with folks in this space. We don't have anything to report yet, but I can tell you we're highly focused on it.

Moderator: Okay, thank you. So now onto William Katz from Citigroup. Thank you, William.

Bill Katz: Okay. Thank you for squeezing me in this morning. I appreciate that. It may be a two-part question perhaps for Michael. Just in your commentary around the carried interest taxation leakage, is that simply a function of higher taxes or is there any risk within the FRE or the comp structure as a partial offset? And then the second question I have is you mentioned you're highly confident in the path forward. I wondered if you could just sort of level set maybe the exit pacing on FRE just given pre-elevated performance fees and what look like to be somewhat soft comp. Thank you.

Michael Chae: Thanks, Bill. On the tax question, the comment I made, the first Q&A I was really talking about corporate tax rates and sort of the manageable effect on that, and as it relates to what you're talking about there are a couple different elements of it. If part of the question is changes in compensation in reaction to potential changes in carried interest taxation, the answer is we do not expect that. That will not happen in response to any such change. As for the path forward, you know, as you know those original set of targets we put out back on Investor Day in September 2018, and at that time a trailing 12-month FRE was $1.14 so obviously we're very happy with the path that we've traveled from there. It's not our habit to give guidance or even, as we've shown, update targets, so we'll just let our marks sort of speak for themselves, but we're obviously very confident in the path.

Moderator: Thank you. So we now have Robert Lee from KBW. Thank you, Rob.

Rob Lee: Great. Thanks and good morning, everyone. Hope everyone's doing well. Just a question that doesn't come up as much as it used to with BAAM. I mean clearly it's growing more slowly than your other businesses and at a more modest pace. Could you maybe just update us there on kind of how you're thinking about that business and then maybe in particular the role that you see liquid alternatives such as what BAAM does playing in the LP's portfolio. It feels like it's taken on a diminished importance. So how do you think of that business going forward?

Michael Chae: Yeah, Rob. Look, I'd start from a sort of numbers point of view – I think you're probably observing AUM was down somewhat in the course of the year, which I think for all of us was not entirely surprising given the downdraft in the markets and probably in particular with respect to individual investors’ response to that, but as you also saw in that same time period over the last year, our revenues are up 4 percent, and what that reflects is the business mix shifting towards higher fee strategies, including perpetual capital stakes business or direct investing businesses and so forth. And so if you actually kind of do the math on the implied management fee rate, in the third quarter it was around 82 basis points, which is actually up 8 basis points year-over-year, and that reflects significant positive net flows in our strategic capital and direct investing businesses. So, from a financial point of view that pivot has been important and helpful.

I think overall in terms of the secular dynamics – and Jon can comment – certainly hedge funds and absolute return strategies have had their relative challenges in the face of ebullient equity markets over time. But at the same time what I would say, and Jon was talking about this before, in this current rate environment, for many, many investors and some of the biggest investors, looking for fixed income replacement strategies with lower correlation to equity markets is really critical, and so BAAM is the leader in this area and they, we expect, will be a compelling solutions provider to investors looking for that solution over time.

Rob Lee: Great. Thank you.

Moderator: Thank you. So we have Kenneth Worthington from J.P. Morgan. Thank you, Kenneth.

Ken Worthington: Hi. Good morning. I'm just following up on Alex's earlier question on tax. How might a much higher dividend tax rate impact the way you think about capital allocation, say buybacks versus dividends versus even investment back into the business? And then how might a higher dividend in capital gains tax rate impact your initiatives that target the high net worth? Does the higher tax rate on the wealthy either negatively impact the relative attractiveness of alternative products versus more tax-efficient products out there and maybe are there ways to make the high net worth-focused products more attractive to the wealthy in this potentially higher tax environment?

Jon Gray: I'll start with the second part. I think what appears to be the tax program out there today would be raising capital gains. So, a lot of what we do in the retail space the return comes from dividends, from ordinary income or dividend income, and depending on obviously how that gets treated, that's going to make a big difference. You know, I think investors are still going to need to deploy capital regardless. Is it possible you could change some of the structures? Certainly, but if you look at things like REITs, I'm not sure there are proposals there necessarily that would change the taxation there as dramatically.

I guess we'd have to see what comes out of this. But I think it's too early to say. The focus obviously is maximizing returns and investors still need to find interesting places to deploy capital.

Michael Chae: Yeah, I'd add the Blackstone level, I mean obviously you're sort of – we're speculating about second and third order effects and responses to something that hasn't happened yet, so we'll have to bear with each other on that, but what I would say stepping back, which is universally true, is with our conversion we've obviously gone from a PTP where dividends received were taxed based on the underlying character of income for investors to one where our dividends are taxed like every other corporate issuer. I think that is another reason why we're very happy about the structural change and it really leaves us similarly situated to every other corporate dividend payer, so every corporate dividend payer will have to face up to that. I'm also happy to say our dividend yield is basically exactly double the S&P at sort of current prices. So, on a pretax and after-tax investor-level basis we feel pretty good about the level of our dividend.

Ken Worthington: Okay, great. Thank you.

Deborah: Thank you. So now we have Patrick Davitt from Autonomous Research. Thank you, Patrick.

Patrick Davitt: Hey. Good morning, everyone. I guess since March I feel like your commentary on calls and conferences has suggested that there's a view internally that maybe credit markets have gapped with your view of maybe what the underlying fundamentals really are. So first, is that still your view? And second, how should we think about the gives and takes of the current portfolio exposure against the potential for a significant uptick in the investment opportunity if you're right, that the underlying credit fundamentals are actually quite worse than what we see in markets?

Jon Gray: I'm not sure I would characterize it as strongly as that. I would say that there are sectors that are deeply impacted by COVID where credits rallied a lot. In those areas I think we've been a little more cautious. In areas less impacted or positively impacted I think the likelihood is in this low-yield environment that spreads could grind tighter, but yes, I would say the main impact would be those businesses where people have come in and made an assumption how quickly things get resolved, how quickly the business recovers, that's where we probably have been a little more cautious I would say in maybe the distressed area, but overall when I look at credit, my gut is we'll probably see tighter spreads over time given this yield challenge.

Patrick Davitt: Thanks.

Weston Tucker: Thanks, Patrick.

Moderator: Thank you. And the last question now is from Devin Ryan from JMP Securities. Thank you, Devin.

Devin Ryan: Great. Thanks for squeezing me in here. I have a question on sustainable investing. You know, clearly there's a lot of focus in the market right now. You outlined some of the changes already being employed at Blackstone, which we've been following, and really I'm curious whether ESG is going to be more of an overlay on existing strategies or could this actually become a standalone and potentially even large business for the firm just given what seems like a pretty strong position for Blackstone to be able to marry investing capabilities with what I think is going to be just an increasing and substantial demand of capital towards these types of strategies. So I'm just kind of curious how you guys are looking at it, bigger picture?

Jon Gray: It's a great question. I think initially it'll come out of our existing strategies because we have big footprints which overlap here certainly on the sustainability side. So yesterday in private equity, in our energy business, we were looking at something in the sustainable space. We've done a bunch in our credit area at the firm around solar and financing different projects, commercial and residential projects. We're shareholders in Sunrun.

Our infrastructure business is well positioned I think potentially in the utility space where this transformation is going to happen and we're going to move off of coal certainly to more renewable energy sources, and we'll get this in our secondaries business indirectly as well. There's some elements of this in real estate too. So, I think it'll probably come from our existing platform and existing verticals. Over time, as we develop track records, is it possible we create something more dedicated because of the huge capital needs in this space, particularly in a different administration? That's a possibility. For now, I think it'll come out of our existing areas, and so far, of course, it's been a very good place to invest.

Devin Ryan: Great. Thank you.

Moderator: Okay. Thank you. And now I'll hand it over to Weston for the closing remarks. Thank you, Weston.

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

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