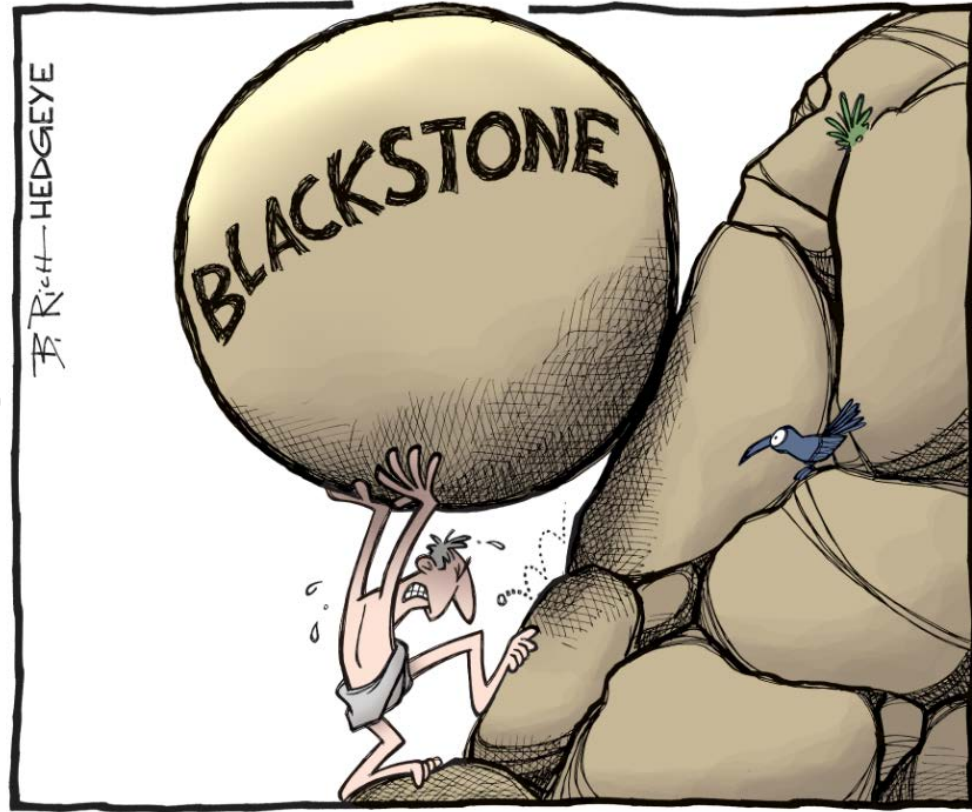




BLACKSTONE (BX)

ECONOMIC GRAVITY



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DISCLAIMER

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PLEASE SUBMIT QUESTIONS* TO

QA@HEDGEYE.COM

**ANSWERED AT THE END OF THE CALL*

BLACKSTONE: INTRO

Name:	The BlackStone Group		
Ticker:		BX	
Market Cap \$MM	\$	32,323	
TTM Revenues \$MM	\$	2,976	
Pretax Margin		46%	
AUM \$MM	\$	356,000	
Dividend Yield		4.4%	
Short Interest as a % of Float		2.3%	
Insider Ownership		50.0%	
Cash balance \$MM	\$	3,516	
Long Term Debt \$MM	\$	2,819	
Annual Free Cash Flow \$MM	\$	1,250	

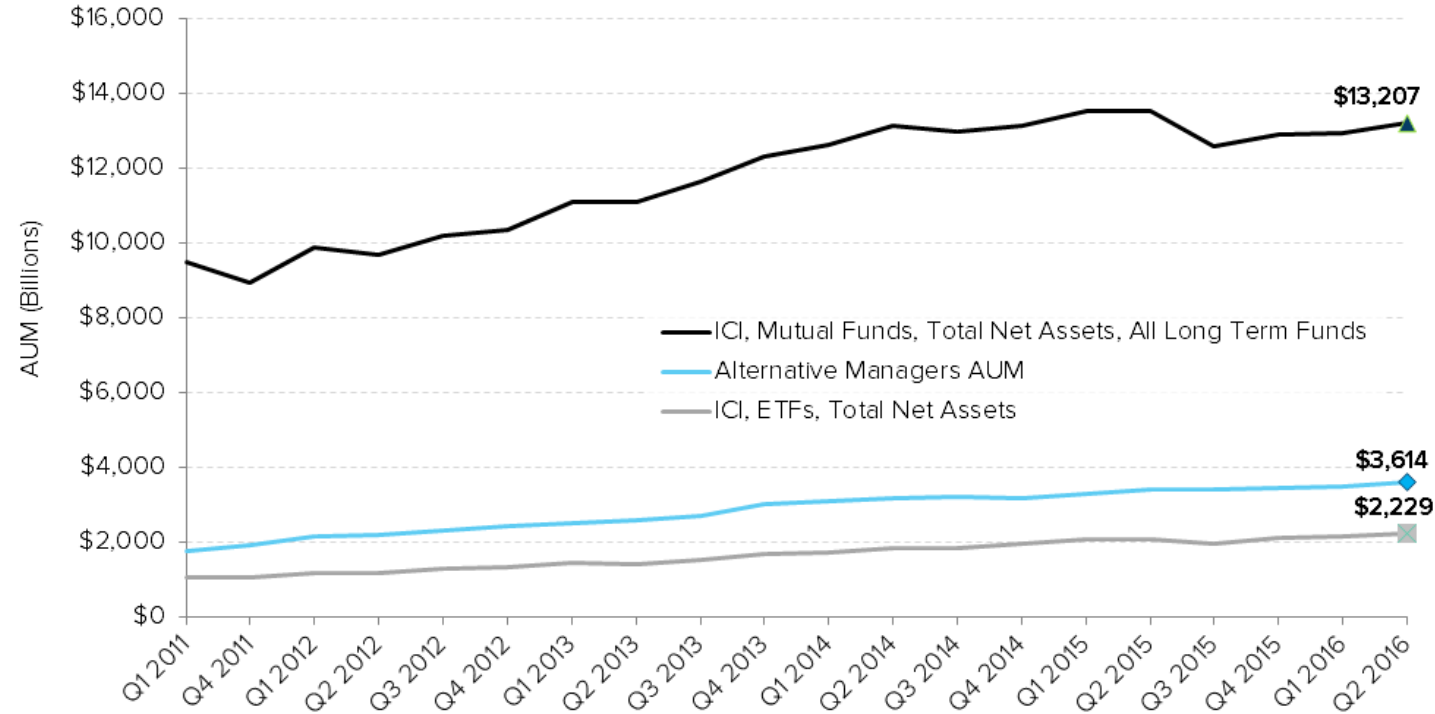
Largest Alternative Asset Management Firms			
	Firm	AUM \$MM	
<u>1</u>	Blackstone Group	\$	356,000
<u>2</u>	Macquarie Group	\$	95,000
<u>3</u>	Bridgewater Associates	\$	88,000
<u>4</u>	CBRE Global Investors	\$	79,800
<u>5</u>	UBS Asset Management	\$	72,000
<u>6</u>	TIAA	\$	72,000
<u>7</u>	TPG Capital	\$	70,000
<u>8</u>	The Carlyle Group	\$	63,000
<u>9</u>	JP Morgan Asset Management	\$	57,000
<u>10</u>	Kohlberg Kravis Roberts	\$	55,000
<u>11</u>	LaSalle Investment Mgmt	\$	55,000
<u>12</u>	Principal Global Investors	\$	53,000
<u>13</u>	AXA Investment Mgmt	\$	52,000
Industry		\$	3,614,000

WHO IS BLACKSTONE?

Biggest Alternative Asset Management firm by AUM with 4 segments – Private Equity, Real Estate, Hedge Funds, and Credit that are typically bigger than most standalone competing managers.

SETTING THE TABLE – THE ALT BIZ

ASSETS UNDER MANAGEMENT \$BB



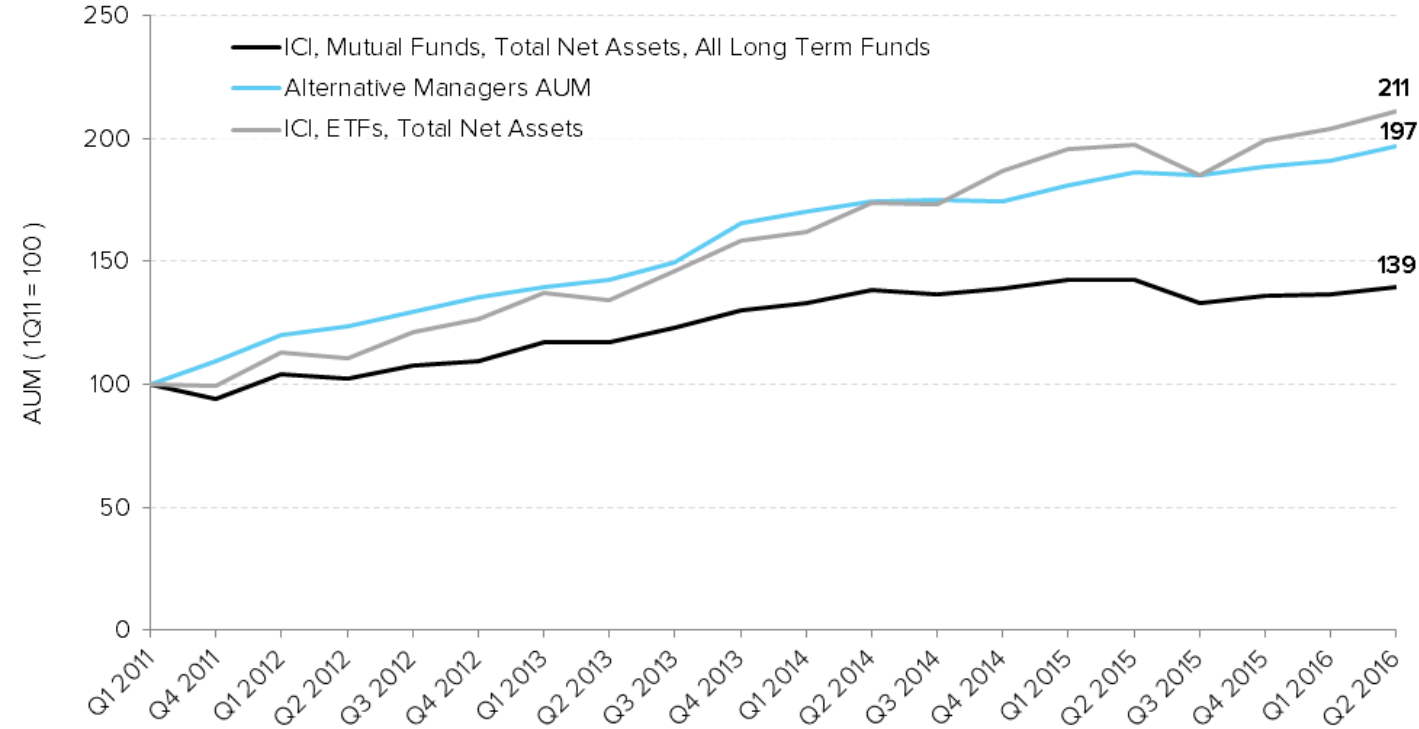
Alternative AUM has broken through the **\$3.5 trillion** mark, over \$1 trillion more than ETFs but still just a little more than **25%** of active mutual fund balances of **\$13.2 trillion**.

Source: Bloomberg, FactSet, ICI

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SETTING THE TABLE – THE ALT BIZ

ASSETS UNDER MANAGEMENT, Indexed to 100



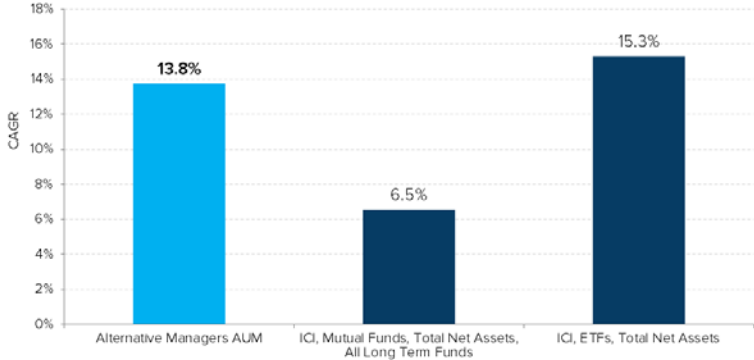
Source: Bloomberg, FactSet, ICI

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Which on an indexed basis shows Alternatives at a **+97% gain** in AUM since 1Q11, **just behind** the growth trajectory of ETFs and **well outflanking** the old mutual fund structure

SETTING THE TABLE – THE ALT BIZ

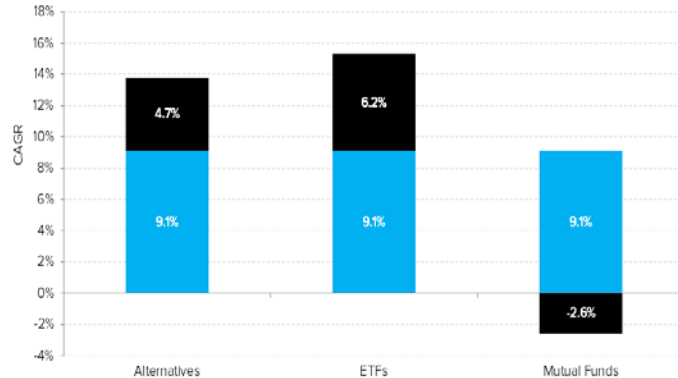
CAGR, ASSETS UNDER MANAGEMENT
3/31/11-6/30/16



Source: Bloomberg, FactSet, ICI

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CAGR Sources, ASSETS UNDER MANAGEMENT
3/31/11-6/30/16



Source: Bloomberg, FactSet, ICI

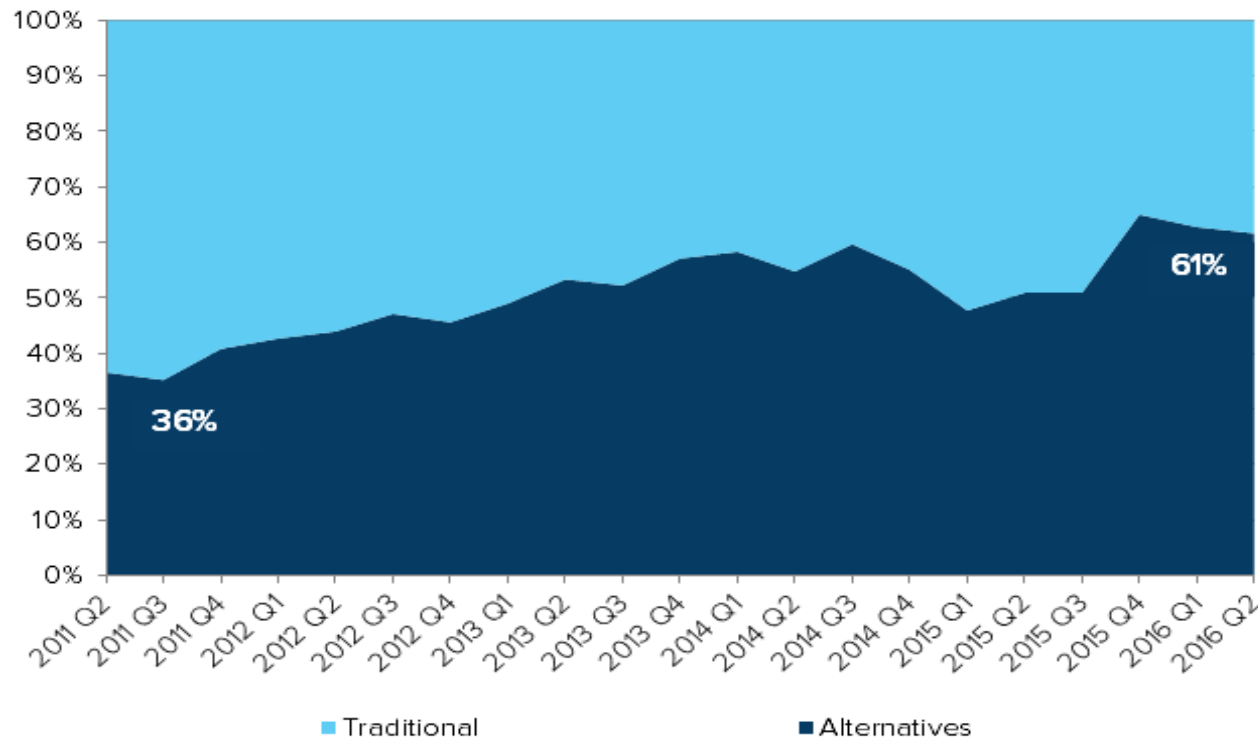
■ Market Returns ■ Organic CAGR

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All category CAGR have benefited from **+9%** compounded growth by the S&P 500 which puts **organic growth** at ~5% per annum for Alts; ~6% for ETFs; and -2.6% for active mutual funds

NOW OUTPACING TRADITIONALS

HIRES AND SEARCHES BY TYPE

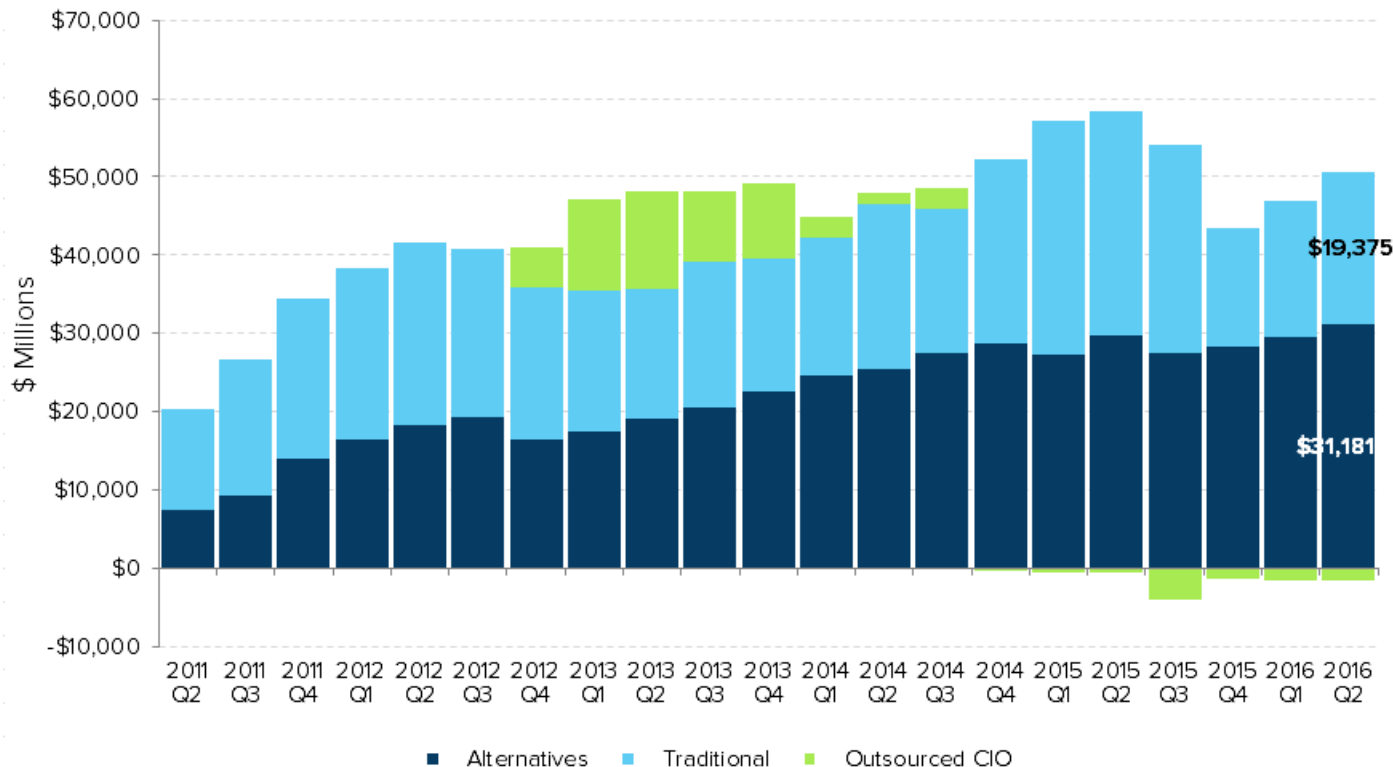


2016 HEDEGEYE RISK MANAGEMENT

Alternatives have now crossed over **60%** of institutional mandates according to **Pension & Investments**. Traditionals were over 60% of search 5 years ago which has been whittled down under 40%

NOW OUTPACING TRADITIONALS

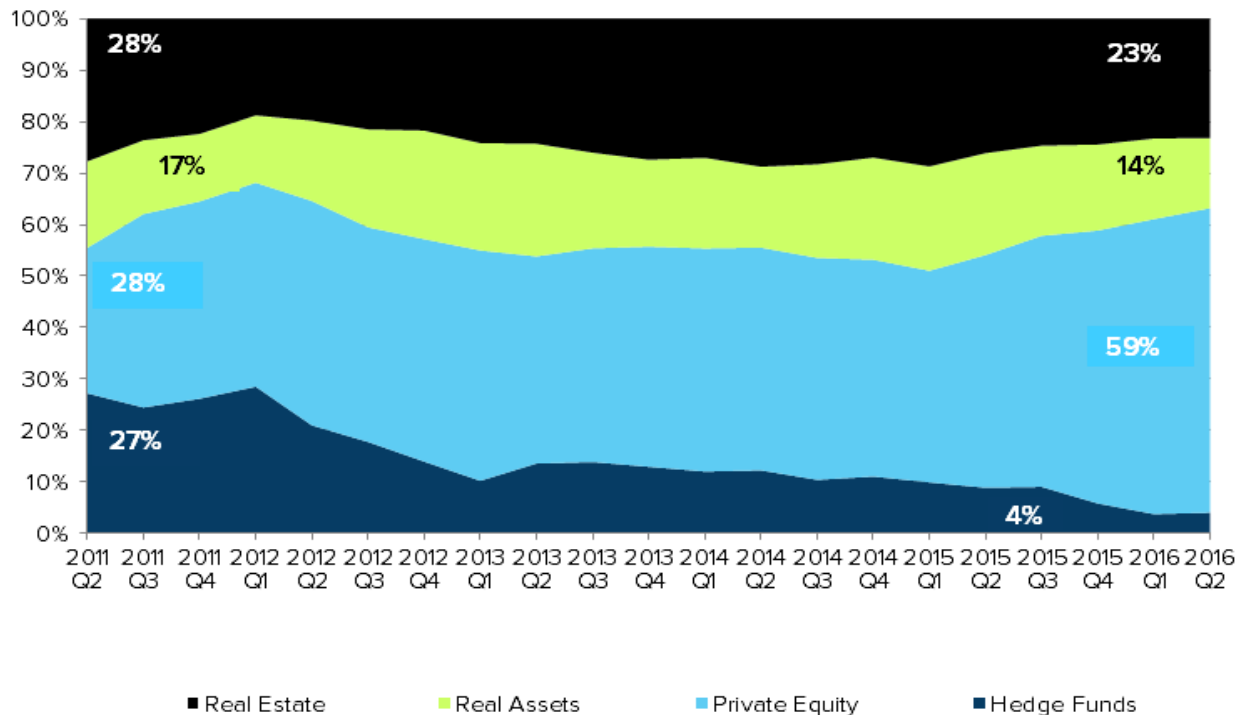
HIRES AND SEARCHES Share by Type



According to P&I there is over **\$31 billion** looking for Alternative placement versus just under **\$20 billion** for traditional management. Outsourced CIO mandates have gone negative

WITHIN ALTS PE IS THE MAIN ENGINE

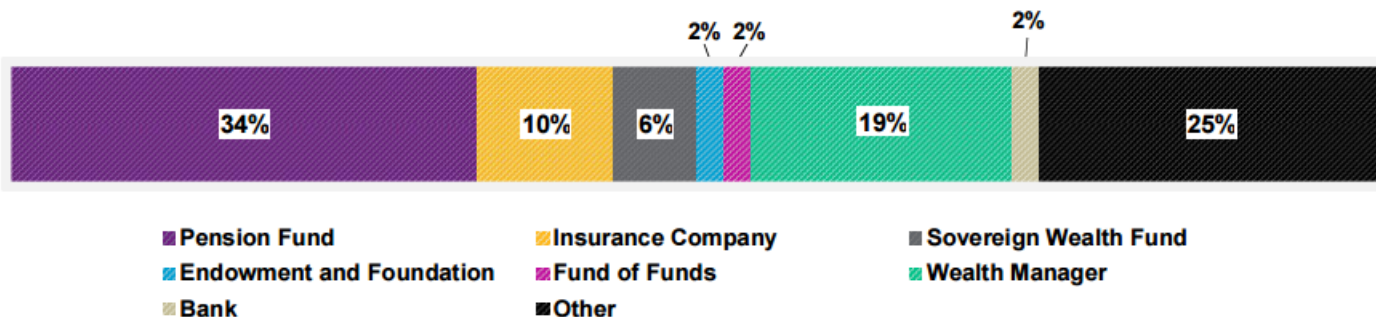
ALTERNATIVE HIRES AND SEARCHES Share by Type



Institutional search within the Alts asset class **have shifted as well** with Hedge Fund mandates **down from ~30% to under 5%**. PE has picked up the slack moving from 28% to 59% of all searches.

SETTING THE TABLE – THE ALT BIZ

Distribution by Investor Type

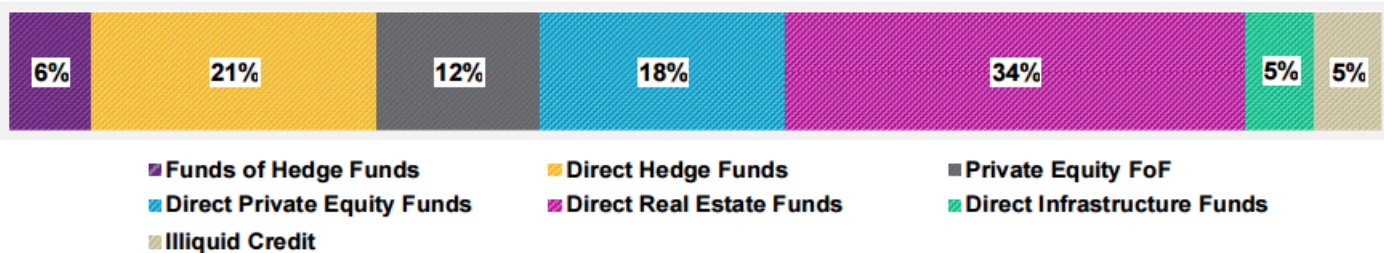


Asset class	Total assets	Average	Smallest	Largest	Number of managers
	USD million				
Pension Fund	1,240,918.0	16,115.8	47.0	60,840.1	77
Insurance Company	344,241.2	4,989.0	71.7	37,582.8	69
Sovereign Wealth Fund	211,330.1	3,302.0	1.0	16,966.5	64
Endowment and Foundation	89,573.3	1,279.6	2.0	7,750.8	70
Fund of Funds	77,107.3	1,977.1	26.3	8,660.0	39
Wealth Manager	677,264.1	9,815.4	176.4	31,260.3	69
Bank	74,387.7	1,518.1	21.6	7,498.2	49

Pension Funds source **1/3** of Alternative assets with **Sovereign Wealth** and **Insurance Cos** 19% and 10%. The **Other** category or **25%** is all other investors not categorized in the TW survey

SETTING THE TABLE – THE ALT BIZ

Top 100 Alternative Asset Managers



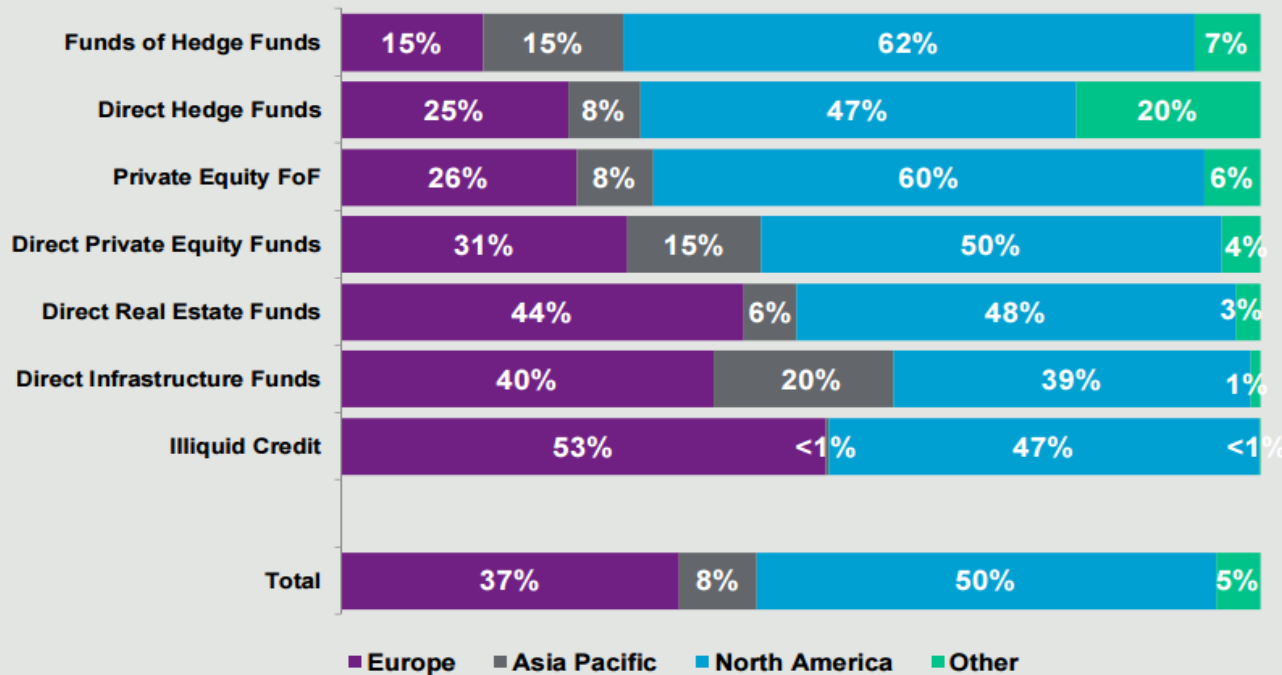
Asset class	Total AuM	Average	Smallest	Largest	Number of managers
	USD million				
Funds of Hedge Funds*	222,241.0	31,748.7	19,432.0	67,528.06	7
Direct Hedge Funds*	754,552.2	31,439.7	19,180.8	88,001.10	24
Private Equity FoF*	419,736.8	29,981.2	21,371.9	44,534.60	14
Direct Private Equity Funds*	640,168.8	42,677.9	18,400.0	94,300.00	15
Direct Real Estate Funds	1,241,852.8	42,822.5	21,294.2	93,900.00	29
Direct Infrastructure Funds	167,087.9	41,772.0	22,017.9	95,041.05	4
Illiquid Credit	169,107.6	24,158.2	18,514.0	33,128.00	7
Total	3,614,747.1	36,147.5	18,400.0	95,041.05	100

Direct is the biggest form of investments in alternatives with **82%** of subscriptions Directly into different categories with only **18%** in a Fund of Funds structure

SETTING THE TABLE – THE ALT BIZ

Distribution by Region and Asset Class

Asset managers were requested to state where their assets are invested.



* Proportions may not sum up to 100% due to rounding

In **every** category except **Infrastructure** and **Illiquid Credit**, North America is the **leading** investing domicile with Europe in second position.

THESIS:

1

PERFORMANCE DEPENDENCE

The BlackStone story is one of strength and market share dominance but the distribution for the first time ever is heavily dependent on accrued performance fee balances which have been in decline since 2015. We estimate 2017 will see the biggest depletion of accrued fees in its history.

2

HYPER CYCLICAL

With a short public company tenure and with the private nature of its deal related income, BX shareholders have not seen a full economic cycle yet. That said, with fundamentals showing high betas to cyclical indicators we think investors risk overstaying their welcome late cycle versus missing an incremental move higher in the stock.

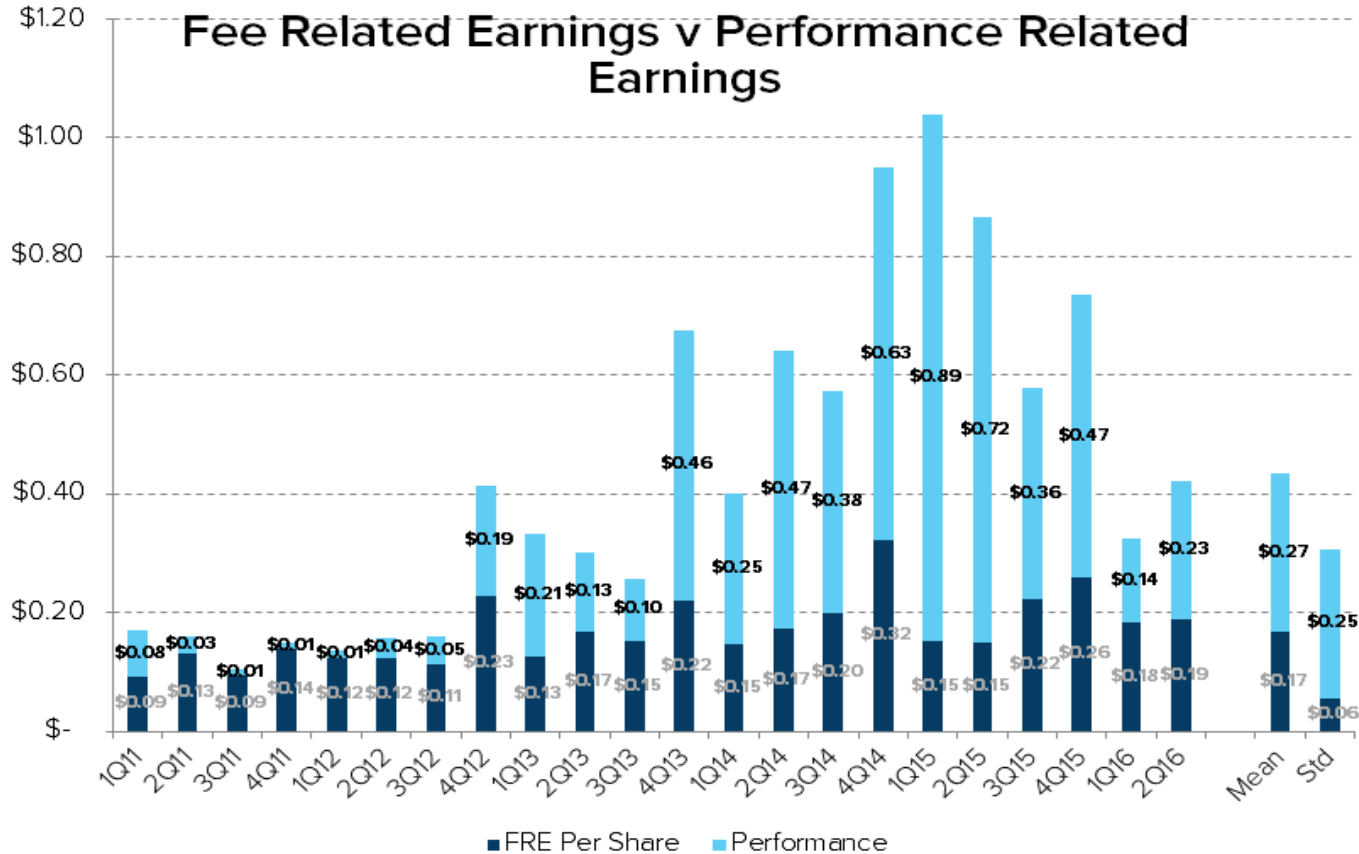
3

SENTIMENT IS AN ANCHOR WHEN WELL LIKED

BlackStone is a great company and sports similar ratings from the Sell Side community with also small short interest balances indicating a long bias on the Buy Side. This setup makes for asymmetry to the downside with longer term risks of fee compression, regulatory changes, and high valuation largely being ignored.

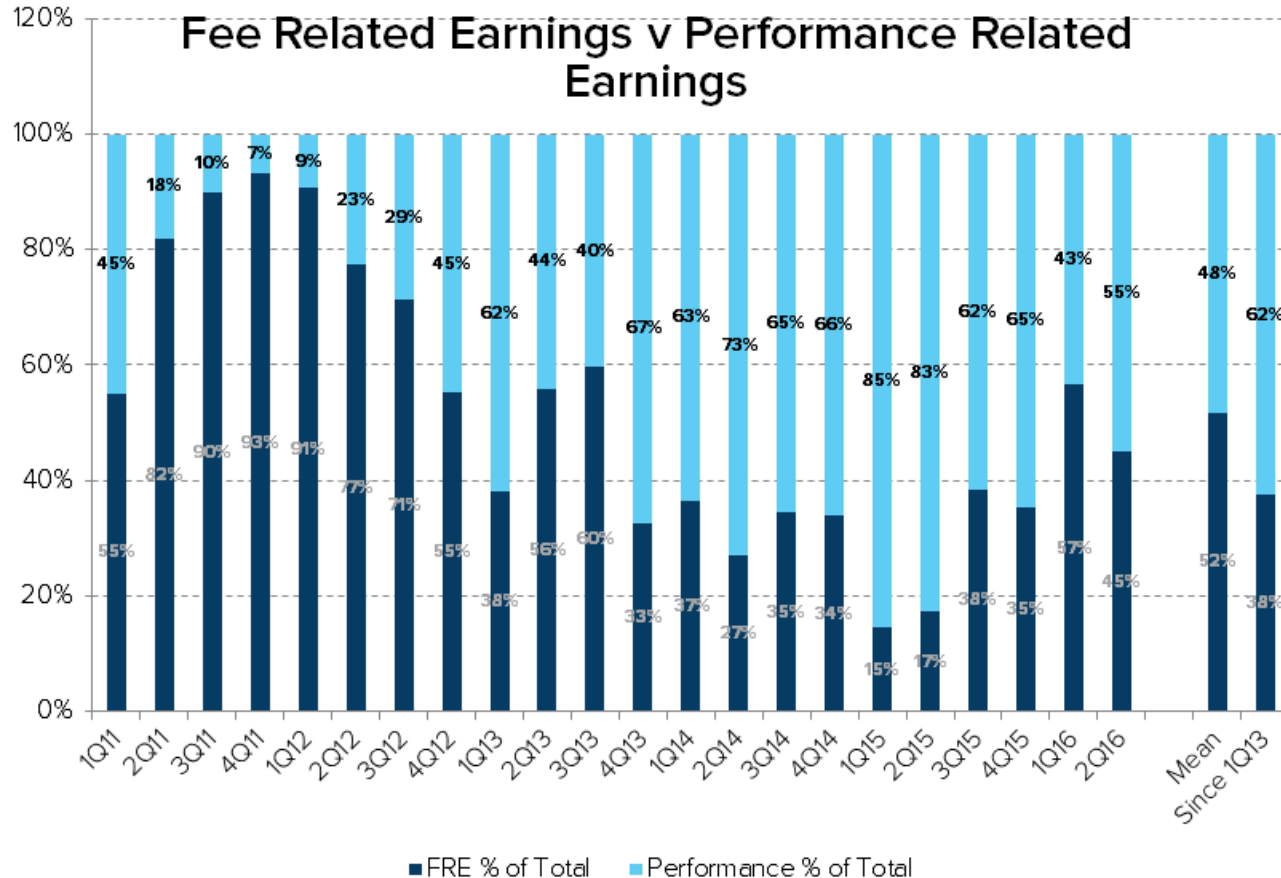
PERFORMANCE DEPENDENCE RISING

Fee Related Earnings v Performance Related Earnings



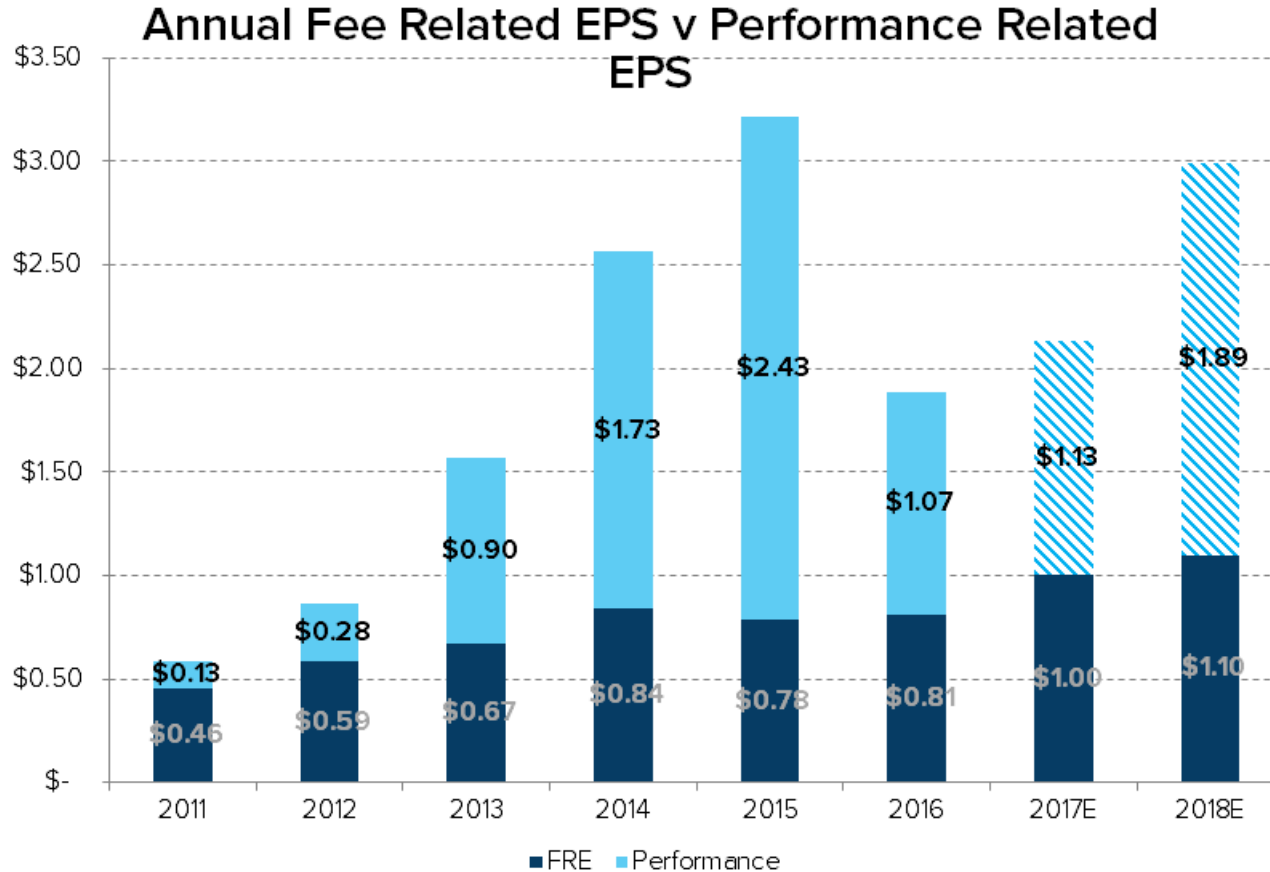
What started out as **solely a fee related earnings business** in 2011 is now **heavily reliant** on performance fees to complete the distribution. Performance fees **average \$0.27 per share per quarter** with a **\$0.25 standard deviation**

PERFORMANCE DEPENDENCE RISING



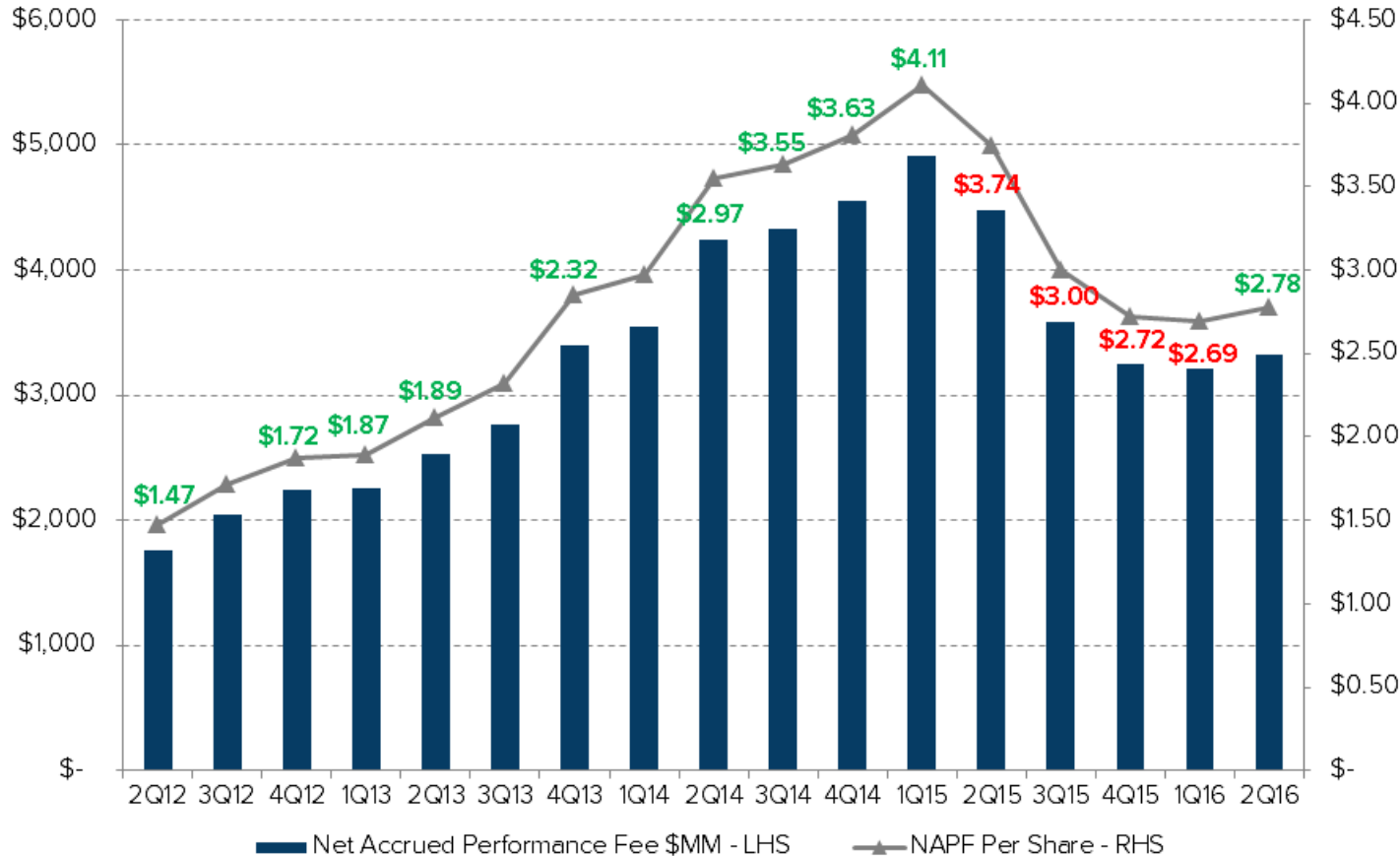
Percentage breakouts between FRE and Performance EPS is **quite balanced** in all quarters however the emerging trend since 2013 is that **nearly 2/3's of distribution is performance** with only 1/3 on base mgmt or FRE earnings

PERFORMANCE DEPENDENCE RISING



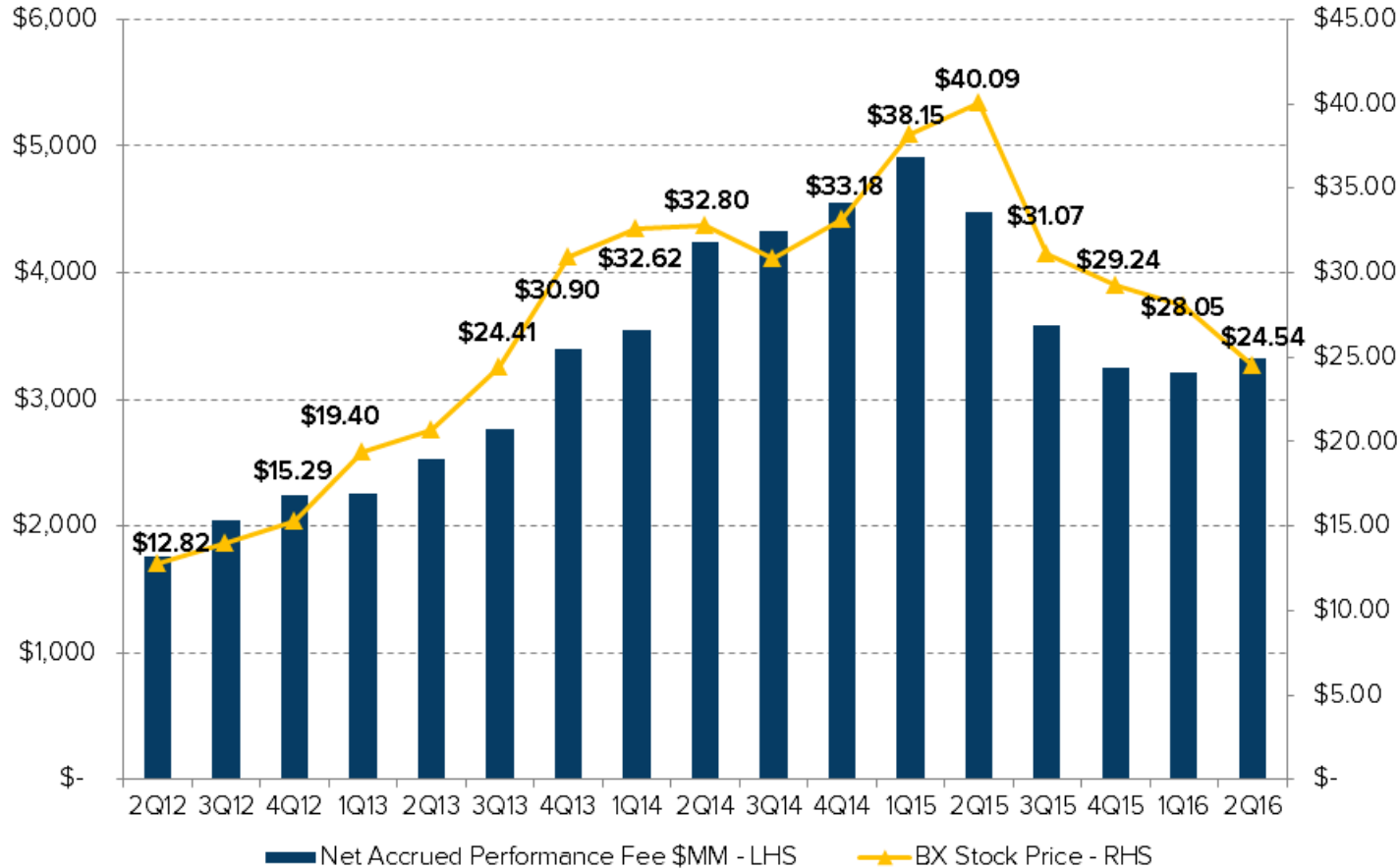
And the risk is **rising** of a let down into '17 and '18 with a **reacceleration** of performance related fees from \$1.07 this year to **\$1.13** in 2017 and **\$1.89** in 2018. FRE EPS moves from ~**\$0.19** per quarter to **\$0.25** per quarter into next year

PERFORMANCE DEPENDENCE RISING



The “Assets in the Ground” or the Net Accrued Performance Fees **peaked** in 1Q15 at **\$4.11 per share** after rising for **12** consecutive quarters. NAPF per share has now **declined** for **4** of the past **5** quarters

PERFORMANCE DEPENDENCE RISING



And the **rise** and **fall** of Net Accrued Performance fees **maps well** with the trajectory of the stock both having **peaked** in **1H15** and then following the **same trajectory** since.

PERFORMANCE DEPENDENCE RISING

Year	Beginning Annual Net Accrued Performance Fee Per Share	Performance Fees Per Share Paid in Respective Year	Percentage of Net Accrued Paid During Year
2012	\$ 1.47	\$ 0.28	19%
2013	\$ 1.87	\$ 0.90	48%
2014	\$ 2.85	\$ 1.73	61%
2015	\$ 3.81	\$ 2.43	64%
2016	\$ 2.72	\$ 1.18	43%
2017E	\$ 1.70	\$ 1.13	66%

Table 2

2Q16 Balance Sheet NAPF Per Share	\$	2.78
2Q16 Performance Distribution	\$	0.17
3Q16 Estimated Performance Distribution*	\$	0.51
4Q16 Estimated Performance Distribution*	\$	0.40
Estimated 2017 Starting NAPF Per Share	\$	1.70

*Assumes \$0.19 of FRE in 3Q and \$0.25 in 4Q

Table 3

	Performance Fee Distribution and NAPF Build
2013	\$ 1.30
2014	\$ 2.70
2015	\$ 3.40
2016E	\$ 0.09
2017E	\$ 0.11

As it stands **without** any growth, BX is forecast to pay out the **biggest %** of its resting NAPF in history at **66%**, over 20 points greater than '16 and higher than '15. We have NAPF per share at **\$1.70 per share** to end the year.

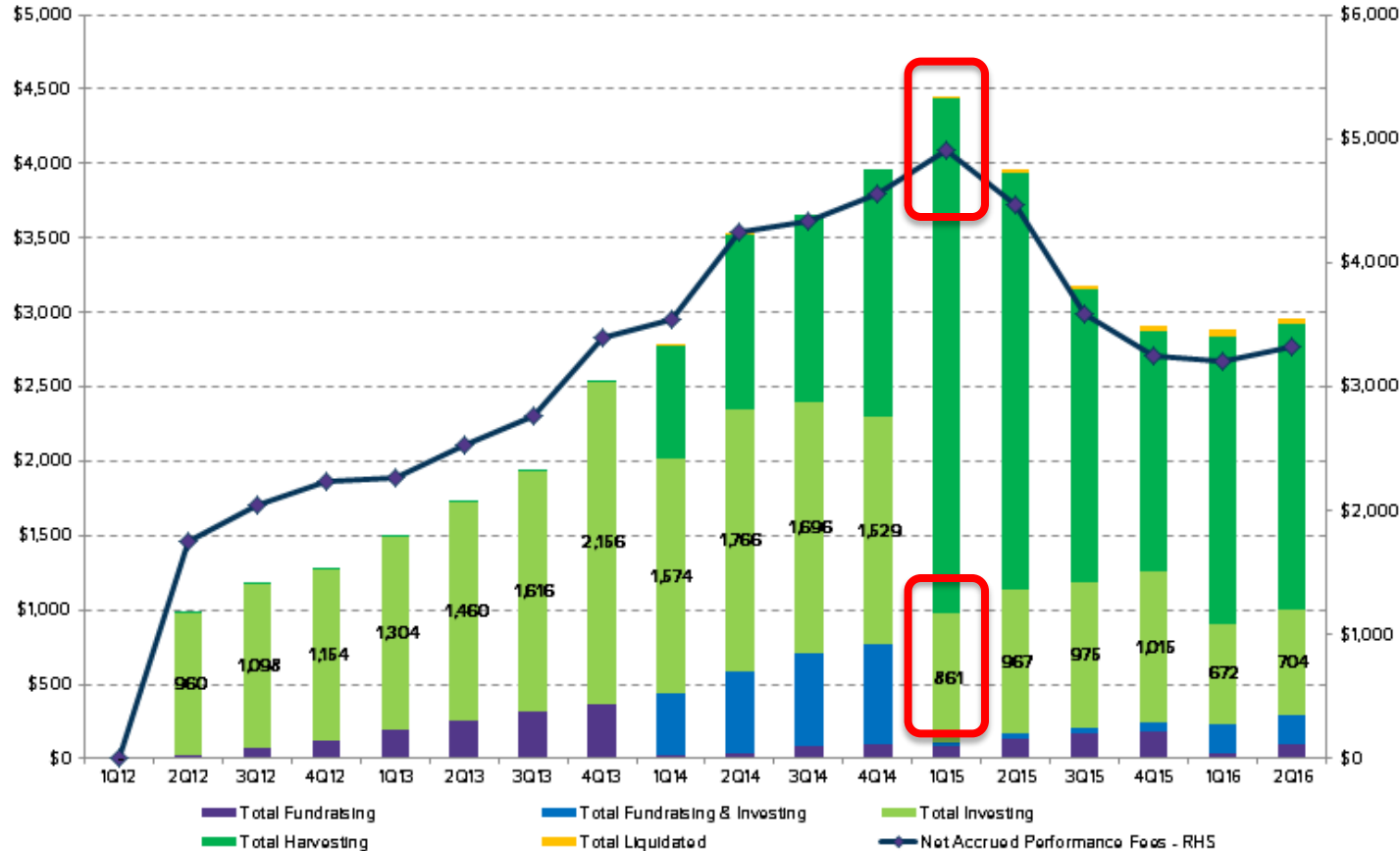
PERFORMANCE DEPENDENCE RISING

Net Accrued Performance Fees (000,000)

	2012				2013				2014				2015				2016E			
	Q1A	Q2A	Q3A	Q4A	Q1A	Q2A	Q3A	Q4A	Q1A	Q2A	Q3A	Q4A	Q1A	Q2A	Q3A	Q4A	Q1A	Q2A	Q3	Q4
BCP IV Carried Interest		532	551	582	448	500	506	424	437	383	343	282	178	186	156	144	155	143		
BCP V Carried Interest							-	26	141	558	572	1,050	1,479	1,119	486	288	358	373		
BCP VI Carried Interest			8	22	40	63	15	108	173	233	265	233	270	320	303	359	340	385		
BEP Carried Interest			30	38	55	67	62	65	58	81	79	63	64	82	59	48	46	61		
Tactical Opportunities Carried Interest			2	2	2	3	5	8	10	19	32	24	24	36	42	52	56	59		
SP V Carried Interest							1	1	1	1	2	4								
Korea Carried Interest											1	1								
BTAS Carried Interest													-	2	1	3	5	7		
Strategic Partners Carried Interest													11	18	27	36	38	35		
Other Carried Interest		1											1	1	1	1	2	1		
Total Private Equity	-	533	591	644	545	633	589	632	820	1,275	1,294	1,657	2,027	1,764	1,075	931	1,000	1,064		
REAL ESTATE																				
BREP IV Carried Interest									2	2	4	18	30	36	26	20	11	9		
BREP V Carried Interest		377	434	448	490	552	616	603	623	618	679	602	652	583	542	497	417	390		
BREP VI Carried Interest		530	590	610	681	740	857	1,264	1,284	1,389	1,244	1,113	1,109	868	720	628	636	612		
BREP VII Carried Interest		22	44	82	133	189	248	293	358	453	545	605	527	565	613	608	570	584		
BREP Int'l Carried Interest		7	3	2	2	2	2	2	2	2			1	-						
BREP VIII Carried Interest															3	7	34	84		
BREP Europe III Carried Interest		53	66	74	93	105	128	155	117	144	187	183	201	200	195	186	181	156		
BREP Europe IV Carried Interest									3	10	25	37	56	86	112	121	126	124		
BREP Asia Carried Interest							-	4	8	9	12	17	30	43	48	54	68	82		
Core+ Carried Interest									-	1	8	14								
Total Real Estate	-	1,035	1,189	1,265	1,446	1,635	1,890	2,347	2,424	2,664	2,730	2,612	2,648	2,424	2,316	2,186	2,127	2,130		
HEDGE FUND SOLUTIONS																				
Total Hedge Fund Solutions	-	12	42	67	60	67	75	144	56	57	70	76	40	60	38	38	5	6		
CREDIT																				
Total Credit	-	176	227	262	210	194	215	277	246	245	240	207	195	224	156	96	80	121		
TOTAL BLACKSTONE																				
Net Accrued Performance Fees	-	1,756	2,049	2,238	2,261	2,529	2,769	3,400	3,546	4,241	4,334	4,552	4,910	4,472	3,585	3,251	3,212	3,321		
<i>Memo: Net Realized Performance Fees</i>					45	38	64	261	94	239	241	106	130	52	31	89	28	121		
Total Pre-Marketing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Total Fundraising	-	23	76	122	190	259	316	371	22	40	80	97	87	132	165	186	41	92		
Total Fundraising & Investing	-	-	-	-	-	-	-	-	416	540	624	668	24	36	42	52	194	206		
Total Investing	-	960	1,098	1,154	1,304	1,460	1,616	2,156	1,574	1,766	1,696	1,529	967	975	1,015	1,015	672	704		
Total Harvesting	-	7	3	2	2	2	2	2	766	1,178	1,255	1,670	3,471	2,806	1,969	1,619	1,932	1,916		
Total Liquidated	-	-	-	-	-	-	-	-	2	2	-	-	12	18	27	36	49	44		

The **Investing** Fund Status (light green) is the **best** indication that NAPF is **growing** as it precedes the drop down to Harvesting like it did in the peak in **1Q15**. Balances in Investing status are **flat** currently.

PERFORMANCE DEPENDENCE RISING



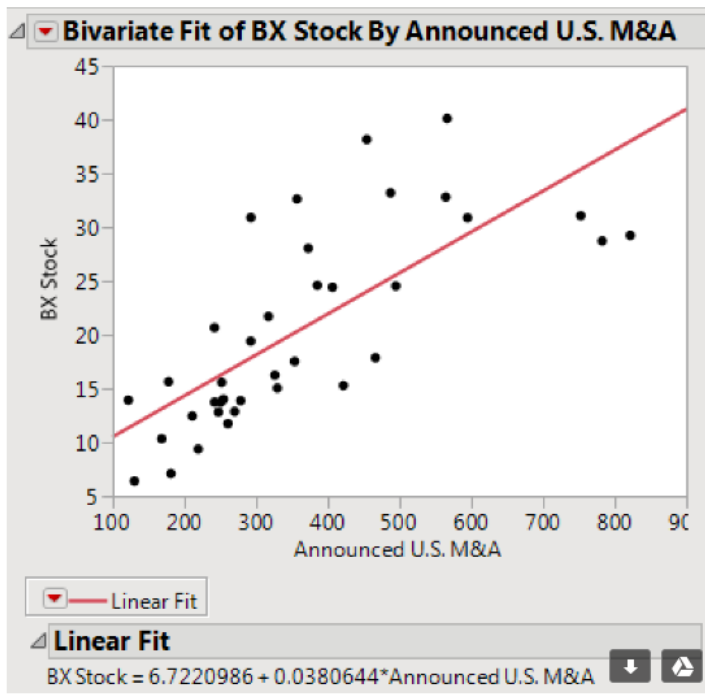
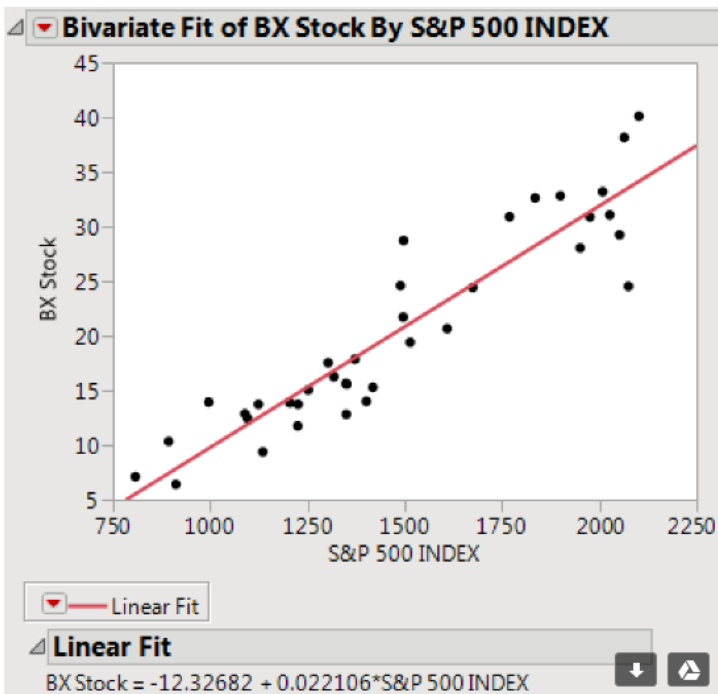
Investing level
NAPF drives **Total
Accrued
Performance
Fees** as when
Investing
balances **dropped**
substantially in
1Q15, NAPF
peaked –
Investing
balances are **flat**
but still in a
downward trend

MACRO MONITOR SINCE GOING PUBLIC

	<i>BX Stock</i>	<i>VIX</i>	<i>10 Year Treasury Yield</i>	<i>Moody's BAA Corporate Credit</i>	<i>S&P 500</i>
BX Stock	1.00				
S&P 500	0.93	(0.59)	(0.36)	(0.69)	1.00
RUSSELL 2000	0.92	(0.61)	(0.40)	(0.74)	0.98
Conference Board Consumer Conf	0.88	(0.61)	(0.07)	(0.54)	0.88
NASDAQ COMPOSITE	0.88	(0.56)	(0.50)	(0.74)	0.98
Univ. of Michigan Sentiment	0.82	(0.63)	(0.25)	(0.63)	0.85
Nonfarm Payrolls	0.79	(0.33)	(0.25)	(0.37)	0.88
S&P 500 EPS Est.	0.77	(0.60)	(0.53)	(0.81)	0.90
Case-Shiller 20	0.76	(0.32)	0.20	(0.13)	0.72
Announced U.S. M&A	0.74	(0.36)	0.01	(0.34)	0.75
S&P 500 Revenue Per Share	0.71	(0.41)	(0.68)	(0.68)	0.85
CEO Confidence	0.65	(0.72)	(0.23)	(0.82)	0.68
US Corporate Profits Pre-Tax (\$B)	0.65	(0.66)	(0.64)	(0.95)	0.76
DXY Dollar Index	0.57	(0.14)	(0.49)	(0.39)	0.67
GDP US QoQ	0.38	(0.57)	0.01	(0.60)	0.37
High Yield Issuance	0.35	(0.72)	(0.14)	(0.58)	0.31
High Yield ETF HYG	0.35	(0.63)	0.34	(0.33)	0.26
S&P CoreLogic Housing	0.25	0.13	0.65	0.46	0.13
High Yield Issues	0.09	(0.57)	0.32	(0.23)	(0.02)
Fed Funds Rate	0.09	0.02	0.72	0.38	(0.04)
10 Year Treasury Yield	(0.12)	0.13	1.00		
Gold Spot	(0.12)	(0.30)	(0.72)	(0.68)	0.07
2-10 Treasuries Spread	(0.29)	0.03	0.04	0.06	(0.35)
Crude Oil	(0.39)	0.11	0.55	0.37	(0.49)
MOVE index	(0.47)	0.68	0.46	0.81	(0.54)
Moody's BAA Corporate Credit	(0.55)	0.67	0.65	1.00	
VIX	(0.58)	1.00			
US Unemployment Rate	(0.68)	0.21	(0.06)	0.10	(0.70)

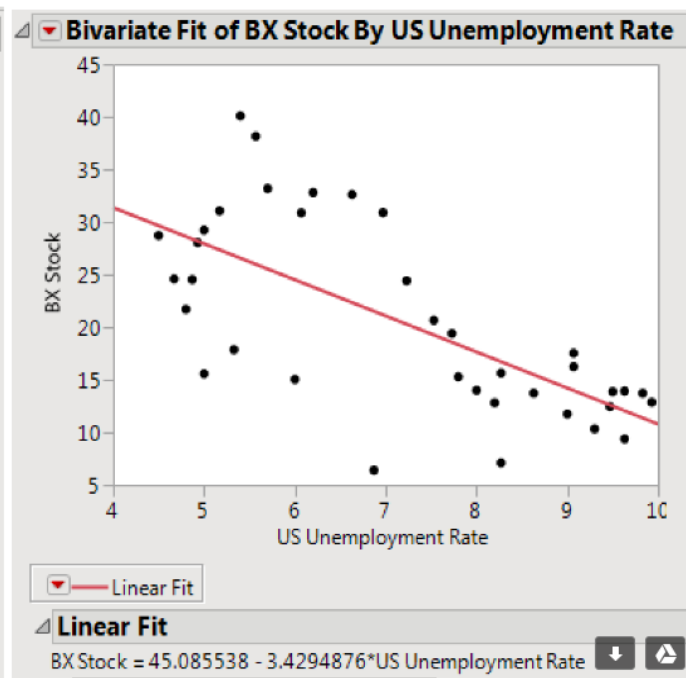
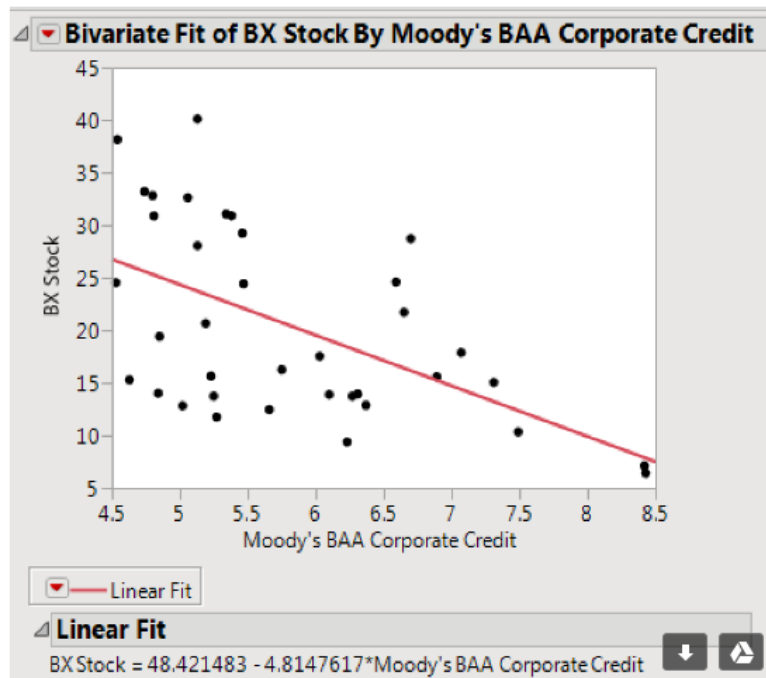
Quarterly data since going public shows BX stock as a **hypercyclical** with negative sensitivity mainly to Unemployment, **Corporate Credit Costs**, and Volatility

POSITIVE COEFFICIENTS



Every 100 points of S&P 500 move has impacted BX stock by **\$2.20** per share with every \$100 billion in quarterly announced M&A increasing shares by **\$3.80**

NEGATIVE COEFFICIENTS



Conversely every +100 basis points of corporate credit increase has brought **down** BX shares by - **\$4.80** with every +100 bps of unemployment rate impacting shares by - **\$3.40**

WHERE'S THE ALPHA? LOOKS LIKE BETA



And just a time series picture of **BX** stock against **corporate credit costs** and **unemployment trends** (both series inverted) essentially shows the **cyclical** nature of shares historically.

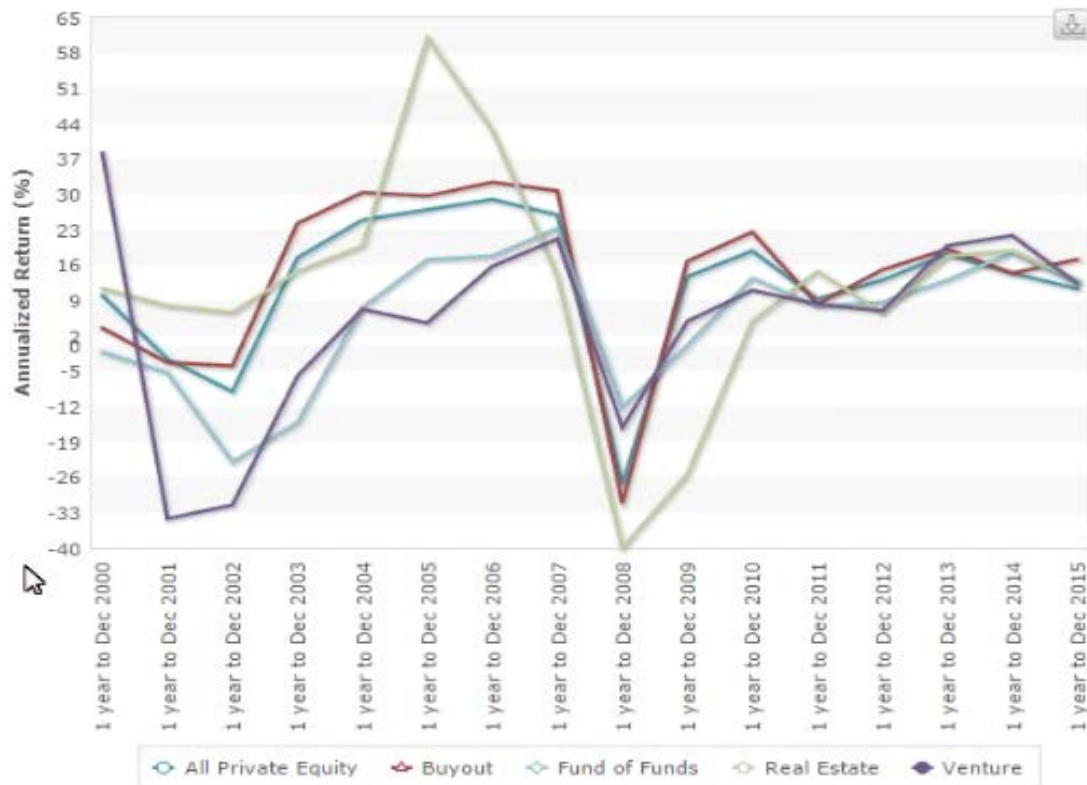
MICRO MONITOR SINCE GOING PUBLIC

	<i>BX Stock</i>
BX Stock	1.00
Net Accrued Performance Fees	0.94
BX Distributable Earnings	0.88
Total BX AUM	0.83
Total BX Fee Paying AUM	0.80
BX Fee Related Earnings (FRE)	0.51
BX Dry Powder	0.48
BX Economic Net Income	0.45

<i>Net Accrued Performance Fees</i>	
Net Accrued Performance Fees	1.00
S&P 500 INDEX	0.86
CEO Confidence	0.85
Case-Shiller 20	0.72
S&P CoreLogic Housing	0.70
Total BX AUM	0.68
Total BX Fee Paying AUM	0.65
Announced U.S. M&A	0.54
DXY Dollar Index	0.51
BX Economic Net Income	0.46
10 Year Treasury Yield	0.43
Dry Powder	0.39
GDP US QoQ	0.38
MOVE Index	0.17
2-10 Treasuries Spread	0.08
High Yield Issuance	0.07
High Yield ETF HYG	(0.11)
Fed Funds Rate	(0.14)
Moody's BAA Corporate Credit	(0.18)
US Unemployment Rate	(0.72)
Gold Spot	(0.73)

Bottom up of all the various fundamental categories of info that BX provides – **net accrued performance fees** have the highest R value with BX stock price at **0.94** or an R-squared of **0.88**

CYCLICALITY – WRONG PLACE & TIME



©Preqin 2016

preqin

Rolling **1 year industry IRRs** reflect the **cyclicality** of industry with spikes in **2000**, into **2007**, and then high water marks in **2014** with a decline into 2015, **the most recent data** from Preqin

CYCLICALITY – WRONG PLACE & TIME

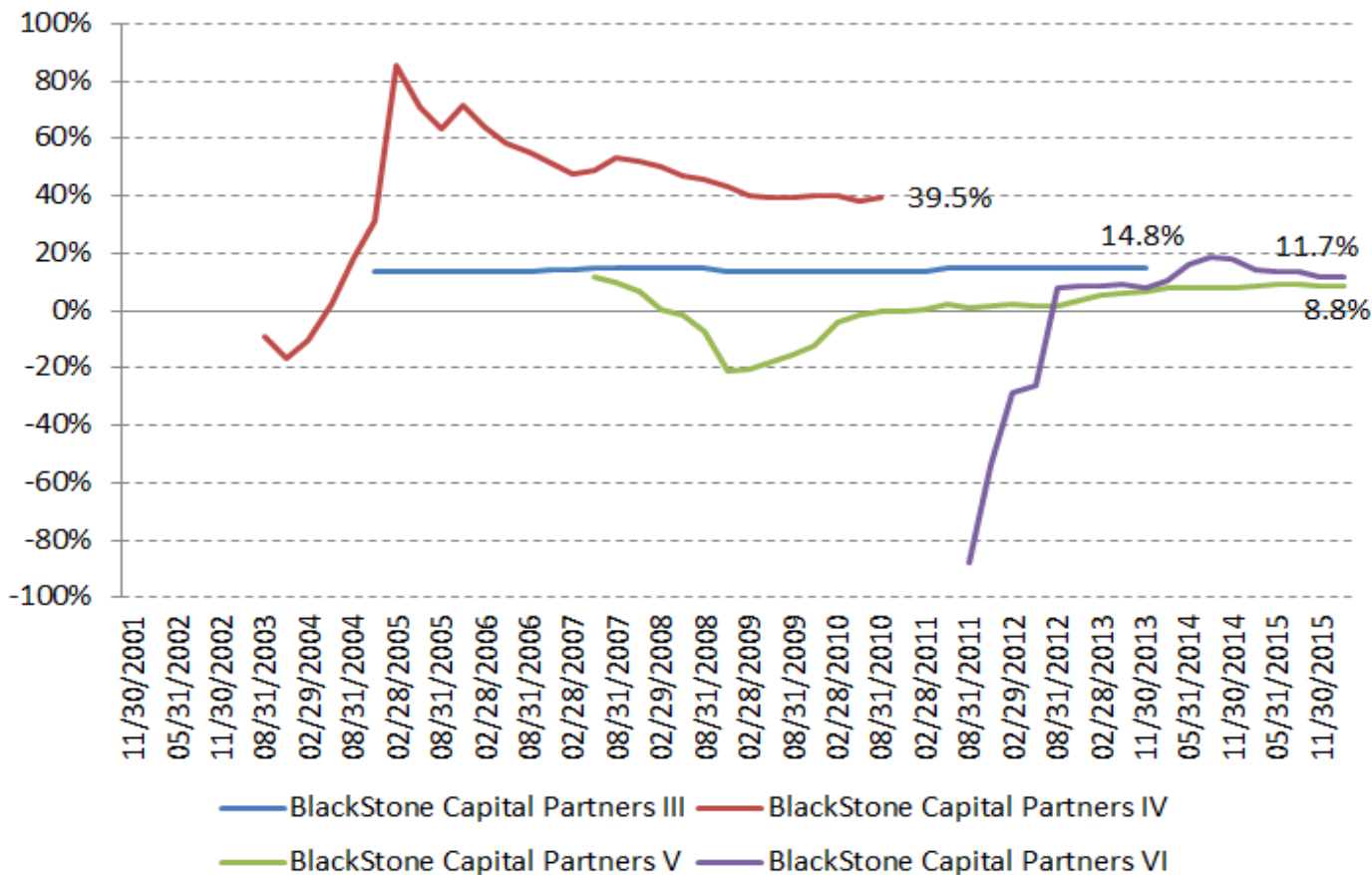
©Prequin 2016



Horizon	All	Buyout	Venture	Fund of Funds	Mezzanine	Real Estate
1 year to Dec 2000	10.1	3.6	38.1	-1.3	14.0	11.4
1 year to Dec 2001	-2.7	-3.2	-34.3	-5.2	13.8	7.8
1 year to Dec 2002	-9.1	-4.0	-31.6	-23.2	-2.1	6.7
1 year to Dec 2003	17.5	24.3	-6.0	-15.1	6.8	14.9
1 year to Dec 2004	25.0	30.3	7.1	7.5	20.4	19.8
1 year to Dec 2005	27.0	29.7	4.5	16.9	13.6	60.8
1 year to Dec 2006	29.1	32.3	15.8	17.9	31.7	42.6
1 year to Dec 2007	26.0	30.7	21.3	23.2	18.8	13.5
1 year to Dec 2008	-27.6	-31.0	-16.2	-12.0	4.0	-39.9
1 year to Dec 2009	13.8	16.7	5.0	0.2	2.3	-25.3
1 year to Dec 2010	18.8	22.6	10.9	13.3	8.6	4.7
1 year to Dec 2011	9.2	8.4	8.4	7.8	15.7	14.6
1 year to Dec 2012	12.9	15.1	7.0	8.7	10.0	6.5
1 year to Dec 2013	18.0	19.2	19.7	13.1	10.4	17.9
1 year to Dec 2014	14.4	14.5	21.7	18.3	14.6	18.8
1 year to Dec 2015	11.3	17.1	12.4	12.3	10.2	12.9

And **All** Alternative strategies according to Prequin **peaked** in **2013** at an **18% IRR** and have now rolled to just **11.3%** in the latest data. **All** categories except for **Buyout** are down in **2015** from **2014**

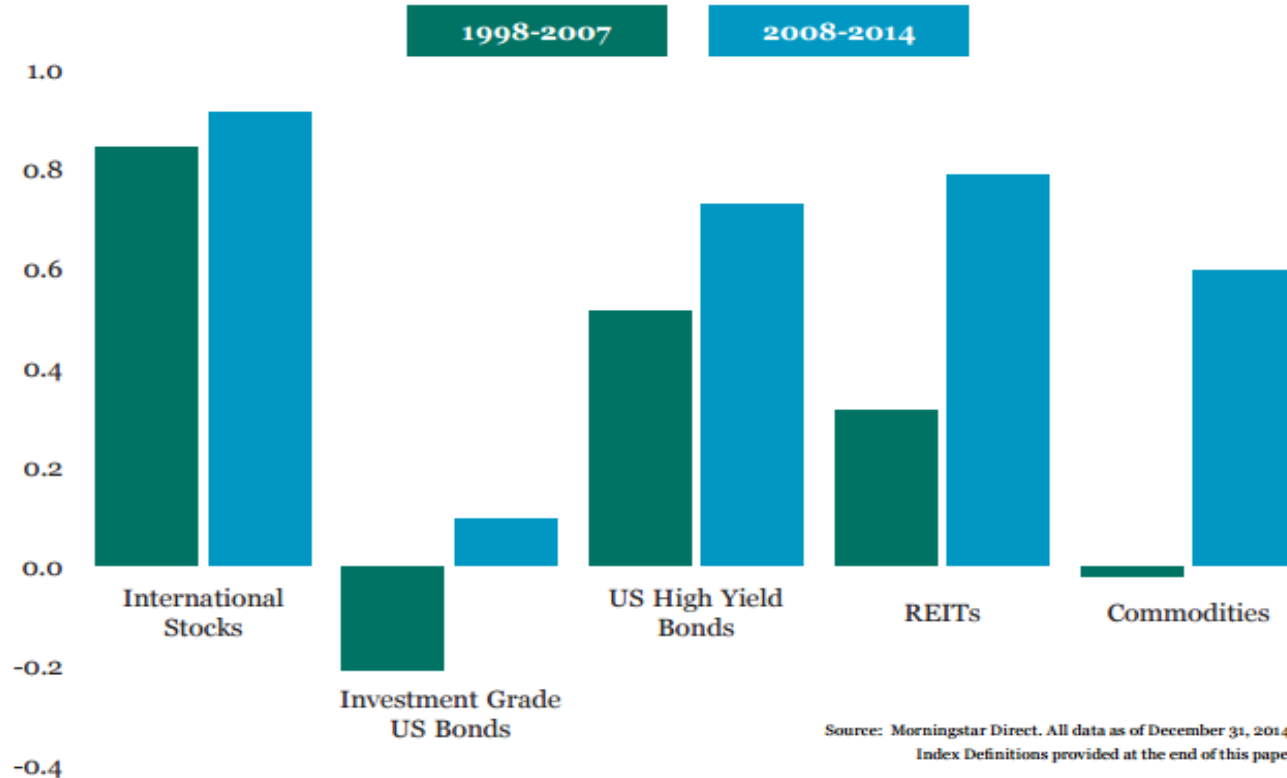
CYCLICALITY – WRONG PLACE & TIME



And while its **difficult** to find aggregated BX fund info, Bloomberg can extract **specific LP returns** and the **newest** vintages keep **comping lower** (with the exception of BCP VI slightly over BCP V currently)

DIVERSIFICATION?

Correlation of Key Asset Classes with the S&P 500 Index



While BX has **4 divisions** and each as a stand alone business would be a **market leader** that doesn't mean that all the divisions won't move **together** in a market drawdown

DIVERSIFICATION?

©Preqin 2016

preqin

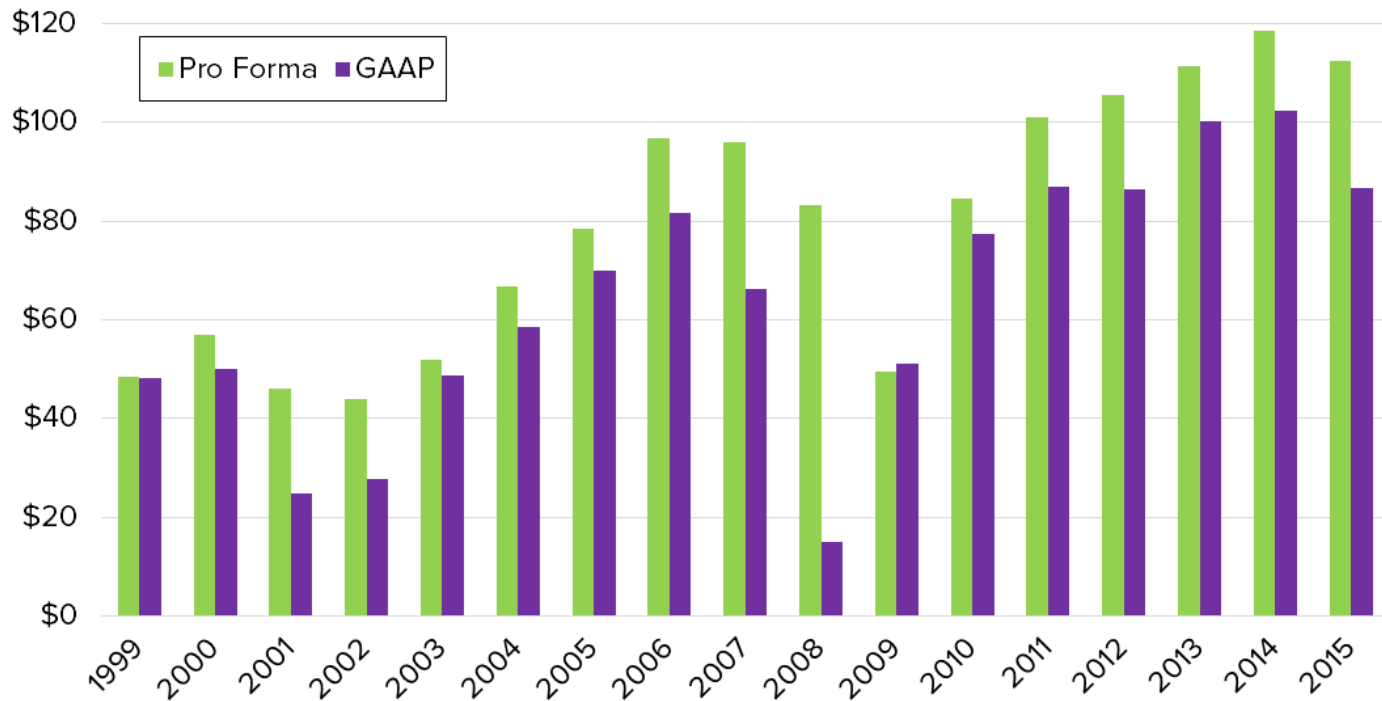
Horizon	All	Buyout	Venture	Fund of Funds	Mezzanine	Real Estate
1 year to Dec 2000	10.1	3.6	38.1	-1.3	14.0	11.4
1 year to Dec 2001	-2.7	-3.2	-34.3	-5.2	13.8	7.8
1 year to Dec 2002	-9.1	-4.0	-31.6	-23.2	-2.1	6.7
1 year to Dec 2003	17.5	24.3	-6.0	-15.1	6.8	14.9
1 year to Dec 2004	25.0	30.3	7.1	7.5	20.4	19.8
1 year to Dec 2005	27.0	29.7	4.5	16.9	13.6	60.8
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1 year to Dec 2013	18.0	19.2	19.7	13.1	10.4	17.9
1 year to Dec 2014	14.4	14.5	21.7	18.3	14.6	18.8
1 year to Dec 2015	11.3	17.1	12.4	12.3	10.2	12.9

	All	Buyout	Venture	Fund of Funds	Mezzanine	Real Estate	S&P500
All	1.00						
Buyout	0.98	1.00					
Venture	0.63	0.52	1.00				
Fund of Funds	0.72	0.66	0.70	1.00			
Mezzanine	0.61	0.53	0.47	0.66	1.00		
Real Estate	0.71	0.69	0.29	0.50	0.61	1.00	
S&P500	0.79	0.79	0.47	0.47	0.24	0.34	1.00

There are **no** negative R-values for the various categories of Alternative returns **across cycle**. There is **slight** diversification in the **Venture** category otherwise **all categories** show **minimal diversification** annually

EPS QUALITY STARTING TO MATTER

**S&P 500 Earnings Per Share, Annual,
Pro Forma Versus GAAP (1999 to 2015)**

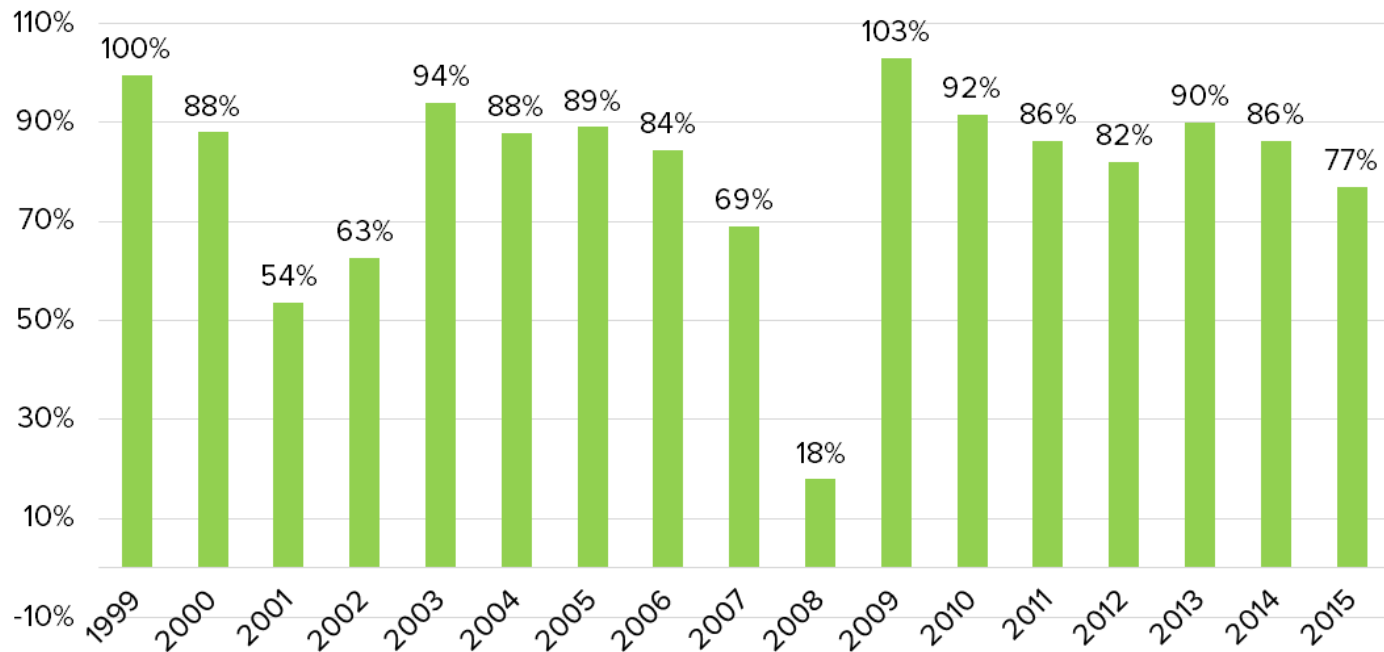


Source: FactSet (2016), S&P 500 Earnings and Estimate Report

We think that the **deterioration** in earnings quality shows management fighting **slowing growth** and earnings quality will start to matter again

EPS QUALITY STARTING TO MATTER

GAAP to PROFORMA Earnings Percentages (1999 to 2015)

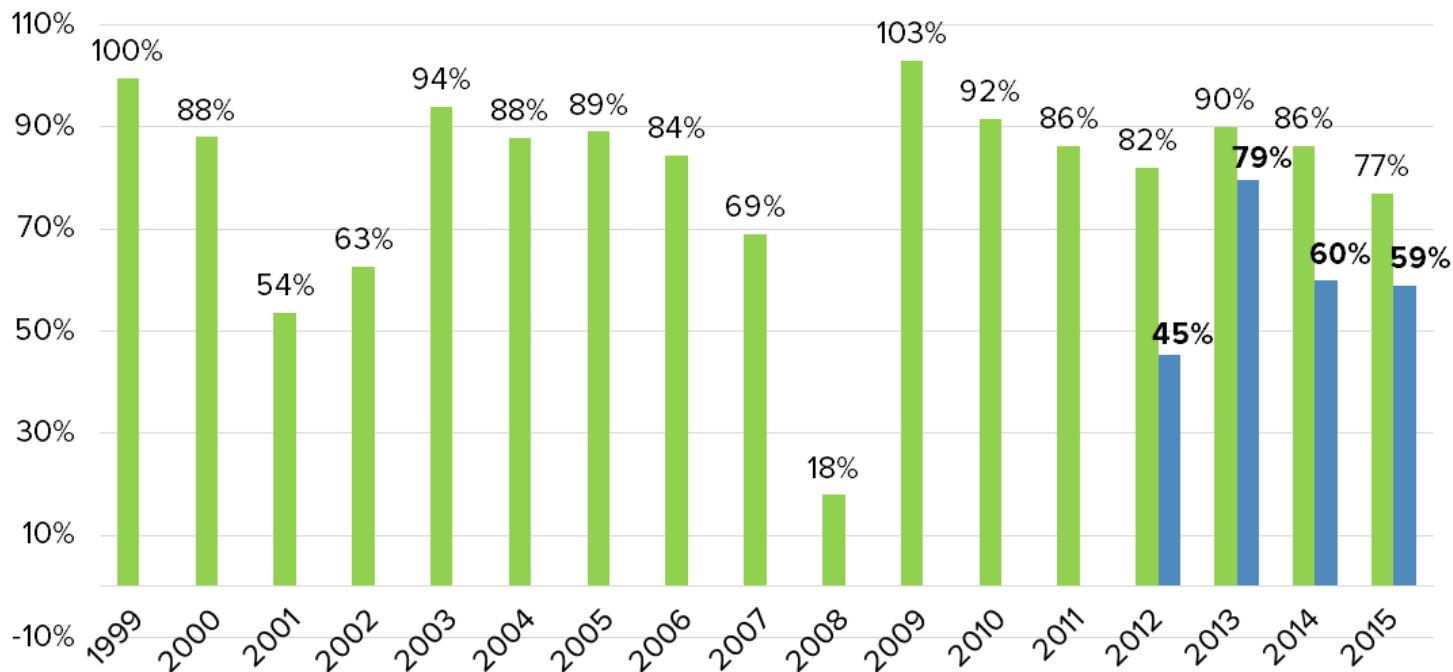


Source: FactSet (2016), S&P 500 Earnings and Estimate Report

And GAAP to Proforma percentages fit like a glove as **early** and **late** cycle indicators. Earnings quality has been deteriorating since **2009**

EPS QUALITY STARTING TO MATTER

GAAP to PROFORMA S&P 500 versus Alternatives Group

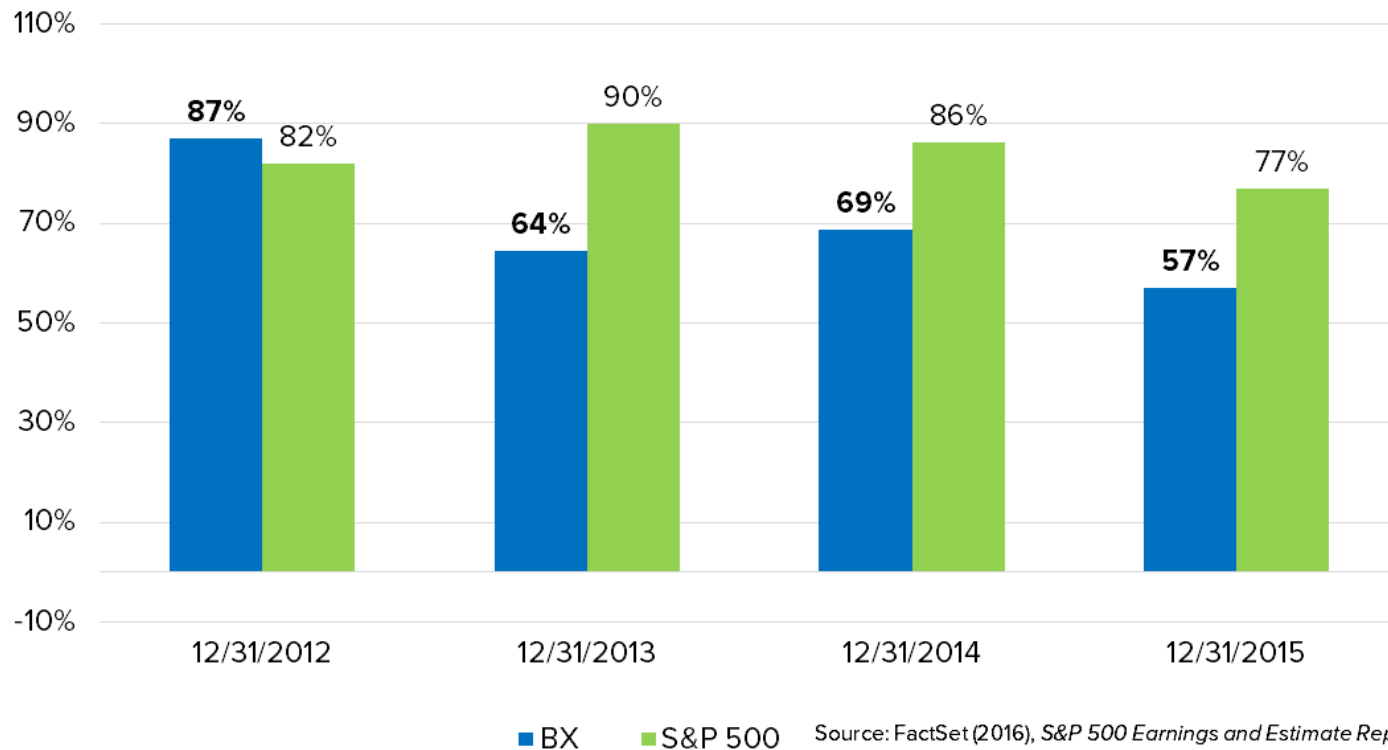


Source: FactSet (2016), S&P 500 Earnings and Estimate Report

And the Alternatives Group of BX, KKR, OAK, CG, OZM, APO, and FIG put up just **59%** of GAAP to Proforma, almost **20 points lower** than the broader S&P 500

EPS QUALITY STARTING TO MATTER

GAAP to PROFORMA Discount S&P 500 versus BlackStone (BX)

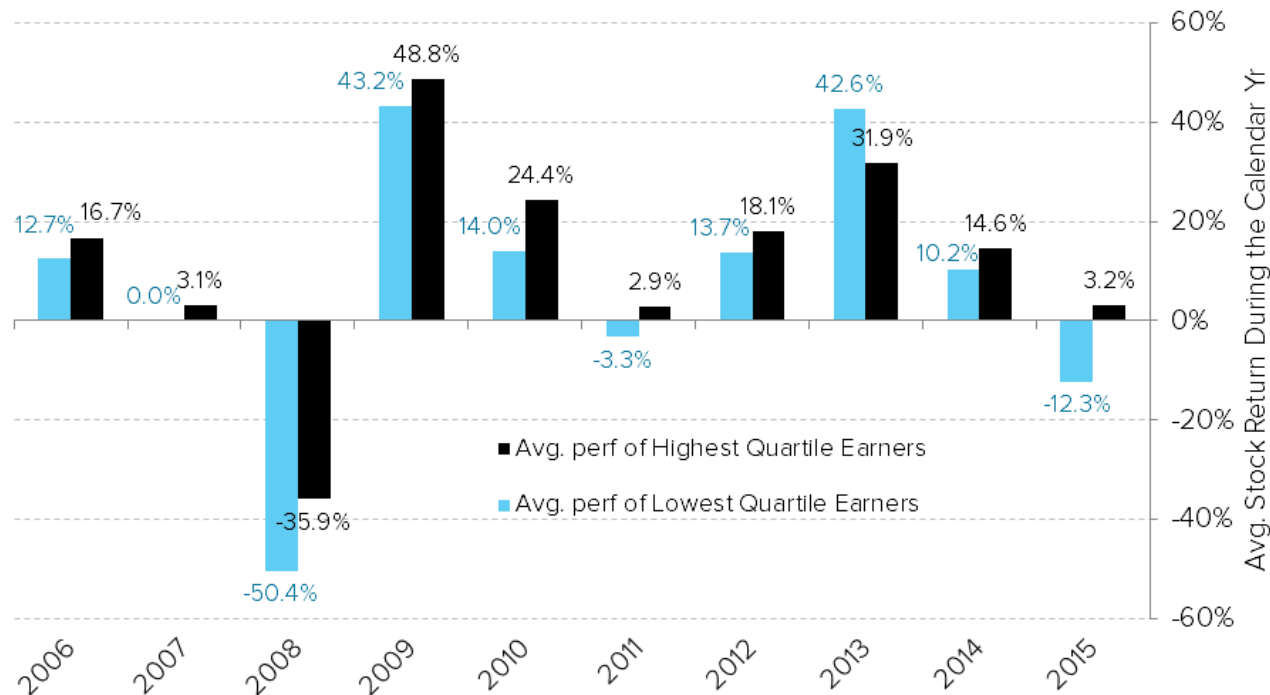


And BX earnings quality has **dropped precipitously** from 87% in 2012 and better than the S&P 500 mean to 57% last year...now **20 points below** the broader averages.

EPS QUALITY STARTING TO MATTER

GAAP VS NON-GAAP

Avg Annual Stock Performance of Lowest and Highest Earnings Quality in S&P 500



Source: FactSet

©2016 HEDGEYE RISK MANAGEMENT

And this does impact stock performance with the biggest Non GAAP offenders **underperforming** higher GAAP producers by **+5.5%** on average per year but with some years **well into double digit percentage differences**

WELL LIKED = HIGH HURDLE

Hedgeye Financials Sentiment Scoreboard

Banks and Thrifts		Brokers & AM		Specialty Finance		Insurance		Housing	
TICKER	SCORE	TICKER	SCORE	TICKER	SCORE	TICKER	SCORE	TICKER	SCORE
BAC	94	JMP	97	NCT	94	BRK.B	92	RLGY	93
FBP	92	LAZ	88	NNI	91	ACE	82	TOL	80
EWBC	92	AMG	88	DFS	86	CB	82	TMHC	67
C	91	ARES	83	MA	86	CNA	80	RMAX	63
JPM	90	ICE	83	EEFT	83	AMP	77	DHI	63
WAL	88	BLK	80	FLT	81	MMC	73	PHM	57
BPOP	87	ETFC	80	AGO	75	ERIE	73	LEN	57
FBC	84	BGCP	78	ALLY	74	MET	72	NVR	57
BK	84	BX	76	EFX	70	ESGR	72	SPF	57
WFC	82	SEIC	73	COF	69	AMSF	72	WLH	53
COF	80	IVZ	73	ESNT	69	THG	72	MDC	47
SBNY	80	SCHW	72	SLM	69	ALL	72	HOV	37
KEY	79	MS	72	VNTV	67	ENH	72	BZH	30
BBCN	73	KKR	71	TSS	67	AIG	71	MTH	20
STI	71	OAK	71	V	64	Y	70	KBH	17
PNC	70	FIG	68	STWD	62	NAVG	68		
BBT	69	AB	67	ORI	62	AWH	67		
USB	68	GS	65	LEAF	62	AHL	66		
FRC	68	CME	64	RDN	61	AEL	65		
ISBC	67	OZM	64	RWT	60	PRA	61		

Alternative AM	
TICKER	SCORE
ARES	88
BX	75
KKR	63
OAK	63
FIG	63
OZM	44
APO	31
CG	25

Fin Tech	
TICKER	SCORE

On our proprietary ranking of sell side ratings and short interest BX is **not** in the immediate danger zone of **>90**, however at a score of **76** is the **9th highest rated** sentiment score in Brokers and Asset Managers

WELL LIKED = HIGH HURDLE

Blackstone Group LP/The		
Consensus Rating		4.44
Buys	77.8%	14
Holds	22.2%	4
Sells	0.0%	0
12M Tgt Px	14/19	32.36
Last Price		27.29
Pricing Currency		USD
Return Potential		18.6%
LTM Return		-13.7%

Shrs Out/Float	569.0M/563.7M
SI/% of Float	9.4M/1.67%
Days to Cover	2.4

With **14** of a total **18** analysts in coverage recommending **Buying shares** and only 9.4 MM or **1.6%** short interest or **2.4** days to cover the **path of least resistance** is to the **downtside**

ALL PUB IS GOOD PUB OR IS IT?



Since the May 31, 2016 Forbes cover BX stock is **up +2.5%** but the Forbes highlight is again an **indication of positive sentiment** in our view which over time may signal to be **wrong** like the rest of the Forbes cover spotlights

THE FORBES EFFECT IS NEGATIVE



Respectively since Forbes publication to current day:

Telsa (TSLA) since Sept 7th 2016 cover is down **-22%**

Twitter (TWTR) – since October 28th, 2013 cover is down **-25%**

Carlyle Group (CG) since October 22, 2012 cover is down **-41%**

Las Vegas (LVS) since March 12th, 2012 cover is down **-2.5%**

RISKS – TRUMP/BILLARY TALK TOUGH

VCs Contend Their Carried Interest Isn't Like The Other Guys'

Venture capitalists will mount a campaign to show Washington why they're different from hedge funds and private equity.

By Lizette Chapman

(Bloomberg) -- Venture capitalists are now the ones making a pitch. As

During their campaigns, Hillary Clinton and Donald Trump have each singled out carried interest, calling it a tax loophole benefiting the rich. It's likely to be a topic of conversation on Wednesday among attendees at a Clinton fundraiser in Silicon Valley hosted by Apple Inc. Chief Executive Officer Tim Cook. "Outside of this being a populist topic, it doesn't make any sense," said Peter Barris, a managing general partner at New Enterprise Associates who has been at the VC firm for more than two decades. "We are playing around with the golden egg."

BOTH SIDES OF THE AISLE

Both Dems and Republican candidates have "talked" to carried interest reform which means the issue is a live one

RISKS – NOT GOOD THAT SEC WON ONE

Apollo to Pay \$52.8 Million Over Fee Practices

SEC says investigation found Apollo advisers failed to adequately disclose fees to detriment of fund investors

By [MARK MAREMONT](#) and MATT JARZEMSKY

 2 COMMENTS

Updated Aug. 23, 2016 12:51 p.m. ET

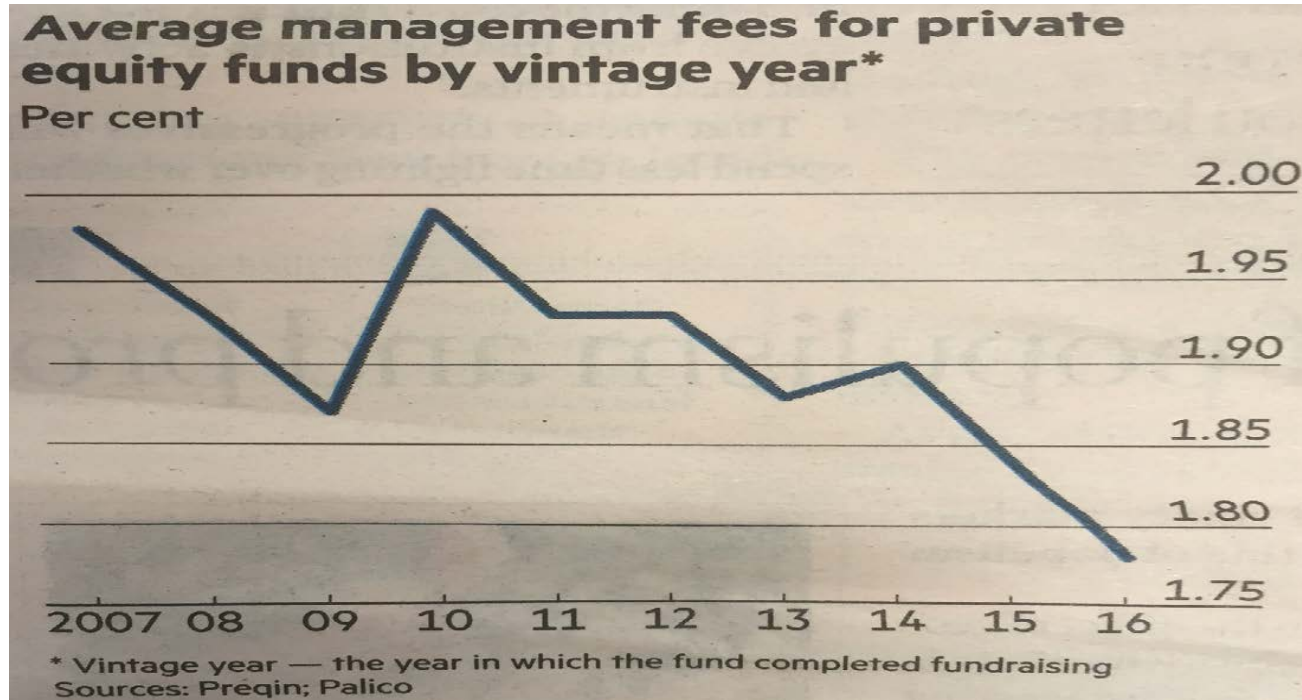
[Apollo Global Management](#) LLC agreed to pay \$52.8 million to settle Securities and Exchange Commission charges over its fee practices, the largest settlement to date by a private-equity firm in the agency's broad examination of the industry.

The SEC in its Tuesday announcement charged New York-based Apollo with failing to sufficiently disclose to its fund investors that it planned to collect large one-time fees from companies it sold or took public.

FEE PRESSURE WILL ONLY CONTINUE

Just “a day’s pay” at Apollo however the \$52 million settlement on insufficient disclosure won’t help industry positioning and the perception that the PE model is fee gouging

RISKS – NO UPSHOT IN FEES

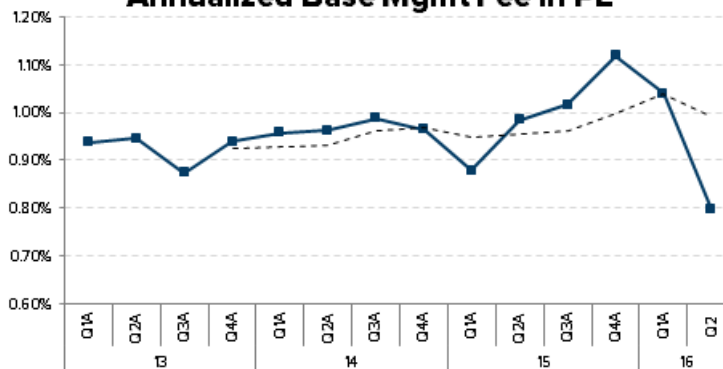


2% AND 20 (PERCENT DECLINES)

2% management fees are a bygone level and entering 2016, private equity vintages have broken through 180 basis points.

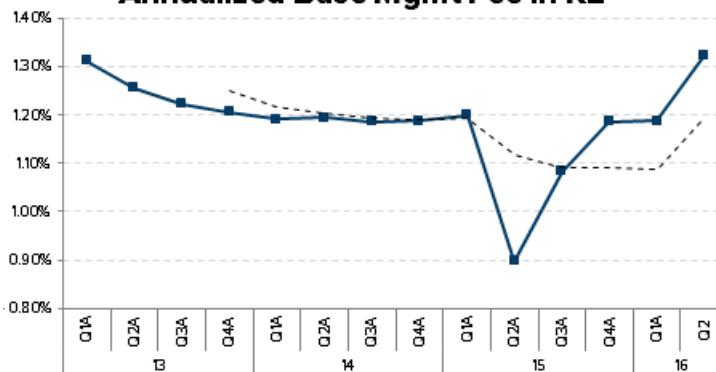
RISKS - BX FEES ARE FLAT TO DOWN

Annualized Base Mgmt Fee in PE



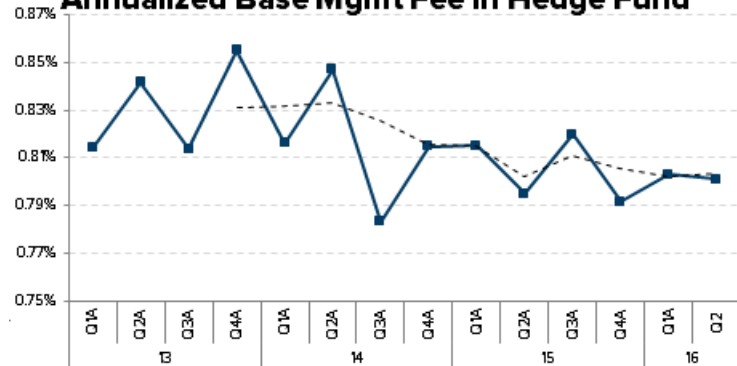
2016 HEDGEYE RISK MANAGEMENT

Annualized Base Mgmt Fee in RE



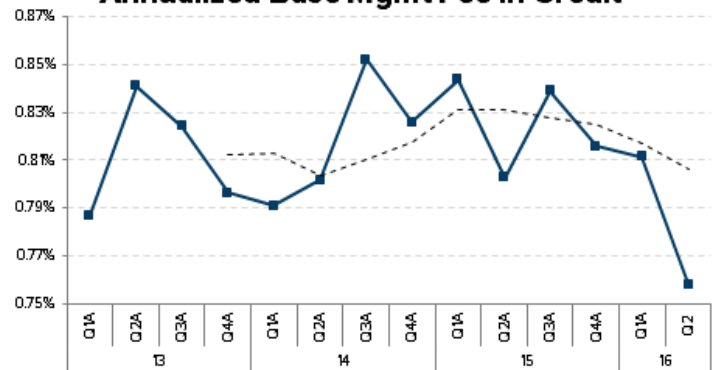
2016 HEDGEYE RISK MANAGEMENT

Annualized Base Mgmt Fee in Hedge Fund



2016 HEDGEYE RISK MANAGEMENT

Annualized Base Mgmt Fee in Credit



2016 HEDGEYE RISK MANAGEMENT

Most recent realization rates have started to drop in **3 of the 4** business lines with only **Real Estate (RE)** seeing increases. 4 quarter moving averages (dashed lines) are **dropping** in **Hedge Fund** and **Credit**

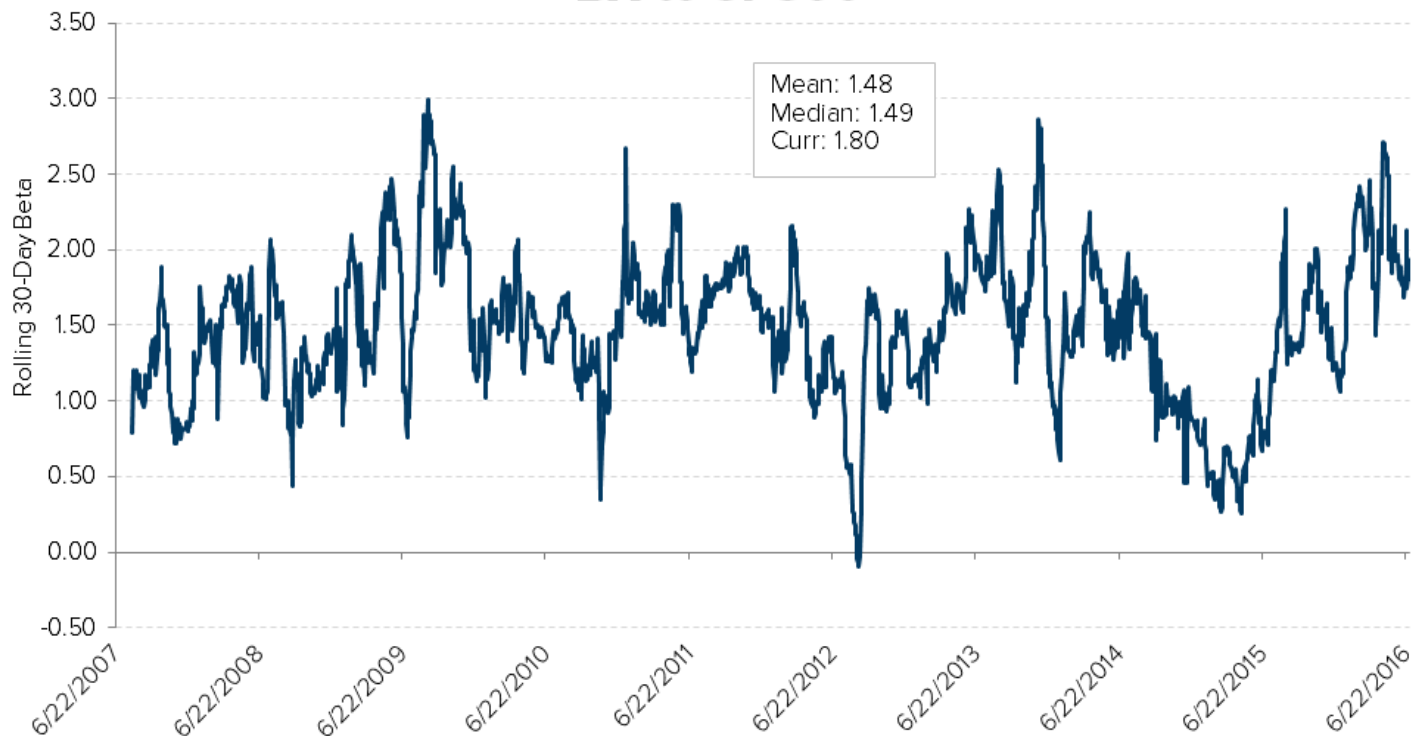
RISKS - COMPENSATION VEHICLE



The **only** **clustered buying** in the stock's history was near **\$5** per share in **2008** and since there has been **consistent clustered insider selling** all along the way with **3** insiders **selling** in 2016

SHORT HISTORY BUT HYPER CYCLICAL

ROLLING 30-DAY BETA BX to SP500



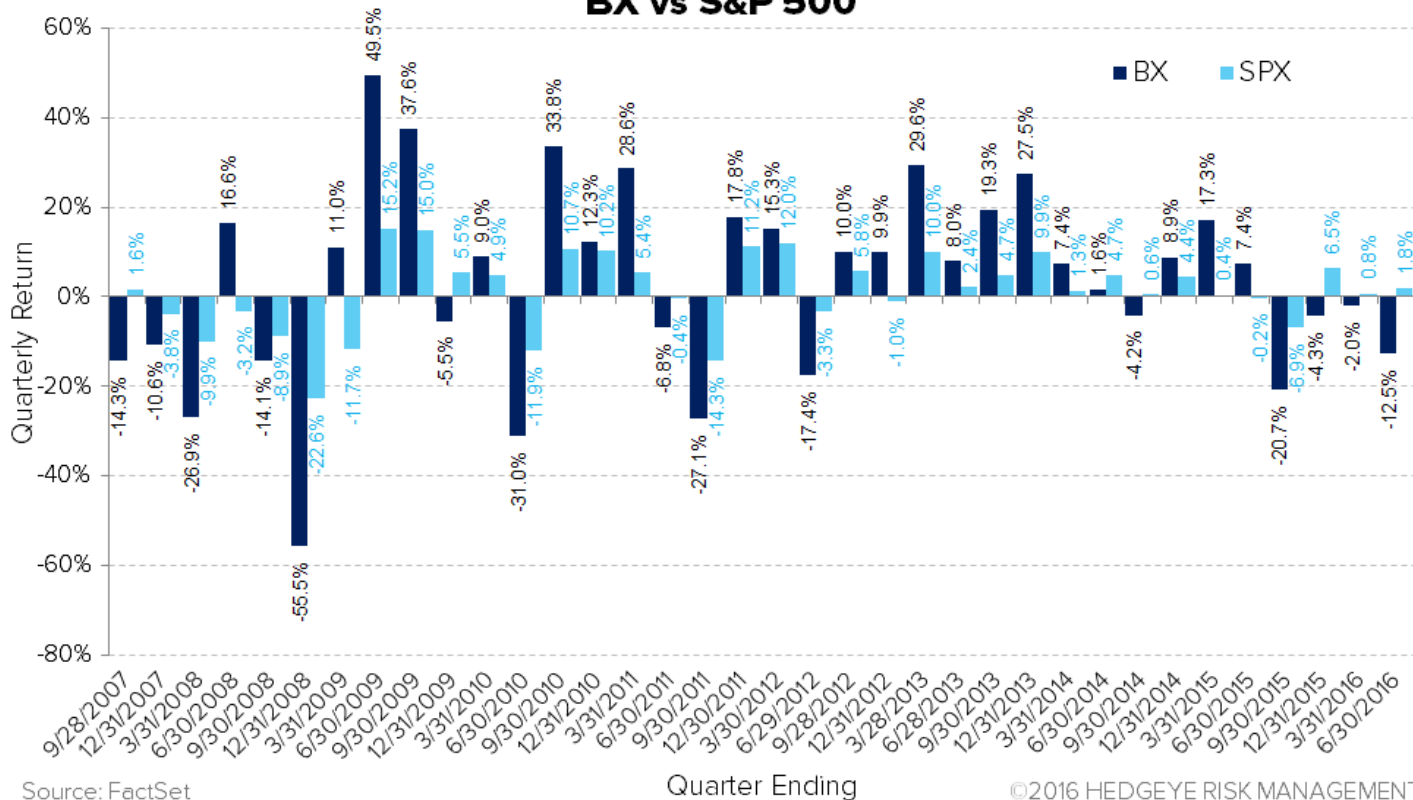
Source: Bloomberg

2016 HEDGEYE RISK MANAGEMENT

Investors **do not** have the luxury of understanding how BX stock acts **across cycle** but what is evident is that the stock is **hyper cyclical** and lives in a **~1.50** beta world with fits of market sensitivity over **2.50**

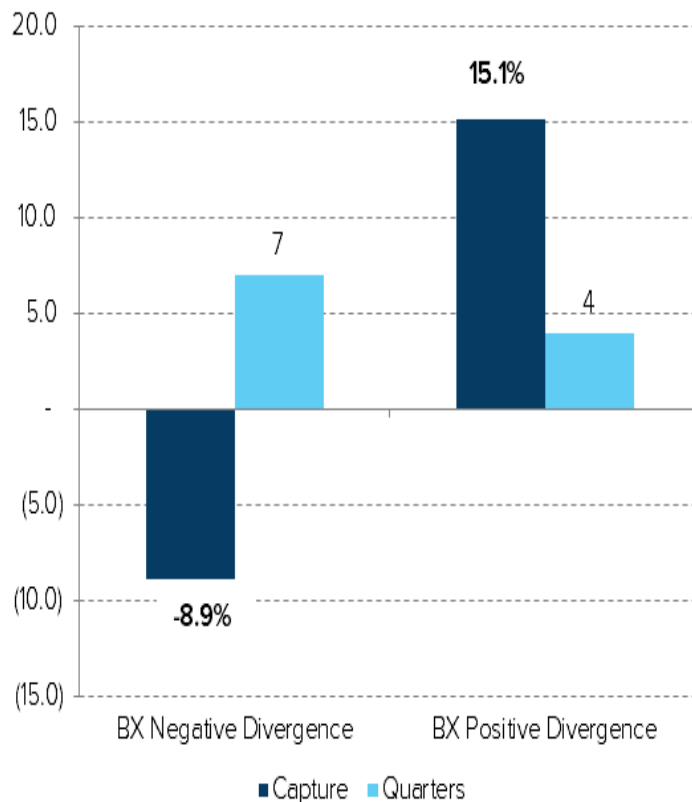
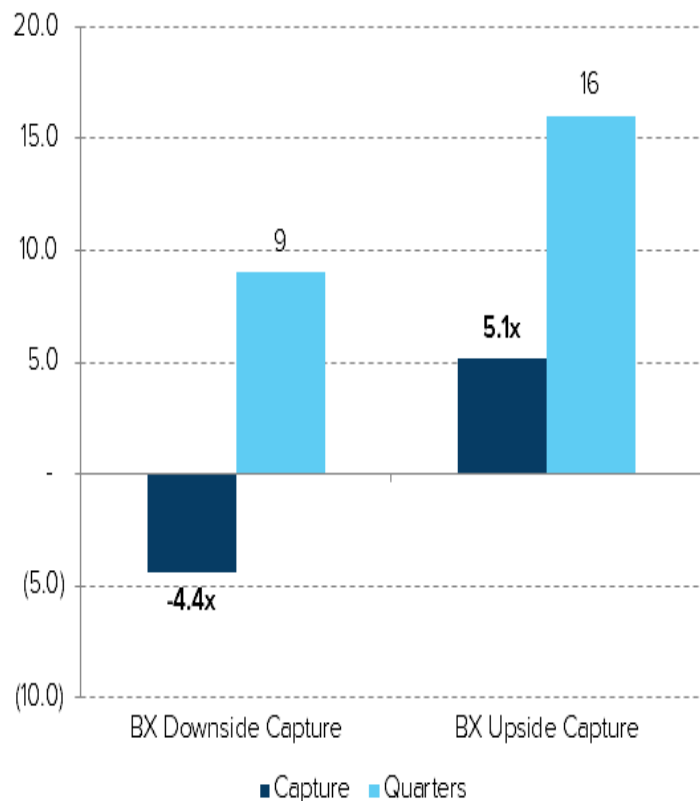
SHORT HISTORY BUT HYPER CYCLICAL

QUARTERLY RETURNS
BX vs S&P 500



The **whip** on BX stock is **astronomical** with quarters of substantial **underperformance** and then violent **snap backs**. All told in **36** quarters, BX has **underperformed** the S&P in **16** quarters but **magnitude** is greater than that

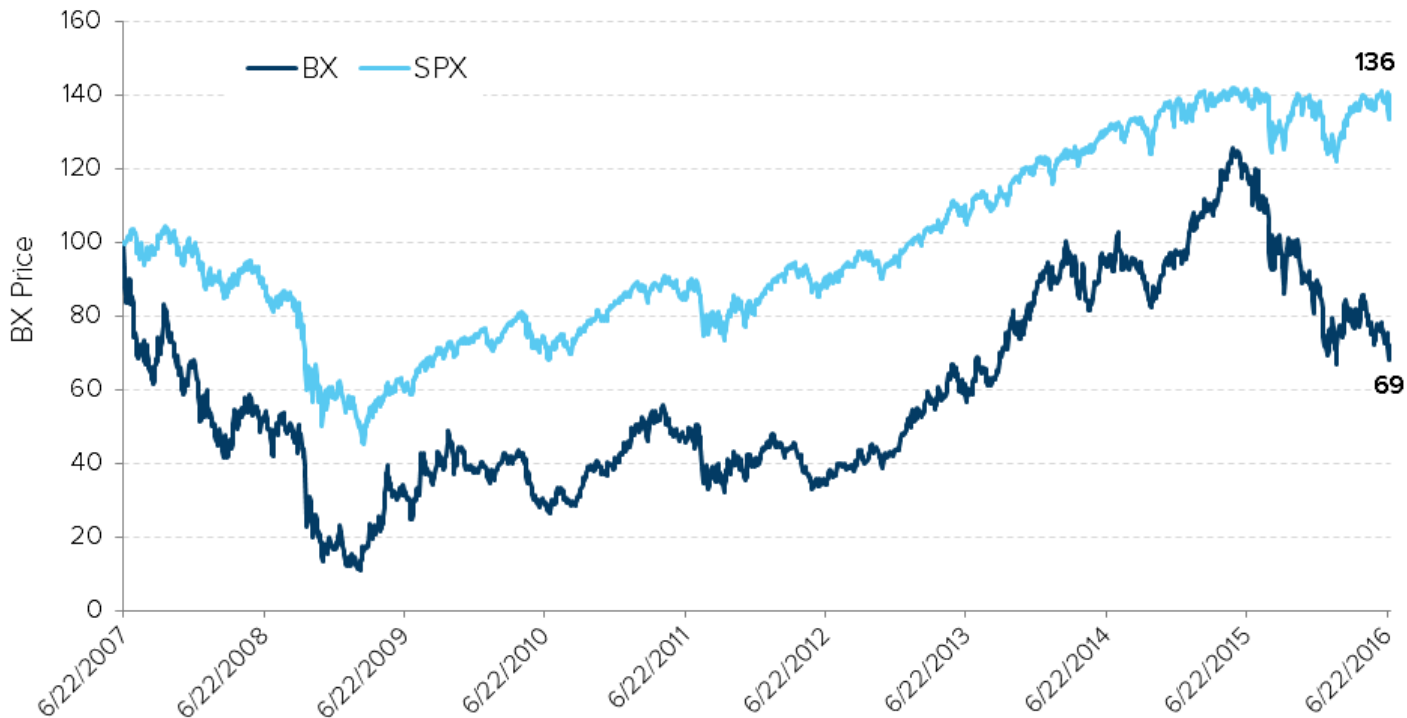
SHORT HISTORY BUT HYPER CYCLICAL



In the **36** quarters since being public there have been **9 qtrs** of both BX and the S&P going down with BX downside capture of **-4.4x**. Upside capture is **higher though** at **5.1x** in the **16 qtrs** where the S&P and BX stock **appreciated**

SHORT HISTORY BUT HYPER CYCLICAL

**PRICE APPRECIATION INDEXED TO 100
BX vs SP500**



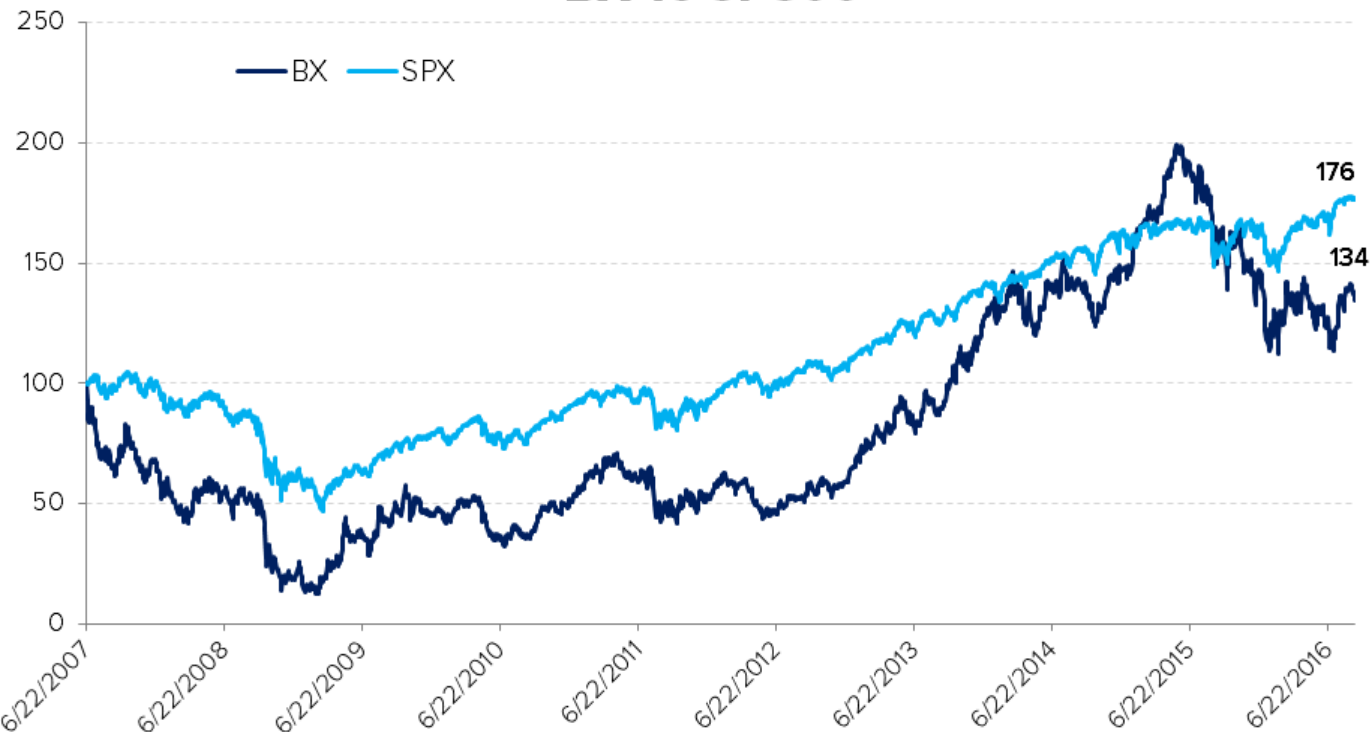
Source: Bloomberg

2016 HEDGEYE RISK MANAGEMENT

Stock price indexed to 100 has **not** been kind to original BX shareholders since the **2007 IPO** with the S&P up **+36%** since the first day of BX trading, with shares down - **31%** on a **price appreciation** basis

SHORT HISTORY BUT HYPER CYCLICAL

**TOTAL RETURN INDEXED TO 100
BX vs SP500**

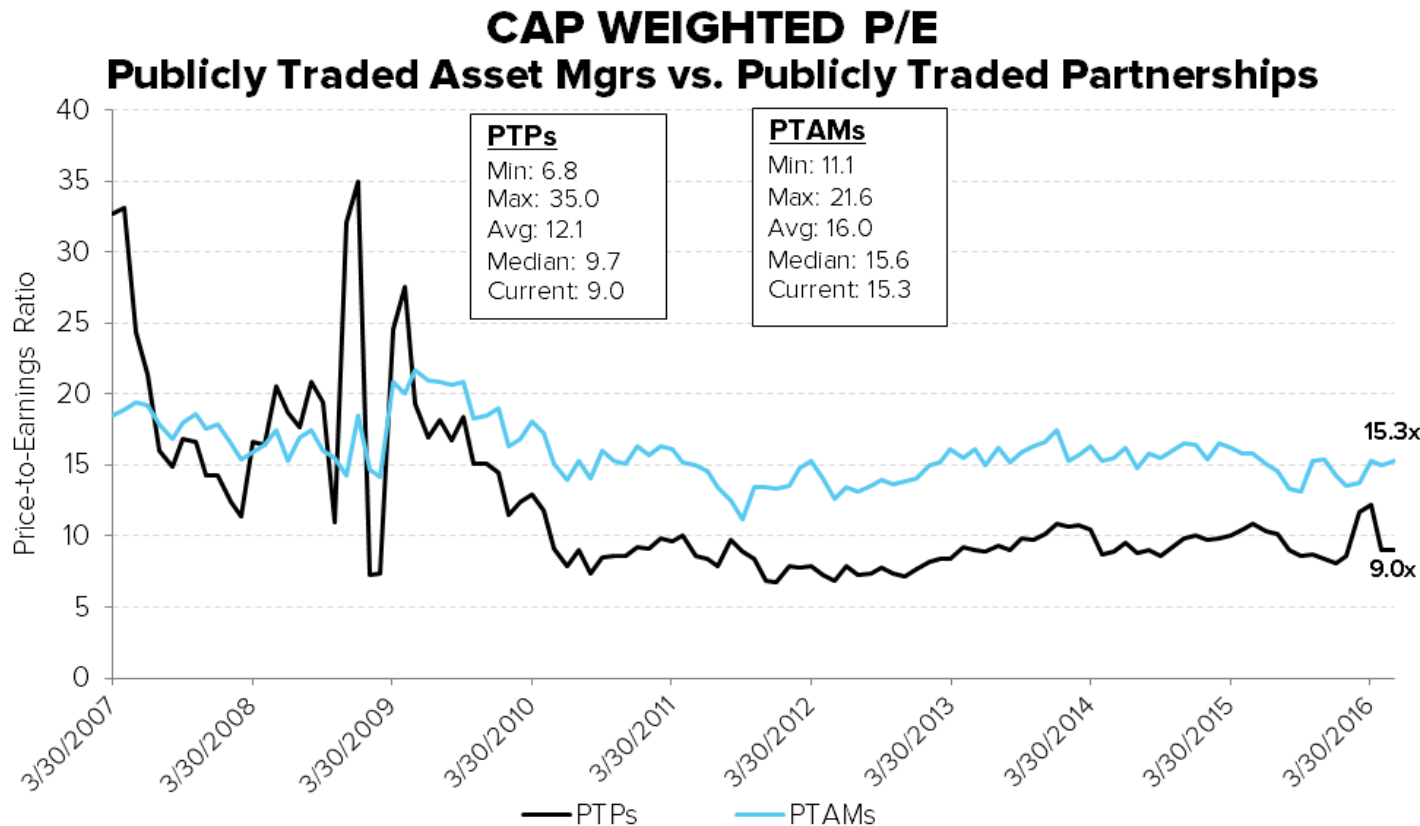


Source: FactSet

2016 HEDGEYE RISK MANAGEMENT

Total return with the **dividend orientation** of the stock screens **better** with the S&P up **+76%** and BX shares putting up a good return of **+34%** but still **underperforming** the indices **40 points** on a total return basis.

VALUATION IN THE EYE OF BEHOLDER



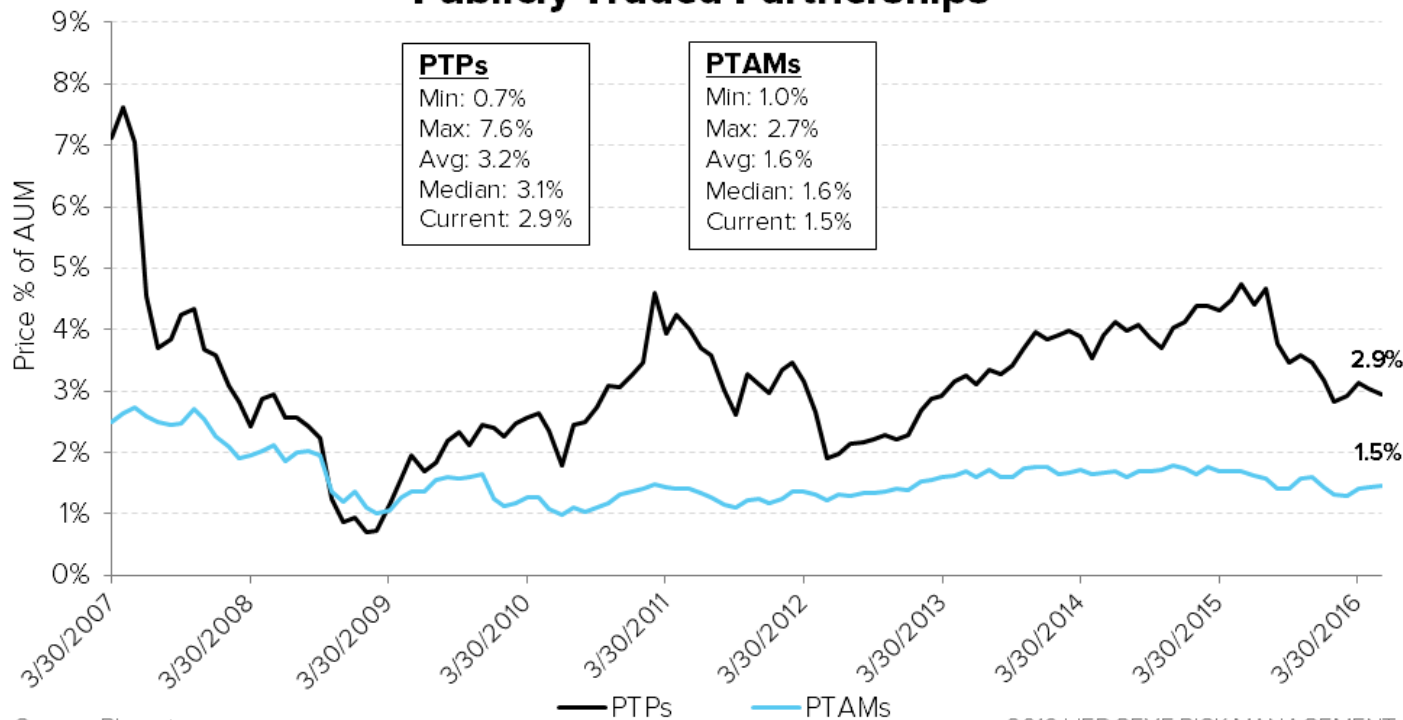
Source: Bloomberg

2016 HEDGEYE RISK MANAGEMENT

On a traditional PE basis the Alts trade at a substantial **discount** currently going out at **9.0x** versus the traditional asset managers at **15.3x**

VALUATION IN THE EYE OF BEHOLDER

CAP WEIGHTED P/AUM Publicly Traded Partnerships



Source: Bloomberg

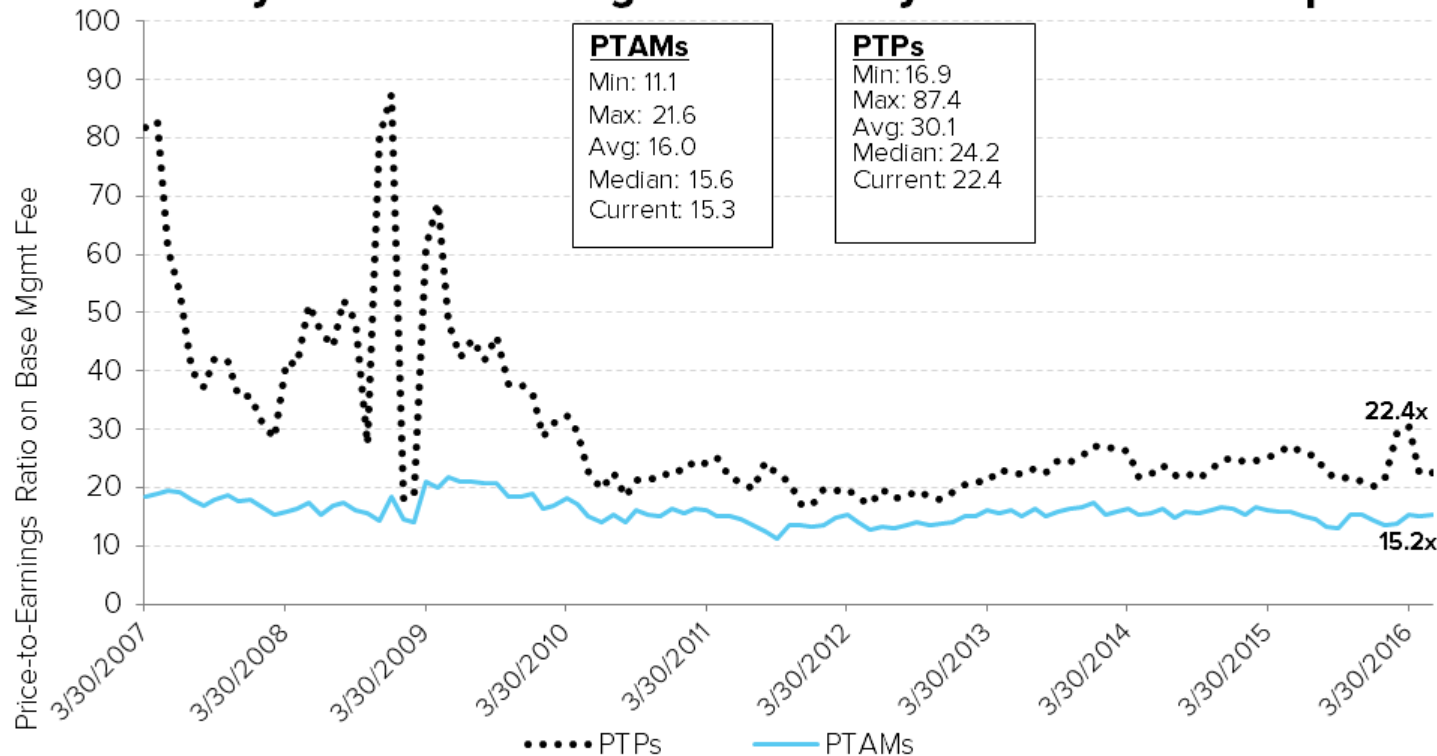
2016 HEDGEYE RISK MANAGEMENT

But on another popular score, **Market Cap/AUM** the group trades at a substantial **premium** at **2.9%** of assets under management versus just **1.5%** for traditionals

VALUATION IN THE EYE OF BEHOLDER

CAP WEIGHTED P/E on BASE MGMT FEE

Publicly Traded Asset Mgrs vs. Publicly Traded Partnerships



Source: Bloomberg

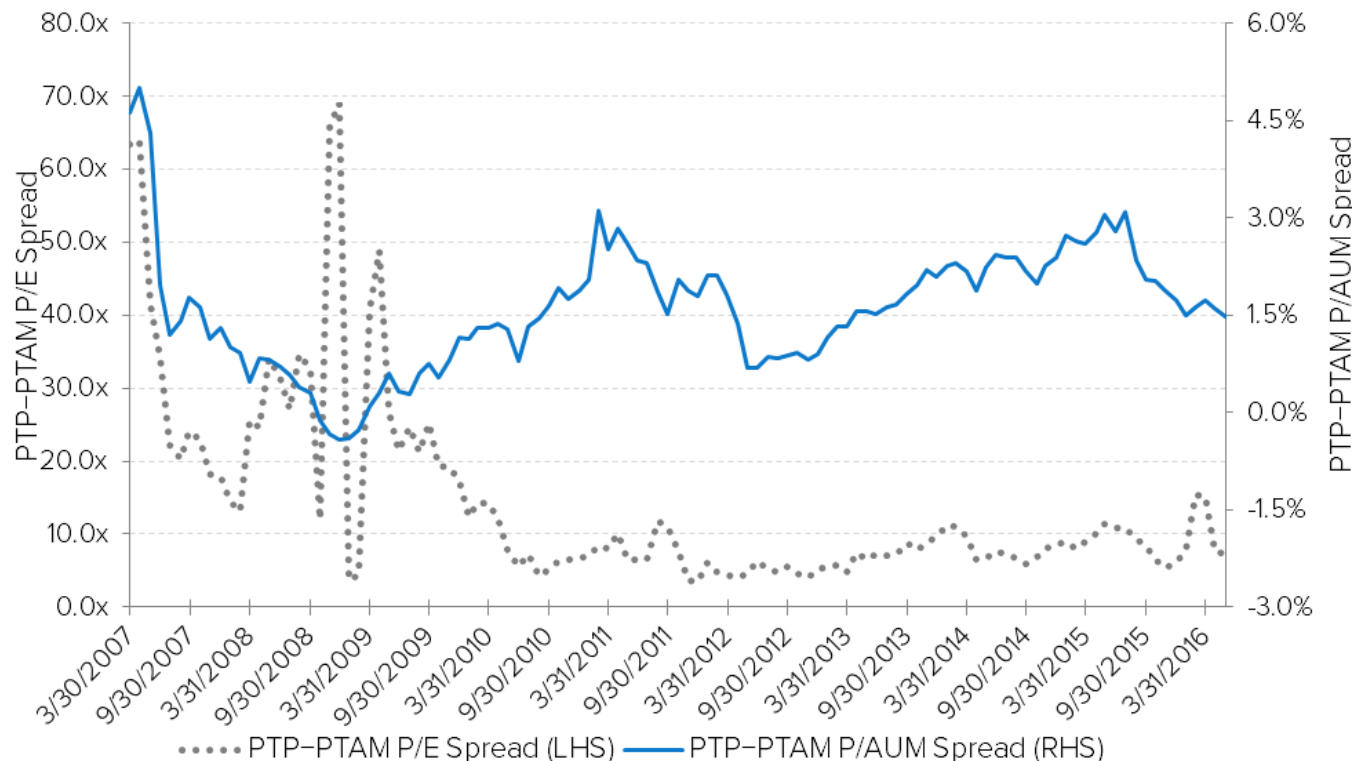
2016 HEDGEYE RISK MANAGEMENT

But on a true **apples-to-apples** basis to compare them to the **traditional asset managers** you have to use only **FRE earnings** or **base management fees** where the Alts are **expensive**

VALUATION IN THE EYE OF BEHOLDER

VALUATION SPREADS

Publicly Traded Partnerships – Publicly Traded Asset Mgrs



Source: Bloomberg

2016 HEDGEYE RISK MANAGEMENT

Looking at only **FRE** or base management fee related earnings turns any **discount** to the traditional asset managers on its **head** with the Alt group at a **7x premium** on PE and maintaining the **150 bps premium** on AUM

MULTIPLES WILL BE THE KEY

	FRE Per Share		Multiple on EPS	Equity Value	
Bear	\$	0.90	11.0x	\$	9.90
Base	\$	1.00	15.0x	\$	15.00
Bull	\$	1.15	20.0x	\$	23.00
	Performance Fees Per Share		Multiple on EPS	Equity Value	
Bear	\$	0.90	5.5x	\$	4.95
Base	\$	1.13	7.5x	\$	8.48
Bull	\$	1.30	10.0x	\$	13.00
Bear				\$	14.85
Base				\$	23.48
Bull				\$	36.00

HEDGEYE Valuation	\$15-20
Street Consensus	\$32

There is likely **little deviation** in numbers for '16 and '17 with the **“AUM in the ground”** but the numbers past 2017 will be a multiple/growth game. We **don't** see performance fees getting **higher** multiples at this point in the cycle

DISTRIBUTION CUTS ARE DEATH

When Alternative manager Och Ziff started to **cut its distribution** sourced by lackluster performance and the FCPA investigation, the **stock lost 2/3's of its value**



THESIS:

1

PERFORMANCE DEPENDENCE

The BlackStone story is one of strength and market share dominance but the distribution for the first time ever is heavily dependent on accrued performance fee balances which have been in decline since 2015. We estimate 2017 will see the biggest depletion of accrued fees in its history.

2

HYPER CYCLICAL

With a short public company tenure and with the private nature of its deal related income, BX shareholders have not seen a full economic cycle yet. That said, with fundamentals showing high betas to cyclical indicators we think investors risk overstaying their welcome late cycle versus missing an incremental move higher in the stock.

3

SENTIMENT IS AN ANCHOR WHEN WELL LIKED

BlackStone is a great company and sports similar ratings from the Sell Side community with also small short interest balances indicating a long bias on the Buy Side. This setup makes for asymmetry to the downside with longer term risks of fee compression, regulatory changes, and high valuation largely being ignored.

FOR MORE INFORMATION, CONTACT US AT:

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