

Blackstone Group L.P.
Form 10-Q
November 08, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

X **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2016**
OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO**
Commission File Number: 001-33551

The Blackstone Group L.P.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

20-8875684
(I.R.S. Employer
Identification No.)

345 Park Avenue

New York, New York 10154

(Address of principal executive offices)(Zip Code)

(212) 583-5000

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(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of the Registrant's voting common units representing limited partner interests outstanding as of November 2, 2016 was 571,989,912. The number of the Registrant's non-voting common units representing limited partner interests outstanding as of November 2, 2016 was 59,083,468.

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Forward-Looking Statements

This report may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 which reflect our current views with respect to, among other things, our operations and financial performance. You can identify these forward-looking statements by the use of words such as outlook, indicator, believes, expects, potential, continues, will, should, seeks, approximately, predicts, intends, plans, estimates, anticipates or the negative version of these words or other words. Such forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. We believe these factors include but are not limited to those described under the section entitled Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2015 and in this report, as such factors may be updated from time to time in our periodic filings with the United States Securities and Exchange Commission (SEC), which are accessible on the SEC's website at www.sec.gov. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report and in our other periodic filings. The forward-looking statements speak only as of the date of this report, and we undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

Website and Social Media Disclosure

We use our website (www.blackstone.com), Facebook page (www.facebook.com/blackstone), Twitter (www.twitter.com/blackstone), LinkedIn (www.linkedin.com/company/the-blackstone-group), Instagram (instagram.com/Blackstone) and YouTube (www.youtube.com/user/blackstonegroup) accounts as channels of distribution of company information. The information we post through these channels may be deemed material. Accordingly, investors should monitor these channels, in addition to following our press releases, SEC filings and public conference calls and webcasts. In addition, you may automatically receive e-mail alerts and other information about Blackstone when you enroll your e-mail address by visiting the Contact Us/Email Alerts section of our website at <http://ir.blackstone.com>. The contents of our website, any alerts and social media channels are not, however, a part of this report.

In this report, references to Blackstone, the Partnership, we, us or our refer to The Blackstone Group L.P. and its consolidated subsidiaries. Unless the context otherwise requires, references in this report to the ownership of Mr. Stephen A. Schwarzman, our founder, and other Blackstone personnel include the ownership of personal planning vehicles and family members of these individuals.

Blackstone Funds, our funds and our investment funds refer to the private equity funds, real estate funds, funds of hedge funds, credit-focused funds, collateralized loan obligation (CLO) and collateralized debt obligation (CDO) vehicles, real estate investment trusts and registered investment companies that are managed by Blackstone. Our carry funds refers to the private equity funds, real estate funds and certain of the credit-focused funds (with multi-year drawdown, commitment-based structures that only pay carry on the realization of an investment) that are managed by Blackstone. Blackstone's Private Equity segment comprises its management of corporate private equity funds (including our sector focused funds), which we refer to collectively as our Blackstone Capital Partners (BCP) funds, our Blackstone Core Equity Partners (BCEP) fund, our opportunistic investment platform that invests globally across asset classes, industries and geographies, which we collectively refer to as Blackstone Tactical Opportunities (Tactical Opportunities), Strategic Partners Fund Solutions (Strategic Partners), a secondary private fund of funds business, Blackstone Total Alternatives Solution (BTAS), a multi-asset investment program for eligible high net worth investors offering exposure to certain of our key illiquid investment strategies through a single commitment, and our capital markets services business (BXXM). We refer to our real estate opportunistic funds as our Blackstone Real Estate Partners (BREP) funds and our real estate debt investment funds as our Blackstone Real Estate Debt Strategies (BREDS) funds. We refer to our core+ real estate

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funds, which target substantially stabilized assets generating relatively stable cash flow, as Blackstone Property Partners (BPP) funds. We refer to our real estate investment trusts as REITs and to our listed REIT as BXMT. We refer to Blackstone Real Estate Income Trust, Inc., a non-listed REIT formed to invest primarily in stabilized income-oriented commercial real estate in the United States, as BREIT. Our hedge funds refers to our funds of hedge funds, certain of our real estate debt investment funds, including a registered investment company, and certain other credit-focused funds which are managed by Blackstone.

Assets Under Management refers to the assets we manage. Our Assets Under Management equals the sum of:

- (a) the fair value of the investments held by our carry funds and our side-by-side and co-investment entities managed by us, plus the capital that we are entitled to call from investors in those funds and entities pursuant to the terms of their respective capital commitments, including capital commitments to funds that have yet to commence their investment periods, plus for certain credit-oriented funds the amounts available to be borrowed under asset based credit facilities,
- (b) the net asset value of our funds of hedge funds, hedge funds, open ended core+ real estate fund, certain registered investment companies, and BREIT,
- (c) the invested capital or fair value of assets we manage pursuant to separately managed accounts,
- (d) the amount of debt and equity outstanding for our CLOs and CDOs during the reinvestment period,
- (e) the aggregate par amount of collateral assets, including principal cash, for our CLOs and CDOs after the reinvestment period,
- (f) the gross amount of assets (including leverage) for certain of our credit-focused registered investment companies, and
- (g) the fair value of common stock, preferred stock, convertible debt, or similar instruments issued by BXMT.

Our carry funds are commitment-based drawdown structured funds that do not permit investors to redeem their interests at their election. Our funds of hedge funds, hedge funds and funds structured like hedge funds in our Hedge Fund Solutions, Credit and Real Estate segments generally have structures that afford an investor the right to withdraw or redeem their interests on a periodic basis (for example, annually or quarterly), typically with 30 to 95 days notice, depending on the fund and the liquidity profile of the underlying assets. Investment advisory agreements related to certain separately managed accounts in our Hedge Fund Solutions and Credit segments may generally be terminated by an investor on 30 to 90 days notice.

Fee-Earning Assets Under Management refers to the assets we manage on which we derive management and/or performance fees. Our Fee-Earning Assets Under Management equals the sum of:

- (a) for our Private Equity segment funds and Real Estate segment carry funds including certain real estate debt investment funds and certain of our Hedge Fund Solutions funds, the amount of capital commitments, committed investable capital, remaining invested capital, fair value or par value of assets held, depending on the fee terms of the fund,
- (b) for our credit-focused carry funds, the amount of remaining invested capital (which may include leverage) or net asset value, depending on the fee terms of the fund,

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- (c) the remaining invested capital of co-investments managed by us on which we receive fees,
- (d) the net asset value of our funds of hedge funds, hedge funds, open ended core+ real estate fund, certain real estate separately managed accounts, certain registered investment companies, and BREIT,
- (e) the invested capital, fair value of assets or the net asset value we manage pursuant to separately managed accounts,
- (f) the net proceeds received from equity offerings and accumulated core earnings of BXMT, subject to certain adjustments,

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- (g) the aggregate par amount of collateral assets, including principal cash, of our CLOs, CDOs and certain credit focused separately managed accounts, and

- (h) the gross amount of assets (including leverage) or the net assets (plus leverage where applicable) for certain of our credit-focused registered investment companies.

Each of our segments includes certain Fee-Earning Assets Under Management on which we earn performance fees but not management fees.

Our calculations of assets under management and fee-earning assets under management may differ from the calculations of other asset managers, and as a result this measure may not be comparable to similar measures presented by other asset managers. In addition, our calculation of assets under management includes commitments to, and the fair value of, invested capital in our funds from Blackstone and our personnel, regardless of whether such commitments or invested capital are subject to fees. Our definitions of assets under management or fee-earning assets under management are not based on any definition of assets under management or fee-earning assets under management that is set forth in the agreements governing the investment funds that we manage.

For our carry funds, total assets under management includes the fair value of the investments held, whereas fee-earning assets under management includes the amount of capital commitments, the remaining amount of invested capital at cost depending on whether the investment period has or has not expired or the fee terms of the fund. As such, fee-earning assets under management may be greater than total assets under management when the aggregate fair value of the remaining investments is less than the cost of those investments.

This report does not constitute an offer of any Blackstone Fund.

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****THE BLACKSTONE GROUP L.P.****Condensed Consolidated Statements of Financial Condition (Unaudited)****(Dollars in Thousands, Except Unit Data)**

	September 30, 2016	December 31, 2015
Assets		
Cash and Cash Equivalents	\$ 1,781,882	\$ 1,837,324
Cash Held by Blackstone Funds and Other	1,108,967	587,132
Investments (including assets pledged of \$96,142 and \$64,535 at September 30, 2016 and December 31, 2015, respectively)	15,957,934	14,324,097
Accounts Receivable	506,892	613,153
Reverse Repurchase Agreements	89,326	204,893
Due from Affiliates	1,310,412	1,240,797
Intangible Assets, Net	278,219	345,547
Goodwill	1,718,519	1,718,519
Other Assets	373,479	377,189
Deferred Tax Assets	1,287,890	1,277,429
Total Assets	\$ 24,413,520	\$ 22,526,080
Liabilities and Partners' Capital		
Loans Payable	\$ 7,244,634	\$ 6,116,747
Due to Affiliates	1,309,901	1,282,700
Accrued Compensation and Benefits	2,292,718	2,029,918
Securities Sold, Not Yet Purchased	176,218	176,667
Repurchase Agreements	62,095	40,929
Accounts Payable, Accrued Expenses and Other Liabilities	973,919	648,662
Total Liabilities	12,059,485	10,295,623
Commitments and Contingencies		
Redeemable Non-Controlling Interests in Consolidated Entities	194,150	183,459
Partners' Capital		
The Blackstone Group L.P. Partners' Capital		
Partners' Capital (common units: 638,251,760 issued and outstanding as of September 30, 2016; 624,450,162 issued and outstanding as of December 31, 2015)	6,344,792	6,322,307
Accumulated Other Comprehensive Loss	(47,470)	(52,519)
Total The Blackstone Group L.P. Partners' Capital	6,297,322	6,269,788
Non-Controlling Interests in Consolidated Entities	2,519,718	2,408,701
Non-Controlling Interests in Blackstone Holdings	3,342,845	3,368,509
Total Partners' Capital	12,159,885	12,046,998

Total Liabilities and Partners' Capital	\$ 24,413,520	\$ 22,526,080
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continued

See notes to condensed consolidated financial statements.

Table of Contents**THE BLACKSTONE GROUP L.P.****Condensed Consolidated Statements of Financial Condition (Unaudited)****(Dollars in Thousands)**

The following presents the portion of the consolidated balances presented above attributable to consolidated Blackstone Funds which are variable interest entities. The following assets may only be used to settle obligations of these consolidated Blackstone Funds and these liabilities are only the obligations of these consolidated Blackstone Funds and they do not have recourse to the general credit of Blackstone.

	September 30, 2016	December 31, 2015
Assets		
Cash Held by Blackstone Funds and Other	\$ 890,659	\$ 435,775
Investments	5,402,121	4,558,216
Accounts Receivable	157,039	122,077
Due from Affiliates	25,088	25,561
Other Assets	3,582	12,693
Total Assets	\$ 6,478,489	\$ 5,154,322
Liabilities		
Loans Payable	\$ 4,443,181	\$ 3,319,656
Due to Affiliates	106,401	39,532
Securities Sold, Not Yet Purchased	66,504	58,878
Repurchase Agreements	56,328	31,417
Accounts Payable, Accrued Expenses and Other Liabilities	403,109	226,203
Total Liabilities	\$ 5,075,523	\$ 3,675,686

See notes to condensed consolidated financial statements.

Table of Contents**THE BLACKSTONE GROUP L.P.****Condensed Consolidated Statements of Operations (Unaudited)****(Dollars in Thousands, Except Unit and Per Unit Data)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues				
Management and Advisory Fees, Net	\$ 596,154	\$ 703,596	\$ 1,812,883	\$ 1,894,496
Performance Fees				
Realized				
Carried Interest	503,990	435,189	1,058,633	2,580,266
Incentive Fees	30,295	33,455	88,155	110,775
Unrealized				
Carried Interest	106,202	(1,055,920)	242,080	(1,124,010)
Incentive Fees	30,545	(50,832)	45,900	36,274
Total Performance Fees	671,032	(638,108)	1,434,768	1,603,305
Investment Income (Loss)				
Realized				
Realized	119,351	99,952	172,387	445,705
Unrealized				
Unrealized	23,752	(179,298)	67,347	(262,024)
Total Investment Income (Loss)	143,103	(79,346)	239,734	183,681
Interest and Dividend Revenue				
Interest and Dividend Revenue	21,819	26,244	67,180	70,129
Other	(423)	(813)	1,900	(2,478)
Total Revenues	1,431,685	11,573	3,556,465	