

Blackstone

Asset Management Advisory Committee

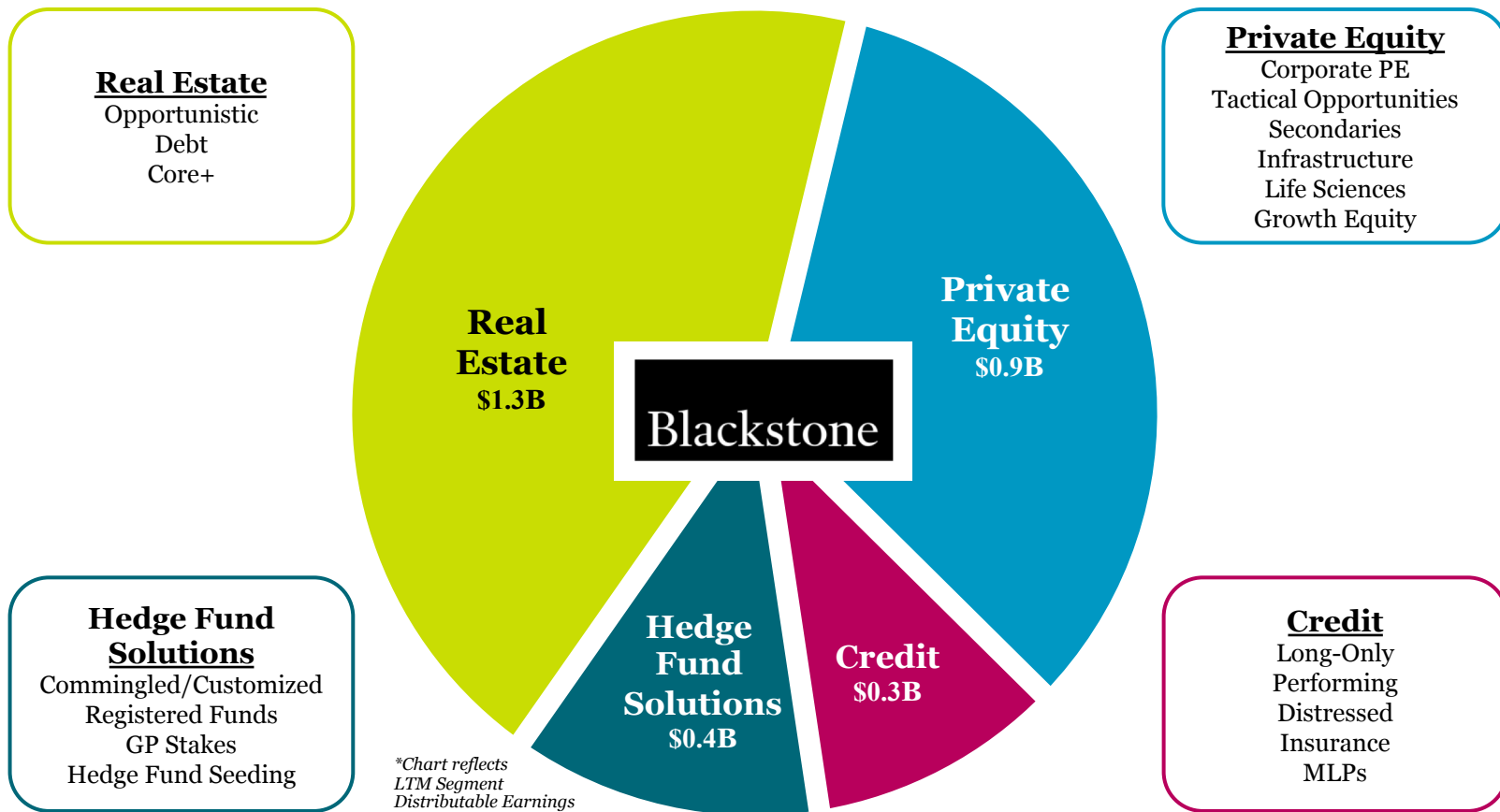
Expanding Retail Access to Private Markets

January 14, 2020

Presented by:

John Finley, Senior Managing Director & Chief Legal Officer, Blackstone

Blackstone Is the Largest Manager in the Fast-growing Alternatives Industry, with Leading Platforms across All Asset Classes



\$554B

Assets Under Management

\$2.7B

3Q'19 LTM Distributable Earnings

2,800+

Employees

Characteristics of Private Market Investing vs. Public Market Investing

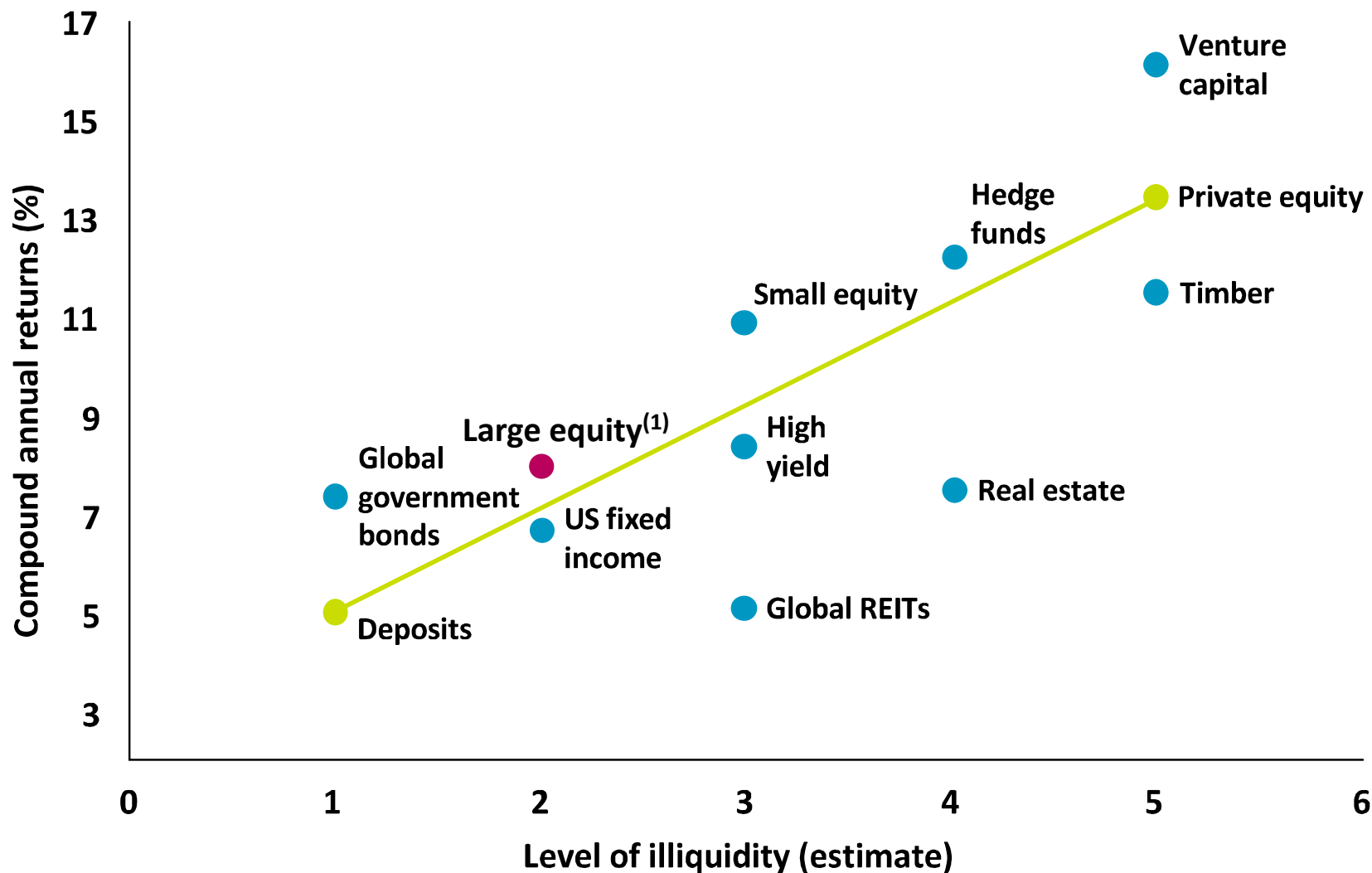
Public Markets

- ▶ Liquid product in efficient markets
- ▶ Market-driven performance with little dispersion among managers
- ▶ Highly correlated to market
- ▶ Passive shareholder, except for activists
- ▶ High pace of investor fund flows

Private Markets

- ▶ “Private” product in less efficient markets
- ▶ Manager-driven performance and high dispersion among managers
- ▶ Less-correlated returns
- ▶ Greater intervention, even ownership of assets
- ▶ Tends to have more patient capital

Investment Returns Generally Increase with Degree of Illiquidity



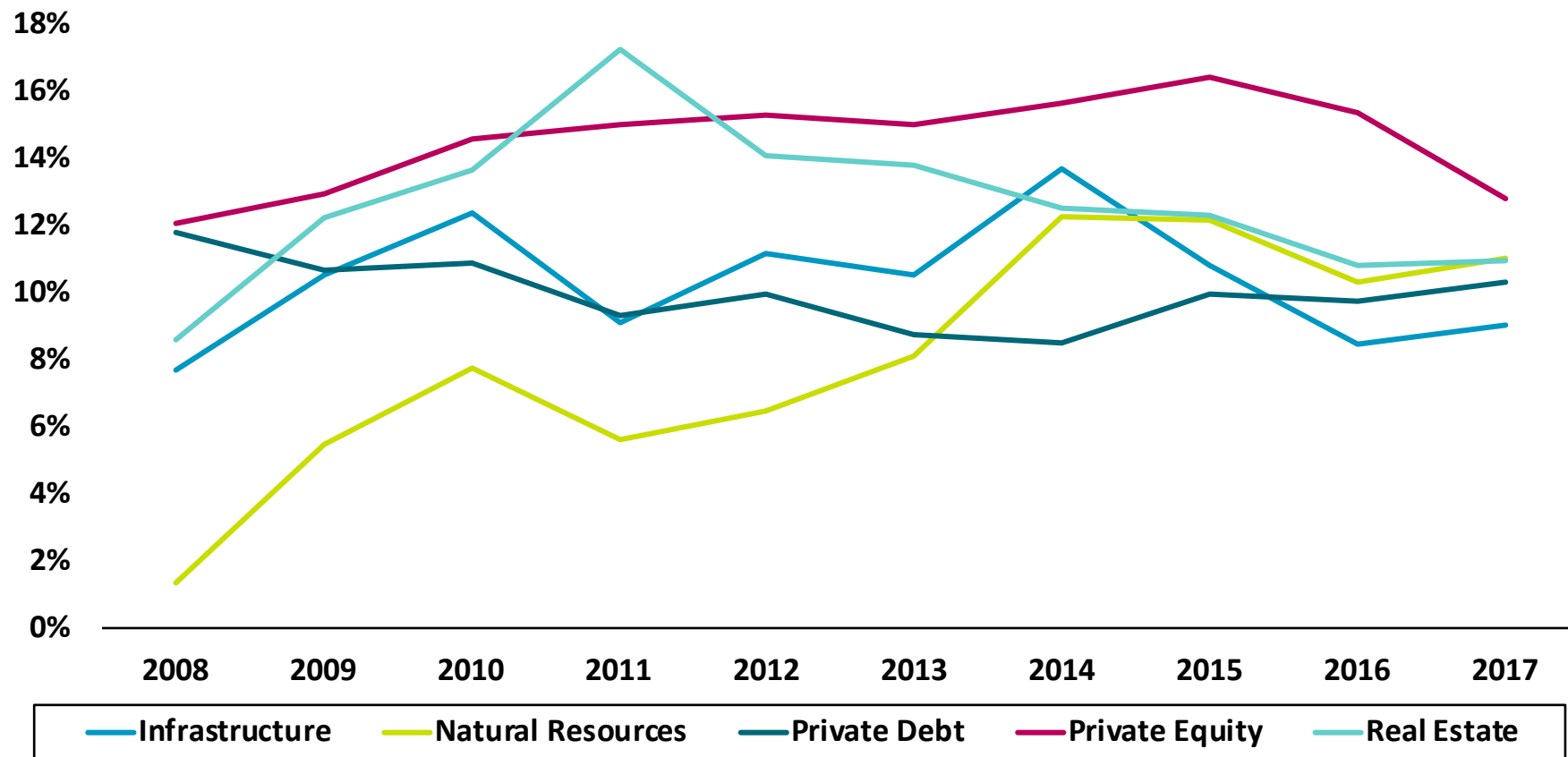
Source: National Association of State Retirement Administrators (2017), "Issue Brief: Public Pension Plan Investment Return Assumptions."

(1) For illustrative purposes, we include an additional investible asset class traditionally found in defined contribution plans (e.g., large equity as represented by the Russell 1000® Index).

Private Capital Net IRRs

From 2008—2017, alternative asset strategies posted positive returns with substantially all providing an average return exceeding 10% through the period

**Median Net IRRs
by Alternative Asset Strategy and Vintage Year**

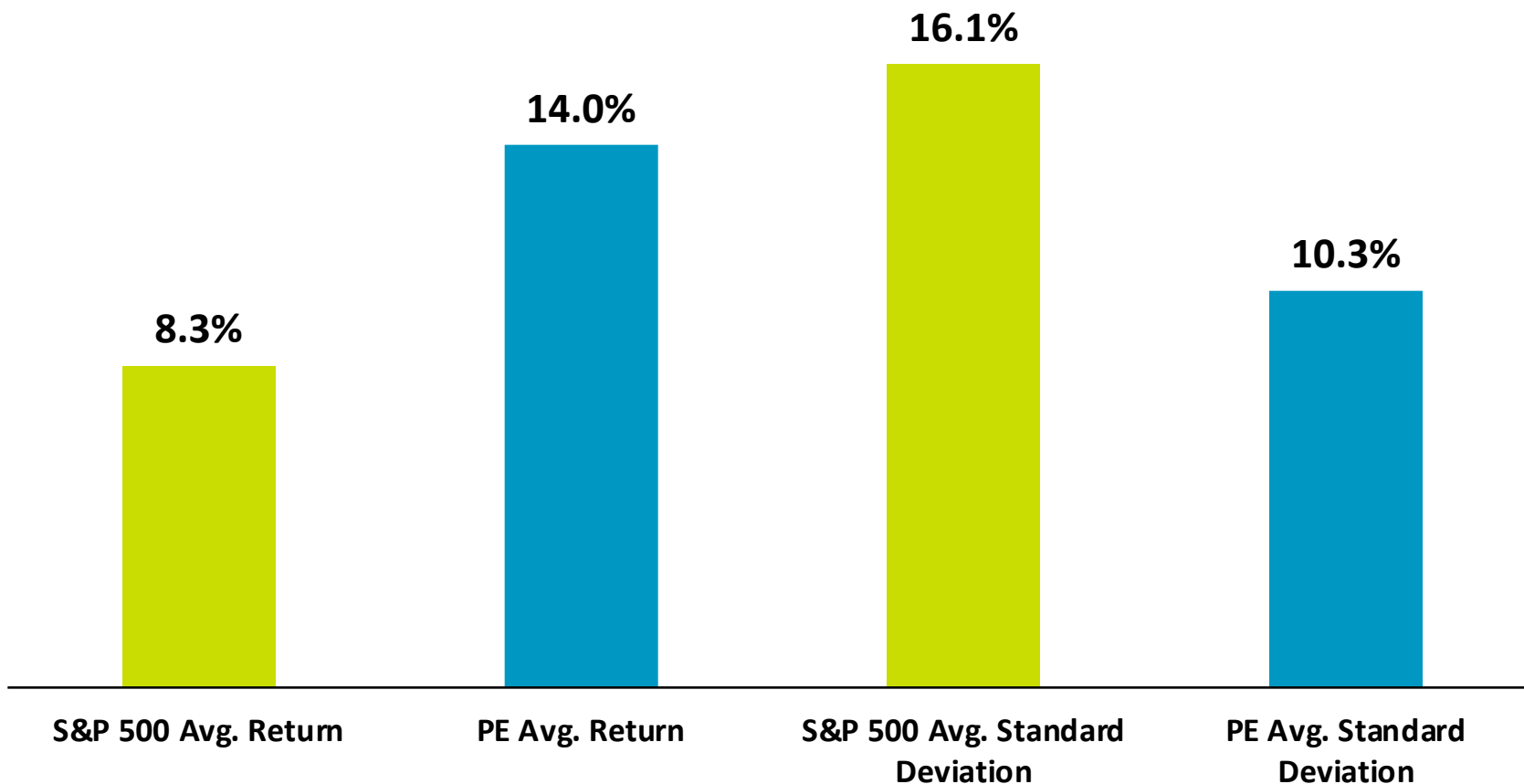


Source: Preqin, as of 12/31/17. (Most recent available as of 1/9/20.)

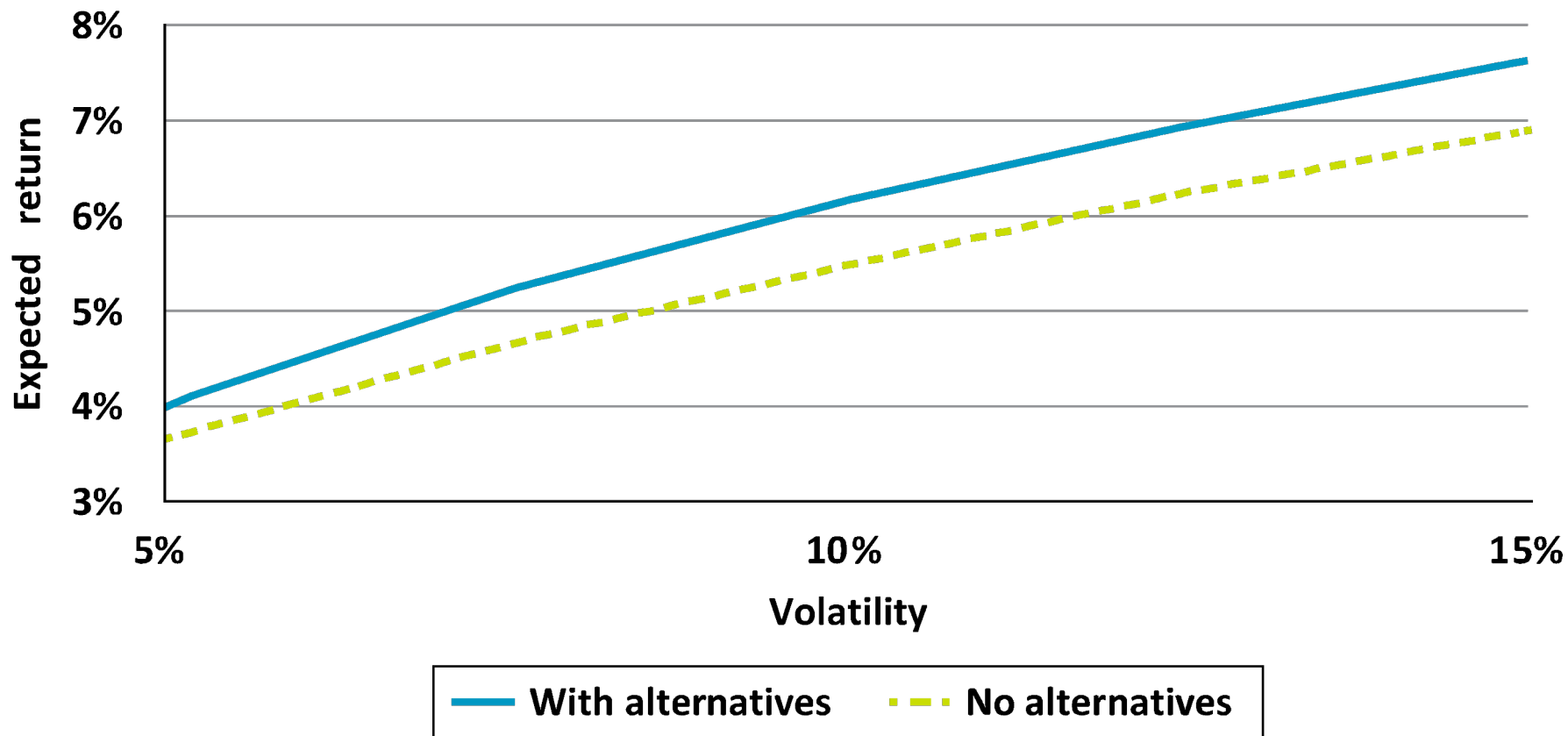
PE Performance vs. S&P 500

Private Equity has higher returns and lower volatility than Public Markets over past two decades

PE Performance vs. S&P 500
(1996–2018)



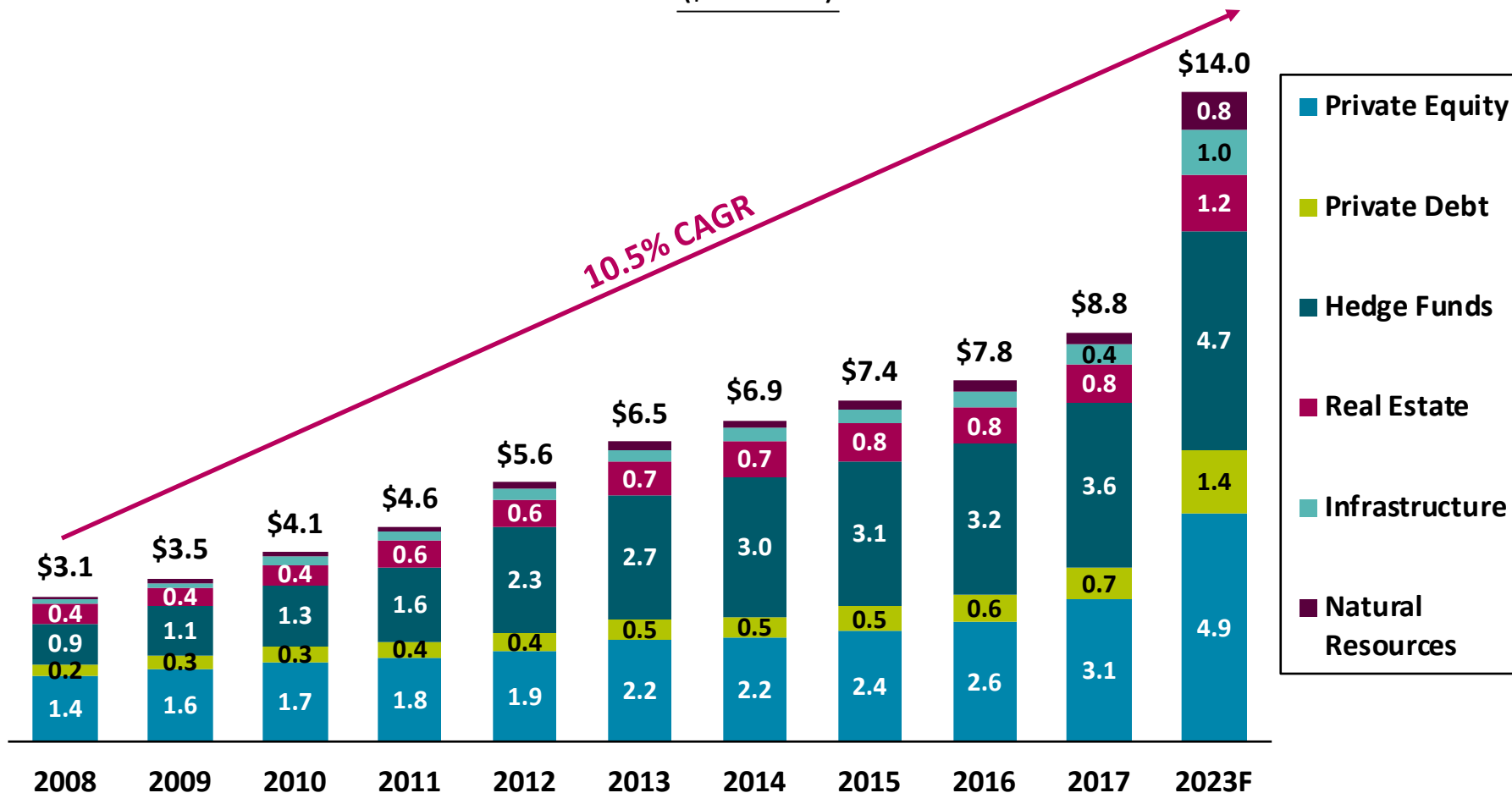
Illiquid or Alternative Assets Reduce Risk for a Given Level of Return



Global Alternative AUM Growth

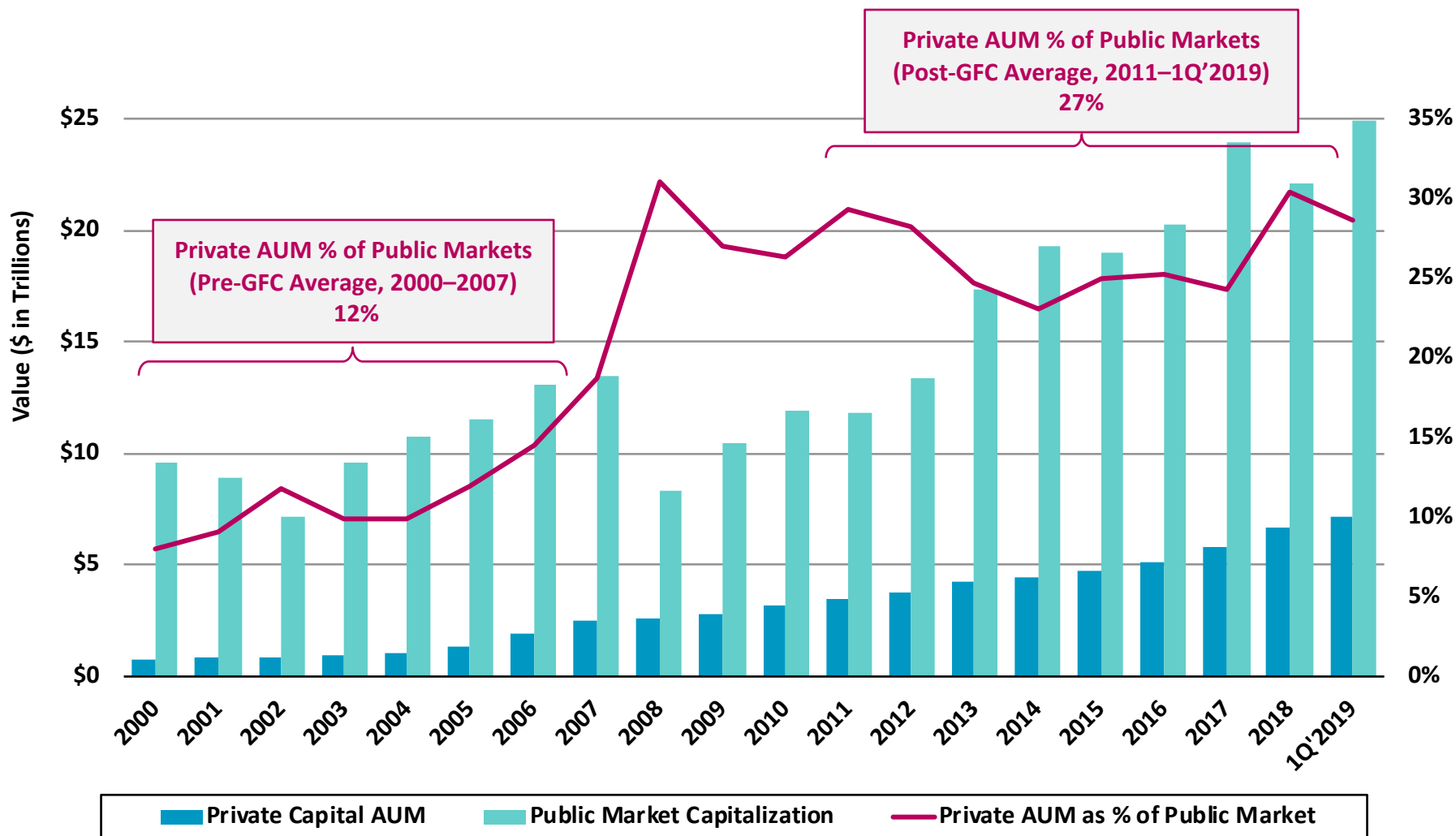
Global AUM forecasted to increase to \$14.0T in 2023, with PE overtaking Hedge Funds in assets

Alternative AUM by Asset Class
(\$ in trillions)



Private Markets Growing in Relation to Public Markets

Private Capital Assets as Percentage of MSCI US Market Capitalization

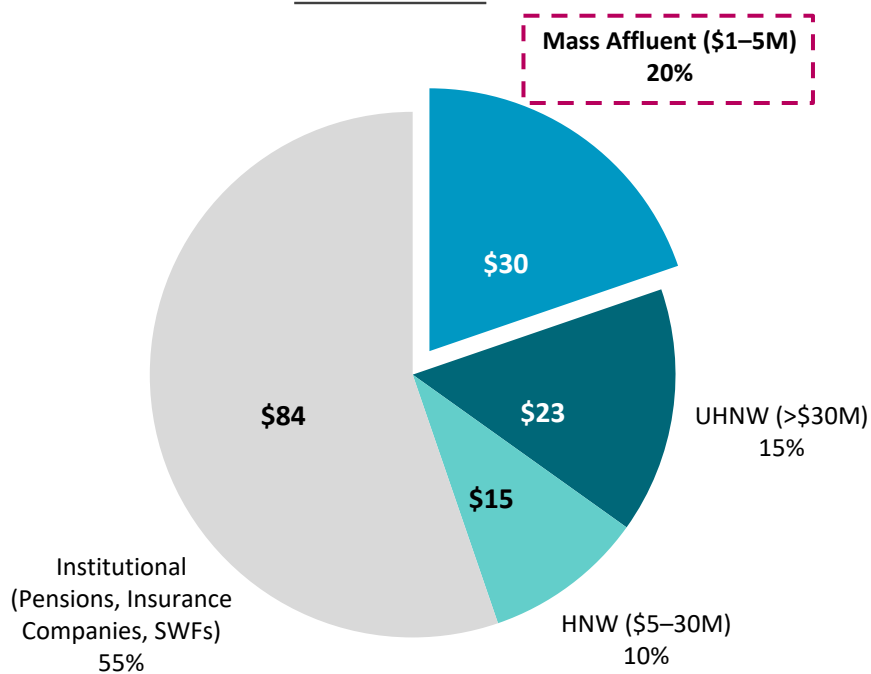


Source: Blackstone calculations of Preqin and Bloomberg data, as of March 31, 2019. Private Capital AUM is represented by the total assets under management of private equity, real estate, private debt, infrastructure and natural resources strategies, as measured by Preqin. U.S. Public Market Cap represented by the MSCI U.S. Equity Index.

Global Retail Investor Base and Demand

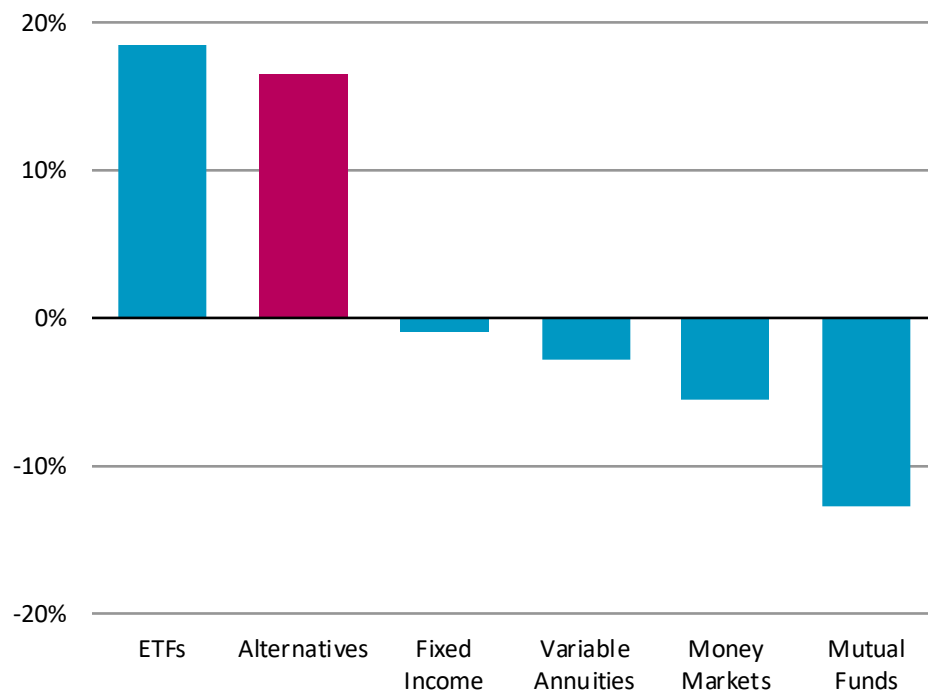
Large global retail investor base with growing demand for private market investments

Global Retail Investor Universe⁽¹⁾
(\$ in trillions)



- ▶ Retail investors represent ~\$68T market, with mass affluent investors making up 20% (~\$30T) ⁽¹⁾
- ▶ Includes HNW individuals, family offices, multi-family officers and other mass affluent investors

Retail Demand for Alternatives⁽²⁾
(2019 vs. 2021E)



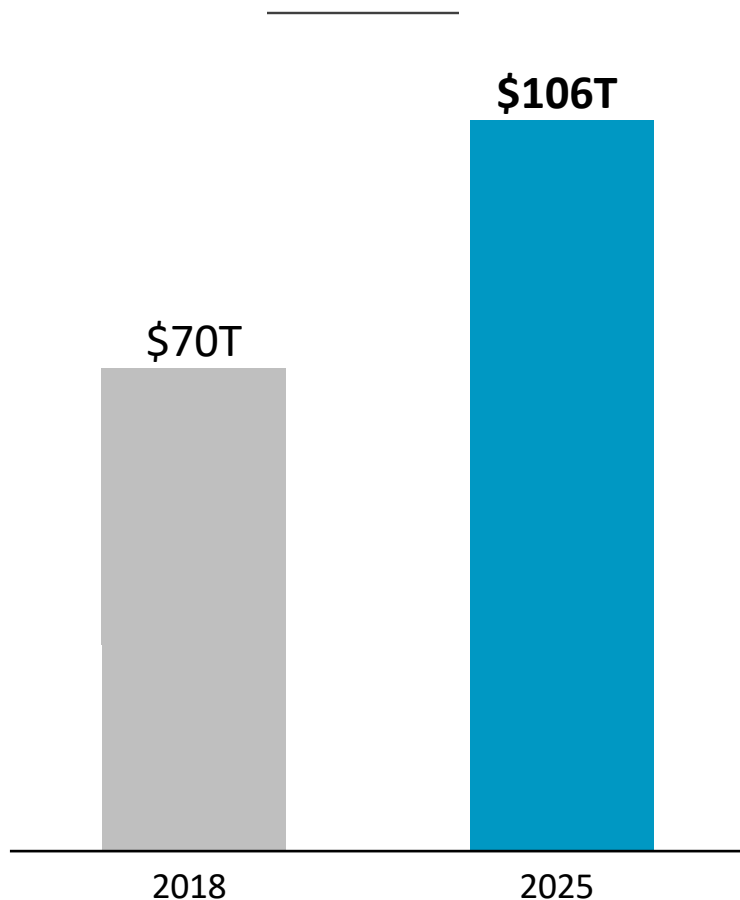
(1) CapGemini, Oliver Wyman, PWC, as of 2019. Retail measured across global households with financial assets >\$1 million.

(2) Advisor reported anticipated product mix. 'Alternatives' excludes demand for liquid alternatives. Cerulli U.S. Intermediary Distribution 2019.

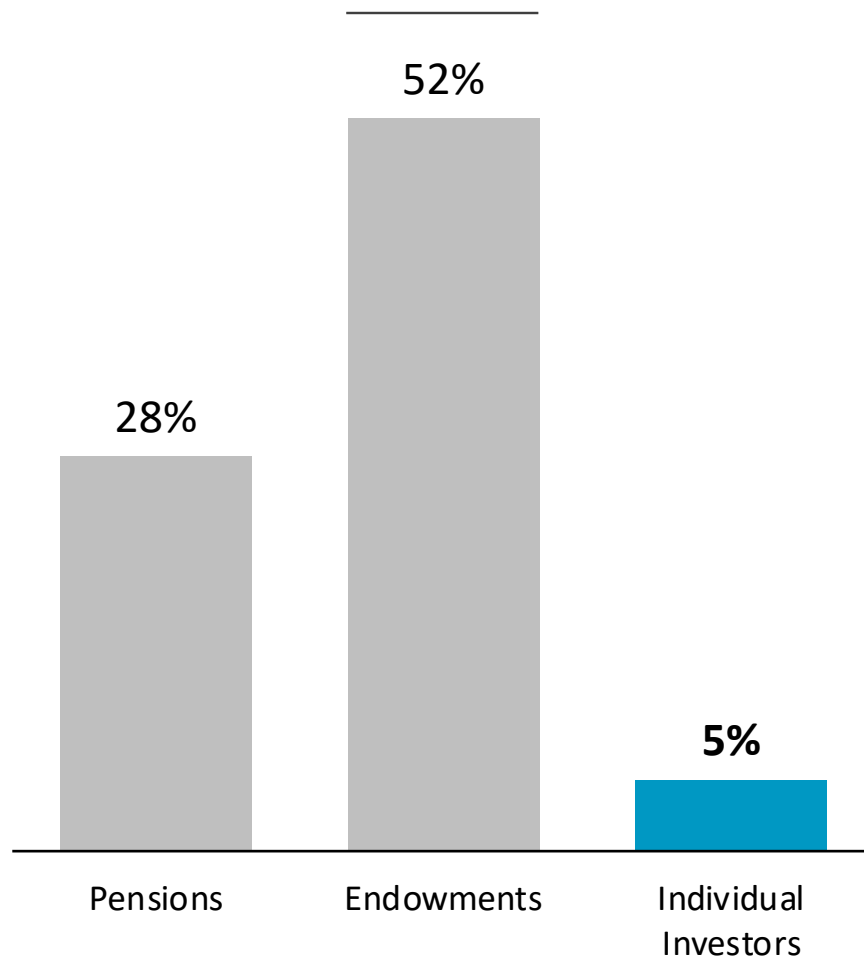
Global Individual Wealth

Global individual investable wealth is growing, however, remains under-allocated to Alternatives

Global Individual Investable Assets



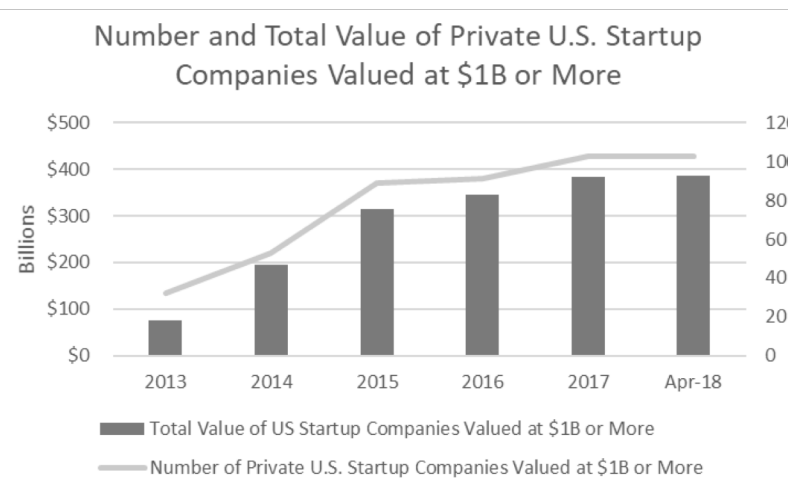
Average Allocation to Alternatives



The SEC's Focus on Retail Investor Access to Private Companies

“When retail investors participate in our markets, how broad a spectrum of investments do they have? I think that spectrum has been getting relatively smaller. Because we have fewer public companies, companies are waiting much longer in their life cycle to go public, which by definition means that **retail investors have less access to the market** as a whole. And I fear, **less access to companies that are well-established**, but still growing.”

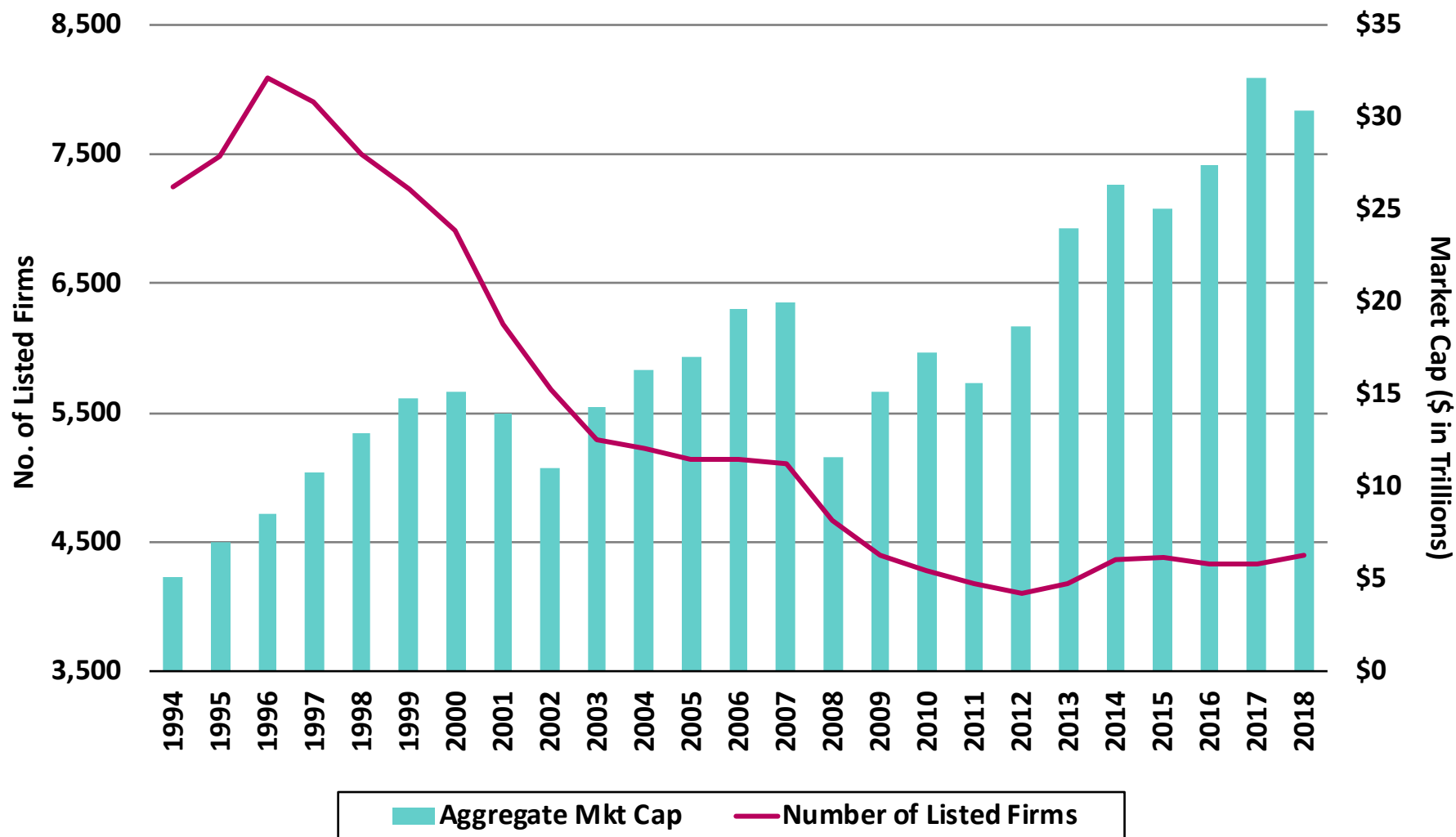
– Jay Clayton, Chairman of the SEC



- ▶ As of April 2018 there were 103 privately held U.S. start-ups with valuations of over \$1 billion and a total value of \$385 billion
- ▶ Less access to private companies means retail investors are missing out on the opportunity for excess or uncorrelated returns

U.S. Listed Companies and Market Capitalization

Number of Listed Companies decreased -39% in past 25 years, while Market Cap increased by 492%



Source: World Bank, as of December 31, 2018. Market capitalization and number of listed companies are for listed domestic companies. Listed domestic companies, including foreign companies which are exclusively listed, are those which have shares listed on an exchange at the end of the year. Investment funds, unit trusts, and companies whose only business goal is to hold shares of other listed companies, such as holding companies and investment companies, regardless of their legal status, are excluded. A company with several classes of shares is counted once. Only companies admitted to listing on the exchange are included.

The Shrinking of U.S. Public Markets – Why Is it Happening

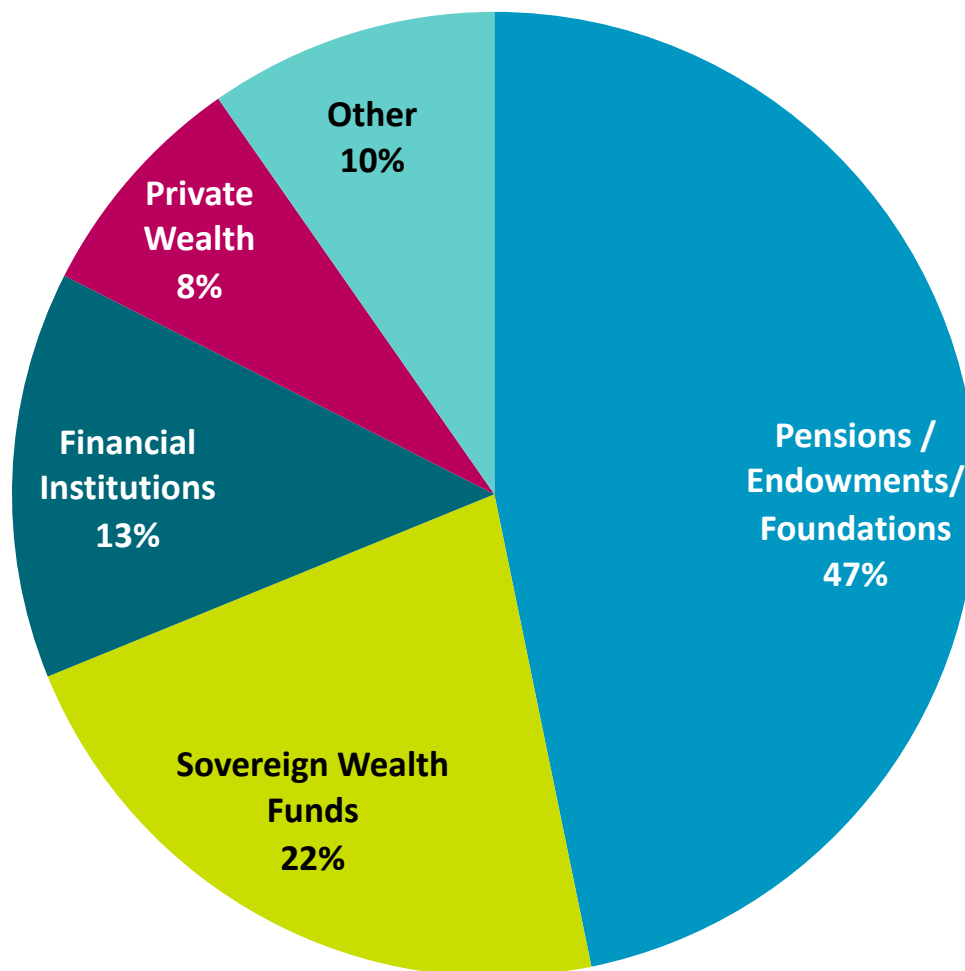
- ▶ While regulatory burdens (e.g., Sarbanes Oxley) is often identified as a factor, this is belied by the fact that the adverse trend for IPOs predated Sarbanes-Oxley
- ▶ Domination of public markets by institutional investors reduces interest in small and micro-cap firms
- ▶ Legislative and SEC loosening of regulation on the private market facilitated equity and debt funding by private companies
- ▶ Private companies can now obtain ample later stage venture capital funding
 - Venture capital raising funds at historic level (e.g., SoftBank)
 - Corporate venture capital
 - PE firms also involved in late stage investing of private companies
 - More mutual funds participating in late stage venture (e.g., Fidelity Contra fund and T. Rowe Price)
- ▶ Increasing liquidity in private markets only makes private markets more accessible
- ▶ Prioritization by emerging companies and founders of control and flexibility discourages IPOs

The Shrinking of U.S. Public Markets – Implications

- ▶ Pre-IPO market has become the IPO market of the past
- ▶ Private companies going public later has reduced opportunity for out-sized gains by post-IPOs companies
 - Amazon IPO three years after founding (565x IPO price)
 - Google IPO six years after founding (20x IPO price)
 - Facebook IPO eight years after founding (3x IPO price)
- ▶ Given nature of current mix of public companies, investors need early stage venture, late stage venture and PE to get ideal diversification and superior returns

Blackstone Private Equity Assets Under Management by Sector

Private wealth now accounts for ~8% of Blackstone's total corporate private equity capital raised



U.S. Intermediary Distribution Channels

Blackstone Private Wealth Solutions has strong relationships with global banks / wire houses as well as independent wealth managers across RIAs and IBD firms

Global Banks / Wire Houses⁽¹⁾

- ▶ High & ultra high net worth
- ▶ \$1–\$30mm+ investable assets
- ▶ Advisors are employees of bank sponsor
- ▶ Typical products include hedge funds, drawdown funds and mutual funds
- ▶ Clients primarily invest through feeder funds for drawdown funds and directly for liquid products
- ▶ General concentration of assets around major cities where advisors work in large branches
- ▶ House driven research and investment recommendations influence portfolio decisions

MorganStanley
SmithBarney



Bank of America
Merrill Lynch



Registered Investment Advisors

- ▶ High & ultra high net worth
- ▶ \$1–\$5mm+ investable assets
- ▶ Advisors are largely self-employed and can get minimal institutional support (e.g., custody, technology) from clearing firms
- ▶ Typical products include drawdown funds and mutual funds
- ▶ Clients primarily invest through feeder funds for drawdown funds and directly for liquid products
- ▶ Advisor compensation tends to be in the form of fees based on AUM – not commissions generated from product sales
- ▶ Influence of product selection is low, as each RIA chooses his/her own investments

AYCO ICONIQ
A GOLDMAN SACHS COMPANY

FISHER INVESTMENTS™

Independent Broker Dealers

- ▶ Primarily mass affluent
- ▶ \$100k–1mm investable assets
- ▶ Advisors are largely independent contractors but get institutional support (e.g., centralized compliance, custody, technology) from IWM
- ▶ Typical products include BDCs, non-traded REITs, ETFs and mutual funds
- ▶ Clients invest directly
- ▶ Little use of proprietary products
- ▶ Advisors are typically compensated on commissions
- ▶ Product selection of the firm plays a role in advisor investment decisions

LPL Financial

RAYMOND JAMES
FINANCIAL SERVICES, INC.
Member: FINRA/SIPC

Ameriprise
Financial

(1) Private banks are an additional, but smaller, distribution channel that targets a similar investor group to wire houses.

Blackstone Product Development

Focus on delivering institutional capabilities in innovative retail-oriented structures

High Net Worth Investor Priorities:

- ✓ Fully drawn capital upfront
- ✓ Perpetual offering with periodic liquidity
- ✓ 1099 tax reporting
- ✓ Income-oriented investments
- ✓ “One-stop” multi-asset solutions

Guiding Principles of BX Product Development:

- ✓ Institutional quality performance
- ✓ Perpetual capital structure
- ✓ Tailored client experience
- ✓ Transparency

Potential Challenges and Considerations:

- ✓ Investment / portfolio flexibility within retail structure
- ✓ Tax diversification requirements to ensure favorable tax treatment for underlying investors
- ✓ Inability to be compensated based on performance limits available strategies that may be offered
- ✓ Affiliated transaction rules and exceptions not designed for equity investing

Registered Funds Designed for Retail Investors ⁽¹⁾

	Retail Structure	Fund(s)	Strategy	Investor Type
Real Estate	Non-Traded REIT	BREIT	Core and Core+	NASAA Suitable Investors
	'40 Act Tender	BREIF	RE Debt	Qualified Clients
	Listed REIT	BXMT	RE Debt	All
Credit	Private BDC	BGSL	U.S. Direct Lending	Accredited Investors
	'40 Act Interval	BGFREI	Liquid Credit	All
	Listed CEFs and ETFs	BGB, BGX, BSL, SRLN (ETF) ⁽¹⁾	Liquid Credit	All
	UK Listed Closed-End Funds	BGLF, CIFU	Liquid Credit	Professional Investors ⁽²⁾
Hedge Funds	'40 Act Mutual	BXMIX	L/S Equity	All
	'40 Act Tender	BAAF	L/S Equity	Accredited Investors
	UCITS	BXDMS	L/S Equity	All

Note: The above summary is for discussion purposes only and does not constitute an offer to sell or a solicitation of an offer to purchase any interest in any Blackstone investment vehicle or strategy.

(1) Certain unregistered drawdown products are accessed by retail investors through feeder funds.

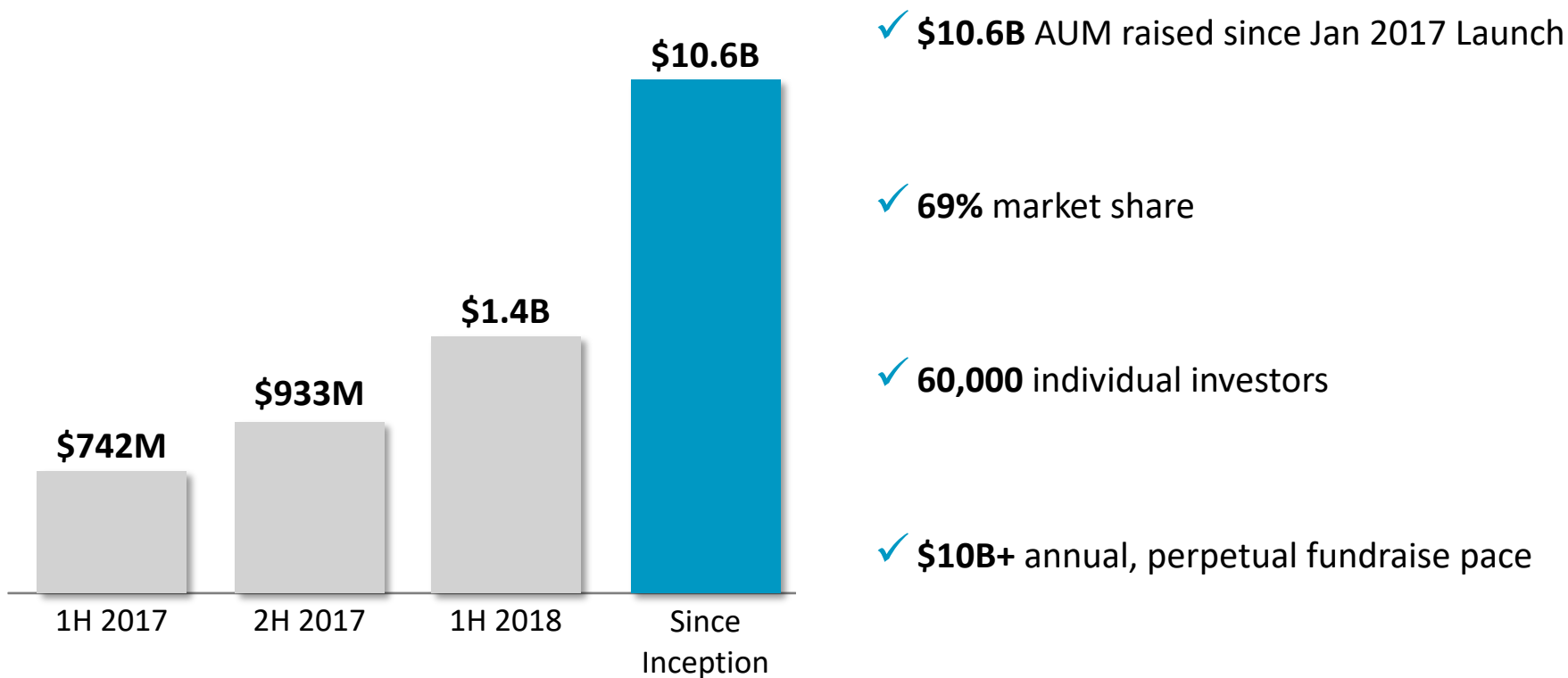
(2) GSO sub-advised.

(3) “Professional Investor” is a very detailed definition, but the takeaway is that it is an even higher hurdle than the U.S. Qualified Purchaser/Accredited Investor standard.

BREIT Overview ⁽¹⁾⁽²⁾

Bringing institutional real estate to individual investors

Blackstone Non-Traded REIT AUM Raised



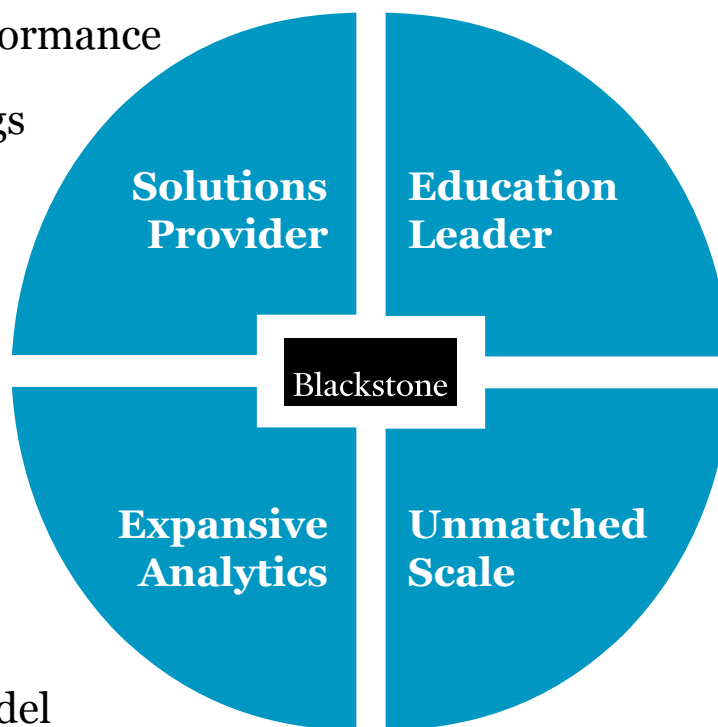
(1) Since inception through Sep'19. Annual, perpetual fundraise pace based on estimated 2020 distribution partner schedules.

(2) Market share source: Stanger Market Pulse. Market share based on most recent three months ended Nov '19.

Blackstone's Platform for Retail

Invested heavily to build powerful platform advantage

- ✓ Institutional quality performance
- ✓ Bespoke product offerings
- ✓ Diversified alternatives



- ✓ Proprietary system
- ✓ 250K+ advisor profiles
- ✓ Opportunity ranking model

- ✓ Blackstone University
- ✓ Investing insights
- ✓ Scalable digital platform

- ✓ 130 employees globally
- ✓ Channelized sales
- ✓ Dedicated service platform

Democratizing Access to Private Markets – Proposed Regulatory Changes

Commenters on the SEC's concept release argued in favor of the following regulatory changes that would help expand retail investor access to private markets:

▶ **Eliminate Accredited Investor Threshold for Offering of Regulated Funds of Private Funds**

- Currently, the SEC staff requires that offerings of registered closed-end funds that invest more than 15% of their assets in private funds be limited to Accredited Investors
 - *A number of commenters encouraged the SEC staff to change its policy imposing the 15% limitation⁽¹⁾*

▶ **Ease Liquidity Restraints for Target Date Funds**

- A registered open-end fund may not invest more than 15% of its net assets in illiquid securities, which limits the extent to which a mutual fund may invest in private companies and private funds
 - *Several commenters recommended that the SEC ease liquidity constraints for target date funds with longer investment horizons, to provide greater flexibility to invest in illiquid assets, including private funds⁽²⁾*

▶ **Allow Carry-like Compensation for Retail Funds**

- Section 205(a)(1) of the Advisers Act prohibits registered investment advisers to a registered fund (other than a BDC) from receiving compensation on the basis of capital gains or capital appreciation unless the fund is limited to Qualified Clients.
 - *Several commenters suggested that the SEC expand the definition of Qualified Client to help facilitate the offering of regulated funds that make direct investments in private companies⁽³⁾*

(1) See, e.g., Letter from American Investment Council dated September 24, 2019; ("AIC Letter"); Letter from The Investment Adviser Association dated October 18, 2019; Letter from Federal Regulation of Securities Committee of the Business Law Section of the American Bar Association dated October 16, 2019 ("ABA Letter"); Letter from Institutional Limited Partners Association dated September 24, 2019 ("ILPA Letter"); Letter from Simpson Thacher & Bartlett LLP dated September 24, 2019 ("Simpson Letter"); Letter from Ropes & Gray LLP dated September 24, 2019 ("Ropes Letter"); Letter from Dechert LLP dated September 24, 2019 ("Dechert Letter").

(2) See, e.g., AIC Letter; ABA Letter; Ropes Letter.

(3) See, e.g., AIC Letter; Simpson Letter; Dechert Letter.

Democratizing Access to Private Markets – Target Date Funds

“We believe that there is no reason that retail investors should not also be able to access the private markets...**The Commission should permit target date open-end funds to have a greater concentration of illiquid investments, including private equity funds...**We believe that these changes would allow greater retail access to private company returns in retirement accounts.”

– Steve Nelson, CEO, Institutional Limited Partners Association (ILPA)

- ▶ The intended long-term holding period of target date funds makes them particularly well suited to serve as the vehicle through which retail investors access private companies and private equity funds
- ▶ A target date fund is a mutual fund or other investment vehicle (i.e., a CIT) that holds a diversified portfolio of equity and fixed income investments that automatically rebalances over time
 - As the fund’s target retirement date approaches, the fund shifts from a capital appreciation strategy to an income producing strategy
- ▶ The SEC could ease liquidity constraints for target date funds with longer investment horizons to provide greater flexibility to invest in illiquid assets, including private equity funds
 - Such flexibility would be subject to Board oversight and an appropriate liquidity risk management program
- ▶ This proposed change would have the benefit of ensuring that private markets make up an appropriate portion (e.g., 25%) of an investor’s complete investment program

Mitigating Risks for Retail Investors

Commenters on the concept release also underscored the following ways to expand access to private markets while mitigating risks for retail investors:

▶ **Embrace Regulated Funds⁽¹⁾**

- The legal structure of a regulated fund provides core investor protections
 - A regulated fund is managed by a registered investment adviser who owes a fiduciary duty to the fund, subject to the oversight of a majority independent board and distributed by intermediaries who must act in the best interest of investors
- Holding an interest in a diversified portfolio reduces risk relative to individual investments
 - A regulated fund holds a diversified portfolio designed to reduce the risk that losses at any single underlying company will outweigh successful investments
 - The adviser to a regulated fund has substantial resources and sophistication to review and diligence investments on behalf of the fund’s investors

▶ **Provide Access to Experienced Managers⁽²⁾**

- The SEC could enhance retail investors protection by requiring managers to meet “scale and experience” criteria
- The SEC should also consider limiting retail access to managers with an institutional investor base to help ensure that investors are exposed to experienced private markets managers only
 - For example, the SEC could require that regulated funds of private funds only invest in private funds that accept more than a certain percentage (e.g., 50%) of their capital commitments from institutional investors
- Retail investors benefit when the manager of a regulated fund has a strong institutional investor base
 - Institutional investors negotiate favorable terms for their investments
 - Provides an opportunity for retail investors to achieve incentive alignment with institutional investors

(1) See, e.g., Letter from Committee on Capital Markets Regulation dated September 19, 2019 (“CCMR Letter”); AIC Letter; ILPA Letter.

(2) See e.g., CCMR Letter; AIC Letter; ABA Letter.

Speaker Biography



John G. Finley, a Senior Managing Director, is Blackstone's Chief Legal Officer.

Before joining Blackstone, Mr. Finley had been a partner with Simpson Thacher & Bartlett for 22 years where he was most recently a member of that law firm's Executive Committee and Co-Head of Global M&A.

Mr. Finley is an Adviser on the American Law Institute's Restatement of the Law, Corporate Governance Project and a member of the Dean's Advisory Board of Harvard Law School, the Board of Advisors of the Penn Institute for Law and Economics and the Advisory Board of the Penn Netter Center for Community Partnerships. He has served on the Board of Advisors of the Knight-Bagehot Fellowship in Economics and Business Journalism at Columbia University, the Lawyers Committee for Human Rights and the Jewish Board of Family and Children Services. He has also served as Chairman of the Annual International Mergers & Acquisitions Conference of the International Bar Association and on the Committee of Securities Regulation of the New York State Bar Association.

Mr. Finley has a BS in Economics, summa cum laude, from the Wharton School of the University of Pennsylvania (1978), a BA in History, summa cum laude, from the College of Arts and Sciences of the University of Pennsylvania (1978), and a JD, cum laude, from Harvard Law School (1981).

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