



Company summary

The Blackstone Group (BX) is a manager of private capital and provider of financial advisor services. Its alternative asset management business raises capital from institutional investors and invests assets in private equity funds, real estate funds, fund of hedge funds, credit-oriented funds, CLO vehicles and other separately managed accounts. It also provides financial advisory, restructuring and fund placement services. It operates in 5 segments, Private Equity, Real Estate, Hedge Fund Solutions, Credit, and Financial Advisory.

Founded by Chairman & CEO Steve Schwarzman and Pete Peterson in 1985, the firm's roots are in business advisory and buyout investing, which quickly grew much more substantially into private equity. In contrast to APO (and also KKR) the investing style tends to be more conservative with less concentrated bets (though plenty of caveats), and BX' advisory foundation has generated a more 'partnership'-oriented style with its portfolio companies. Historically, the firm has been more equity focused and this expertise was leveraged into other businesses, including the now larger real estate segment. However, BX' credit expertise improved substantially with its well-timed acquisition of a credit fund manager (GSO) in 2008 with BX successfully leveraging its capabilities and growing the unit to \$63bn in AuM from less than \$10bn in 2008.

In our view, BX is in a very good position to continue leveraging its capabilities and leading positions in private equity, real estate, credit, and alternative investment advisory, to generate a 'growthier' and more consistent balance of fee and incentive-based earnings. Combined with its strengthening portfolio realization cycle (still in relatively early stages and to be potentially bolstered with latent currently non-carry \$20bn BCP V fund), we see BX generating superior growth in DE among these five Alts over at least the 2014-15 timeframe. This helps drive our Buy thesis for BX and places it as our top pick in this group.