Resilience, Optimism, and Innovation

ANNUAL CHAIRMAN'S LETTER 2016

Blackstone

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It's difficult to begin without noting that the effects of 2016's year of surprises in both markets and on the geopolitical front appear likely to reverberate for some time. After encountering what might have been one of the most unexpected political outcomes in living memory with the result of the U.S. election in November, we're now faced with a set of new realities and shifting paradigms in a whole host of different areas. While we remain ever-vigilant about assessing these changes and any new potential risks that may emerge, we're frankly optimistic and as confident as ever about our prospects over the next year. I don't think it's an overstatement to say that this is the most interesting and dynamic time to be an investor that I've seen over my nearly fifty years in finance.

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STEADY PERFORMANCE AMID VOLATILITY

The firm is, as I often say, still firing on all cylinders and has reached a record $367 billion in assets under management. In 2016, revenue reached $5.1 billion, while ENI rose to $2.4 billion – both up 11 percent, compared with only moderate earnings growth in the broader market. Fee related earnings rose 7% to exceed $1 billion in spite of both the six-month fee holiday for our $19 billion BCP VII fund and the spin-off of our advisory business. At the same time and, in what was a firm record for an annual period, our Fee-Related Earnings margin expanded nearly 350 basis points to 40%. Cash earnings for the full year were $2.2 billion and are the source of our consistently healthy distributions to you, the unit holder.[1] We're quite proud that despite the volatility of the past three years, we paid substantial distributions to unit holders, delivering more than $8 billion of value – a larger figure than any other public firm in the alternatives industry.

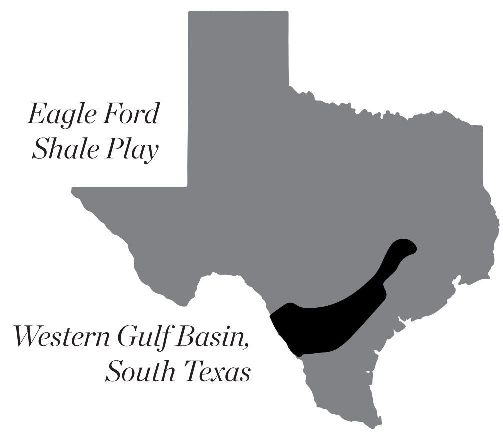
In short, we see volatility as an opportunity to showcase not only our capacity for capital preservation in the face of uncertainty and turmoil, but also to show that in any environment we can play to our opportunistic strengths. Our model isn't just nimble – it's resilient and transcends the ups and downs of the market.

[1] GAAP Net Income was $2.2 billion in 2016. GAAP Net Income Attributable to The Blackstone Group L.P. was $1.0 billion in 2016. For a full reconciliation of GAAP to Non-GAAP measures, please see Blackstone's Annual Report on Form 10-K for the year ended December 31, 2016.

Take, for example, the period following the Brexit referendum in June. Transaction activity had generally slowed as markets seized up. But in that environment, we were able to acquire a number of attractively priced real estate assets from sellers in need of liquidity. Similarly, in our private equity energy area, we patiently waited on the sidelines for oil prices to settle throughout the turbulence of 2015, selling basically nothing. And early last year, when pricing did appear to have finally bottomed out, we became quite active as a buyer, closing or committing to eight oil and gas investments for a total of nearly $3 billion. Since then, I'm happy to note that oil prices have risen very sharply.

But this isn't just about market-timing. Partnering with Sanchez Energy to acquire Anadarko's interest and assets in the Eagle Ford Basin in Texas is a great illustration of how the breadth and synergies among Blackstone's investment platforms can make unique and highly complex deals possible. In this case, our private equity and our credit businesses, working with our partners at Sanchez, developed a structure and financing solution that worked for all parties. Very few other firms, if any, in the market today can offer the flexibility or scale that particular transaction required.

Providing flexibility and scale across asset classes.



A MARKET LEADING APPROACH

We also commit to long-term trends where we see opportunity that others don't. Our private equity business recently sold Optiv, the largest pure-play cybersecurity technology and services provider in North America. In this case, we had acquired a company in 2014 that hadn't yet scaled to its full potential and doubled its size with a strategic acquisition a year later. Our conviction in the theme and active engagement with management created an opportunity to transform a strong company into a market leader. In doing so, we delivered very attractive returns for our investors.

Our businesses make up a firm that we believe is the top performer in the active segment of the asset management business.

More broadly, we work each day to maintain leadership positions in each of our businesses. In aggregate, they make up what we believe is the top firm in the active segment of the asset management industry. And our sustained outperformance has created the conditions for global expansion and diversification into new areas at scale. To that end, I wanted to share with you a few highlights from other parts of the firm:

- Despite a truly astonishing sales pace in Real Estate, AUM in that business continues to see significant growth. And globally, we launched our fifth Europe-focused real estate fund's investment period in December and have started fundraising for our second dedicated Asia fund.
- Tactical Opportunities recently closed its second fund. Now at $17 billion and just a five-year old business, I think it's fair to say that this is one of the fastest growing major alternative strategies anywhere in the world.
- Strategic Partners, our secondaries business, closed its new fund at more than $7 billion, more than triple the size of its flagship fund when we acquired the business in 2013.
- Even in a turbulent environment for hedge funds, the BAAM team has maintained and expanded the group's clear market leadership.
- Finally, our credit unit GSO was our fastest growing business during the year, with AUM up 18%, and is the largest global CLO issuer for the fourth year in a row.

NEW PRODUCTS AND NEW CHANNELS

While our existing businesses are thriving, we're also expanding into new areas. With a strong record and reputation that stretches back more than 30 years, our investors know and deeply trust our model and our global platform. This means that when we develop new ideas for funds or businesses, we have investors excited to support them. In fact, we often end up turning capital away. And as all our investors have come to know, we are fiercely protective of what the Blackstone brand means to our clients and remain committed to only launching products that we think will be truly great.

As we continue to innovate, we believe a wider universe of investors can benefit from our disciplined, patient approach to investing for the long term. It's why we work to bring institutional-quality solutions to the high-net-worth retail and family office channels that historically have been denied access to those types of products. We have built out this area gradually over more than five years, and our experience so far leads us to believe that there is a tremendous opportunity if we remain laser-focused on maintaining the highest quality of experience for the end investor. And beyond developing these distribution channels and relationships, we're also creating new, customized products for these investors, drawing on our exposure to a variety of asset classes across the firm. The early results speak for themselves: our retail channels account for 15 to 20 percent of our total capital raised.

In the product innovation area, another relatively new area with impressive performance is our longer-term hold Core effort. We were proud to announce our agreement at year-end to acquire SESAC, a leading music rights company, which represents the first investment in our core private equity strategy designed to pursue investments in stable, high-quality franchises on a very long-term-hold basis. Taken together, this core private equity strategy and our real estate core-plus business now represent nearly $20 billion of capital in long-duration fund strategies for the firm. Though only recently developed, we view this area as a major new strategic dimension to our product set, and as a strong demonstration not only of our ability to innovate, but of our capacity to do so globally and at scale. And for unit holders, we expect this approach to drive a large, growing, and sticky stream of recurring long-term earnings.

OPTIMISM IN A DYNAMIC ENVIRONMENT

These are just a few examples of how we're constantly innovating to deliver the best solutions for our partners and investors. As we enter into a new but still dynamic environment, it's easy to see that we're primed for continued success across regions. Even over the past three years when growth was more limited, we raised $221 billion in new capital, invested $82 billion, and returned $127 billion to our investors, including retirement systems which represent 29 million pensioners in the United States and millions more internationally. Looking ahead to a likely more energized business landscape, we believe that our flexible and responsive model means we're better positioned than ever for success and to create significant value for our investors and unit holders.

Finally, in addition to the positive impact of our investment decisions, we are also especially proud of the good work we do in the communities where we live and invest – like Chicago: through a $500 million investment from Blackstone – the largest we have ever made in reimagining one of the real estate assets we own – Willis Tower will be transformed, modernized, and reinforced as a civic destination and premier workplace. This investment, announced just weeks ago alongside Mayor Rahm Emanuel, underscores our commitment to being good partners in the diverse places where we deploy capital around the world.

Our Veterans Hiring Initiative also demands special recognition here. We're awfully close to fulfilling our commitment to hire 50,000 veterans across our portfolio in five years. As many of you know, I was inspired to make this commitment after a talk given by then-First Lady Michelle Obama in 2013. In true Blackstone fashion, we're on track to deliver ahead of schedule.

The Blackstone Charitable Foundation continues to do terrific work as well, with our Blackstone LaunchPad campus program now available to more than half a million students globally. We believe that the program's longer-term economic effect has the potential to be tremendous. By providing aspiring entrepreneurs with the resources and mentorship that they need, we've already supported the creation of nearly 10,000 startups and 25,000 jobs so far.

We often talk about our work as a mission. On the whole, I think it's fair to say that, together, we have built a truly remarkable institution here at Blackstone. I'm proud that we continue to be recognized for it – in so many areas, our reputation has never been stronger.

Sincerely,

Stephen A. Schwarzman
Chairman, Chief Executive Officer and Co-Founder