FUNDfire
A Financial Times Service

Blackstone Fires Up New Product Lines on Drive to $400B

By Tom Stabile October 25, 2017

Blackstone Group has $150 billion more than any of its private equity peers, but all its executives have wanted to discuss in recent days is the slew of new product and sales areas where it plans to expand.

After raising $19.7 billion last quarter, bringing assets to a highest-ever $387.4 billion, Blackstone is banking on another bumper haul during the fourth quarter, thanks partly to the fundraising kickoff for its new $40 billion infrastructure fund and its acquisition of **Harvest Fund Advisors**, an $11 billion master limited partnerships (MLP) manager. But Blackstone is already laying groundwork to further boost asset gathering by expanding sales from Harvest, pushing a new growth equity investing effort, revving up sales of new products to advisors, adding more "long duration" vehicles, and chasing after large insurance company clients.

All of the efforts spread Blackstone's brand farther across the alts investing marketplace, whether aiming for new client bases beyond its core pension plan investors or designing product lineups with less lofty return targets than the historical 20% range of its private equity "drawdown" funds. Many of the new efforts are aiming for the vast pool of clients with less risk appetite and lower return expectations by shaping new products for them, said **Tony James**, Blackstone's president and COO, during last week's third quarter earnings call.

"As you move down the risk and return spectrum... some of the areas we're getting into are vast in terms of the opportunity set and the amount of capital we can raise, compared to the elite, kind of high-risk, high-return drawdown funds where we started," he said.

Blackstone already has a palette of product options across its primary private equity, real estate, private credit, and hedge fund units, and recently added infrastructure to the mix. Its surge into other areas will be unique, and not likely a model for other private equity firms, says **Liz Weiner**, managing partner at **Sundial Park Group**, a consultancy for fund managers.

"It's a drive to diversify revenue streams, and not rely just on one asset class or investor base," she says. "Most firms would have to take incremental steps."

Many smaller private equity managers seeking to diversify their businesses would have to narrow their expansion targets, Weiner says. Blackstone's scale puts it in a different category of being able to target many of these ideas at once, she adds.

"Blackstone has managed to build out across alternatives as a 'best-in-class' brand," she said.

Blackstone is expecting such initiatives to translate into even bigger dollars in the future, CEO **Steve Schwarzman** said in a *Bloomberg News* interview yesterday, where he pegged overall asset growth to more than double in five years to $800 billion.

Just in the third quarter, Blackstone was gobbling up new assets even though its flagship private equity and real estate vehicles are not in the market. The $20 billion it raised, which is more than many of its peers raise in a year, came largely thanks to three funds that each should eventually top $7 billion – its latest distressed debt, tactical opportunities, and Asian real estate vehicles.

Some initiatives Blackstone touted last week will take years to develop, but it is laying groundwork. For instance, Harvest's strategies, largely sold to institutional investors, will now get access to Blackstone's far larger client base of big institutions and get pushed as well into the advisor market, which has been a main distribution channel for MLP strategies, James said. "[W]e think we can more than double their AUM," he said, without citing a timeframe.

Blackstone's growth investing effort is also taking shape, with new "forays" going beyond deals in existing private equity funds or off of its balance sheet, and plans to make additional hires and establish a track record, James said.

It also will continue product development around longer duration, lower return products and "permanent capital" vehicles that are designed to stay in the market and not wind down like traditional private equity funds. Blackstone has such vehicles in all of its business lines now, and the area has grown rapidly in the last few years to now make up 15% of all fee-earning assets under management, James said.

"[Y]ou should anticipate that we're going to continue to try to evolve our business more and more towards that kind of vehicle," he added.

One target for such longer-range products is insurance companies, where Blackstone is in talks with several large potential new clients, James said. "A lot of the new products we're developing – the private credit, the permanent capital vehicles, the yield-oriented products – many of them have some very attractive capital treatment [for] insurance companies," he said.

Another is the advisor and individual investor marketplace, which now makes up 18% of Blackstone's total assets under management. That tally has grown in recent years as Blackstone has built out a sales and support organization to partner with advisor firms, and it now has 10 wholesalers targeting the wirehouses and another dozen in the independent brokerage and independent advisor channels, said **Joan Solotar**, head of private wealth solutions and external relations.

Blackstone also is expanding with products aimed at less affluent investors and advisors in the independent channels, including a real estate investment trust it launched last year, she said. That's already resulted in a rough split in its alts sales of around $8 billion in the past year between illiquid institutional funds and the newer more liquid-oriented strategies, she said.

Blackstone isn't expecting to expand its advisor sales force each time it launches more products, but instead plans to bulk up on other methods, Solotar said. "We need to be smart about the technology, analytics that we're using, in order to reach more people," she said.

Blackstone's path into new areas is not a model for most private equity firms, which more likely will build "adjacent" strategies to their core specialties, Sundial's Weiner says. "Managers are starting to move with new products along the risk spectrum," she says.

Lessons other managers can take from Blackstone may be to ensure they keep up their credibility and track record in any new efforts, says **Marcia Selz**, president and chief research director at Marketing Matrix International. The danger for any manager trying something new is diluting their brand, but Blackstone has avoided it with a painstaking approach, she says.

“Blackstone has moved methodically,” she says. “They only go into a new business line if they can sustain it.”