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Blackstone Blog

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Annual Chairman's Letter 2013: "A Year of Innovation"

Message from the Chairman

2013 was an outstanding year for Blackstone. We ended the year as the largest global investment manager in our class. We grew assets under management to \$266 billion, which represents an increase of 26% year-over-year. Virtually every one of our businesses was the leader in its asset class and delivered superior performance, including realizations that returned \$30 billion to our limited partner investors.

Innovation is core to what we do. Last year we introduced several exciting new investment opportunities. Our hedge fund solutions business launched its first mutual fund offering investors daily liquidity. We acquired Strategic Partners, a major investor in the secondary market for LP interests in private equity, real estate, venture capital and other areas. We've been active in the private wealth management business, offering high net worth individuals access to investment expertise that is usually available only to institutions. We raised over \$3 billion of debt and equity for Blackstone Mortgage Trust, a formerly distressed company, integrated it into our real estate business, and transformed it in less than a year into one of the leading players in commercial real estate financing. Our Tactical Opportunities business completed its first full year, having committed more than \$2 billion to global, multi-asset class strategies. Blackstone Capital Markets, another new business, served as underwriter, arranger, or co-manager on 26 IPOs, equity offerings, and debt transactions in 2013.

Strong investment performance drove record revenues and earnings in 2013. Total revenues were \$6.6 billion—up 63% year-over-year—reflecting sharply higher realized performance fees and investment income. Economic net income (ENI) rose to \$3.5 billion or \$3.07 per unit—our highest level as a public company. Distributable earnings surged 66% to \$1.9 billion, or \$1.56 per common unit. Total distributions to common unit holders for 2013 were up 86% over the prior year to \$1.34.

Blackstone has emerged as one of the best known and highly respected brands in the asset management marketplace. We got there by pursuing a clear strategic vision; maintaining a disciplined, long term viewpoint; and instilling enduring values in a team that has no equal in talent, professionalism and excellence.

Vision: A Global, Diversified Manager

Twenty-eight years ago we had the vision to create a new kind of investment firm, with a customer-first focus, entrepreneurial spirit, global perspective, and the agility to respond quickly to opportunities and challenges. That vision drives exceptional results across virtually every asset class and business line. During the past year, the carrying value of our private equity and real estate portfolios appreciated 29% and 31%, respectively. BAAM, our hedge fund solutions business, had an 11% net return with much lower volatility than market indices. Our credit funds produced net returns ranging from approximately 18% to 24%, depending on the strategy. Revenues in our financial advisory business were up 15%.

Delivering consistent outstanding performance for limited partner investors has made us the investment manager of choice for many of the world's leading institutions. We raised more than \$50 billion in new capital from investors during 2013—and over the past three years have raised nearly as much capital as the next four alternative managers combined. Blackstone's superior results for investors have not only driven our own growth, but provide "proof of concept" for our overall investment category.

Viewpoint: Disciplined and Long Term-Focused

A long term viewpoint is essential to our approach. We invest patiently over a long time horizon, improving the value of assets in our portfolios by partnering with great management teams, investing financial and intellectual capital to help companies and properties reach their full potential, and exiting investments strategically. Once we commit to an investment, we stick with it across market cycles and actively manage the investment to deliver on its promise.

Our investment in Hilton is a prime example of this viewpoint in action. While there were concerns that we had invested in Hilton at the top of the cycle, we never lost confidence in our analysis of the exciting potential for this investment. We continued to support a great management team in achieving operating synergies and growing the business

internationally. During the economic downturn, we took the opportunity to reinvest in the company and fortify its balance sheet. Our confidence was justified: this year's Hilton IPO resulted in a valuation of 2.5 times our investment at year-end, amounting to a \$10 billion gain for our investors.

In fact, 2013 was a terrific year for realizations, with 188 transactions in all. We realized strong returns on the sale of our stakes in TRW Automotive and Vanguard, and completed the successful IPOs of SeaWorld, Pinnacle Foods, Brixmor, Extended Stay and Merlin. And we are continuing to leverage our global scale and diverse businesses to find new investments that will deliver future value, deploying or committing nearly \$20 billion this year.

Values: Offering Investors a Safe Pair of Hands

We know that investors depend on us to protect their investments and deliver the level of returns needed to meet their financial obligations. That knowledge produces a culture that strives to avoid undue risk and protect capital. We actively seek the input of individuals at all levels of the firm, who are expected to critique deals when they come before the investment committee. Team members also understand that our high standards of integrity place great value on doing the right things—and on doing things right.

Exceptional performance begins with exceptional people, and we aim to attract and hire the best and brightest. Because we share expertise and insights around the world and across our diverse businesses, we have created an environment that supports the professional development of our team members.

Our employees also appreciate the chance to make a contribution to our communities. Employees volunteered over 2,700 hours last year, while the Blackstone Charitable Foundation committed nearly \$14 million to a range of nonprofit organizations and programs designed to foster entrepreneurship nationally. Blackstone and our portfolio companies are also deeply committed to providing job opportunities for veterans, and have committed to hiring 50,000 veterans as part of a partnership with the White House's Joining Forces Initiative. Our efforts to spur entrepreneurship, including Blackstone LaunchPad, have helped more than 350,000 students learn entrepreneurial skills that we hope will bring new jobs to market.

We are proud that our efforts to build a great firm have been recognized: Blackstone was rated the #1 Best Place to Work by Pensions & Investments, and ranked #1 in Vault's 2014 survey of Banking Employers.

Positioned for Performance

Blackstone remains extremely well positioned to deliver strong results for investors and to grow our businesses and global opportunities. Leading institutions—and now qualified individual investors, as well—recognize the value of investing with us and are increasingly entrusting us with their capital. We have a diverse platform that gives us exceptional access to compelling investments across a range of asset classes. An extraordinary team with a relentless commitment to excellence provides the expertise and wisdom to guide our decisions. Finally, we have a proven approach to building value over the long term.

We thank our investors and unit holders for their confidence in us, and our employees for committing their talent and tenacity to our success. We look forward to reporting continued strong performance going forward.

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

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