Blackstone

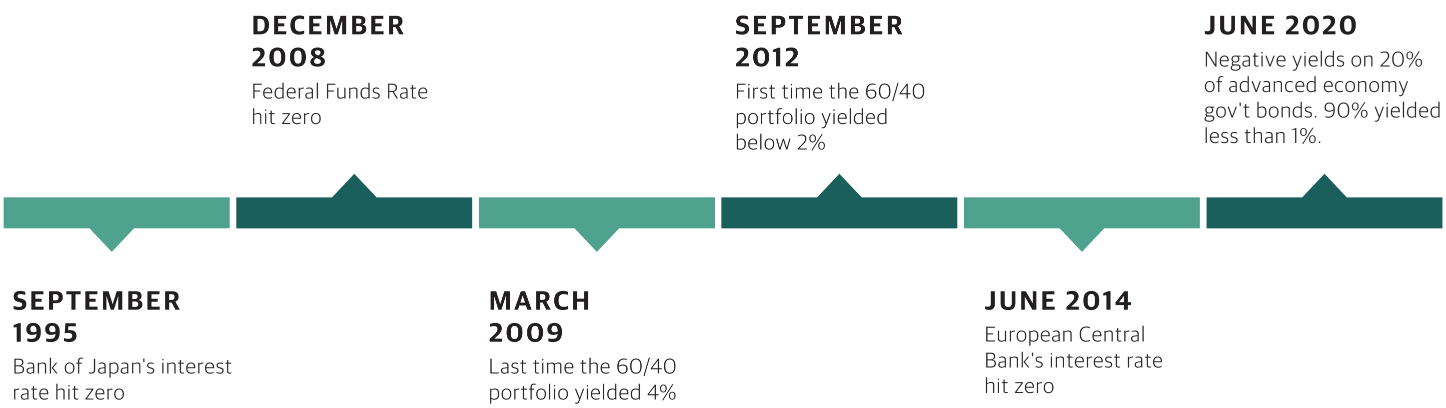
PRIVATE WEALTH SOLUTIONS

Income: A Scarce Resource

The challenge of finding attractive income sources in a low-yield world has increased to a degree perhaps unfathomable a decade ago.

Income-oriented investors seeking to adapt to this new world should understand that (i) historically, low-rate environments have tended to be remarkably persistent;[1] (ii) many income-oriented portfolios today bear substantial depletion risk;[2] and (iii) alternative sources found in private markets may be part of the answer for yield-starved investors.

FIGURE 1: Milestones on the Path to Zero/Near-Zero Interest Rates



Source: Federal Reserve Bank of St. Louis, 2020. Morningstar and Bloomberg, as of June 30, 2020. Reuters, 2019.

I. The Stubborn Persistence of Near-Zero Interest Rates

Several factors have driven interest rates near zero in developed economies, including accommodative monetary policy after the Global Financial and COVID crises. In the U.S., markets expect that strong economic growth and high inflation will lead the Federal Reserve to hike its policy rate by the end of 2022, though it would take several months, if not years, for rates to near pre-COVID levels. In Japan and the Euro-zone, interest rates will likely remain lower for longer due to continued central bank support and demographic trends. These include aging populations, which tend to save more and therefore bid up the prices of income-generating assets and suppress those assets' yields. Over the longer term, an older population in the U.S. is also likely to result in structurally lower inflation and rates.

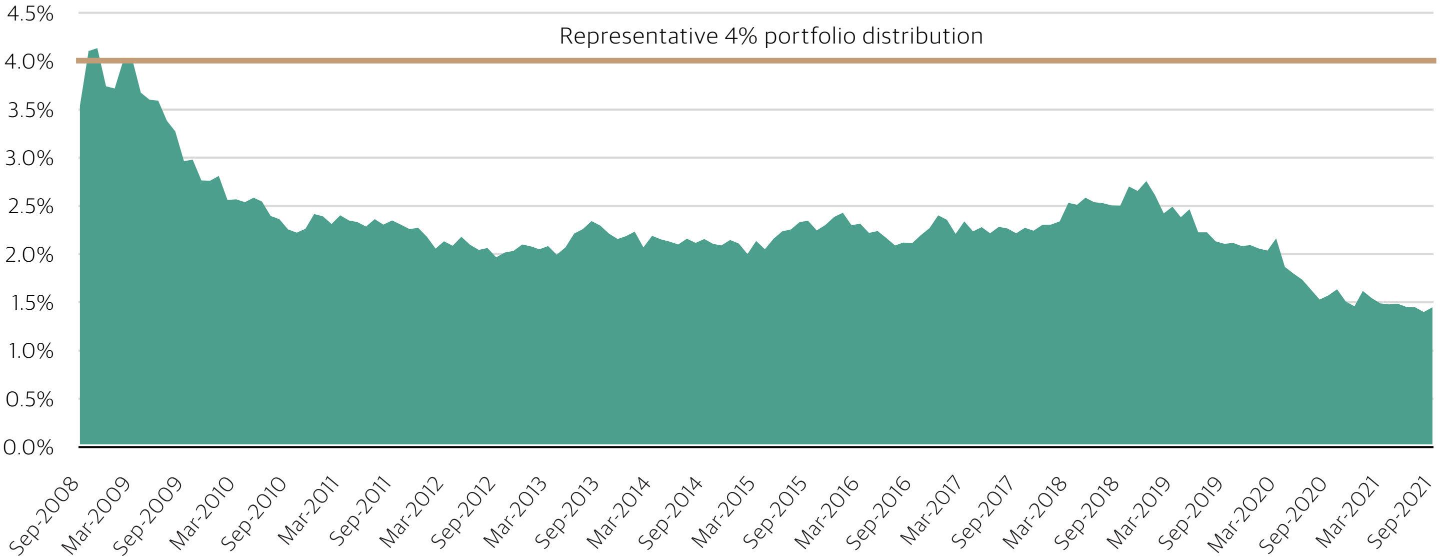
1. Source: Based on publicly available policy benchmark and interest rate data in Europe and Japan, 1995-2020.

2. Source: Alliance for Lifetime Income, "Americans are Confronted by a Looming Retirement Income Shortfall," July 2019.

3. Source: Board of Governors of the Federal Reserve System, 2020.

The information herein is provided for educational purposes only and should not be construed as financial or investment advice, nor should any information in this document be relied on when making an investment decision. Opinions expressed reflect the current opinions of Blackstone as of the date hereof and are based on Blackstone's opinions of the current market environment, which are subject to change. Information herein may discuss general market activity, industry or sector trends, or other broad-based economic, market or political conditions and should not be construed as research or investment advice. Recipients should consult their own financial advisers regarding the information herein. There can be no assurances that any of the trends described herein will continue or will not reverse. Past events and trends do not imply, predict or guarantee, and are not necessarily indicative of, future events or results.

FIGURE 2: Annualized 60/40 Portfolio Yield from 2008 to 2021



Source: Bloomberg, Morningstar, as of September 30, 2021. Hypothetical portfolio allocated 60% to the S&P 500 Index, 40% to the Bloomberg U.S. Aggregate Bond Index. The yield on the traditional 60/40 portfolio was calculated using the S&P 500 Index dividend yield and the annualized Bloomberg U.S. Aggregate Index yield. Portfolio yields are shown from September 2008 to September 2021.

II. Significant Portfolio Depletion Risk

Accordingly, in our view many income-oriented portfolios today may face substantial depletion risk. That is, we believe portfolios may be at risk of being exhausted or permanently impaired while their owners are still living and/or still face financial obligations that they intend to meet with portfolio income.

The sheer math when comparing the yield of a traditional 60/40 portfolio today—which is 1.4% as of 9/30/2021—versus a representative portfolio distribution of, say, 4% a decade ago is daunting. Yields on the 10-Year Treasury, AAA-rated corporate bonds and municipal bonds (Figure 3) stand anywhere from a fraction to less than half their levels a decade ago, when the first of the Boomer cohort began to retire. Investors who require a 4% distribution face the possibility of withdrawing money at perhaps twice the rate that portfolio yields can supply it, forcing those investors to rely on market appreciation and/or drawing down capital to meet their anticipated living needs.

This may be particularly risky at a time of heightened market volatility. Sharp drops in asset value in our opinion only serve to heighten depletion risk, since the withdrawal of a fixed percentage after a market decline all else holding equal represents a larger relative percentage of the total portfolio.

FIGURE 3: Yields When the First Boomer Retired (2010) vs. Yields Today

Source: Bloomberg, Morningstar, as of September 2021.

The information herein is provided for educational purposes only and should not be construed as financial or investment advice, nor should any information in this document be relied on when making an investment decision. Opinions expressed reflect the current opinions of Blackstone as of the date hereof and are based on Blackstone's opinions of the current market environment, which are subject to change. Information herein may discuss general market activity, industry or sector trends, or other broad-based economic, market or political conditions and should not be construed as research or investment advice. Recipients should consult their own financial advisers regarding the information herein. There can be no assurances that any of the trends described herein will continue or will not reverse. Past events and trends do not imply, predict or guarantee, and are not necessarily indicative of, future events or results.

III. Potential Solution: Introducing Alternative Sources of Income

Income-oriented investors today may want to revisit private market alternatives as a potential solution for their yield challenges. In particular, portfolios with private credit and private real estate allocations compared to a traditional portfolio (Figure 4) may offer greater yield potential and a higher likelihood of closing the above-discussed income gap.

In the hypothetical portfolios presented on this page, investors in the dominant asset classes today face yields which may be below their targets—in some cases, half the traditional yield target of 4%.

Allocating just a portion of the same portfolio to asset classes such as private real estate and private credit may bring significant potential yield enhancement. In the hypothetical illustration here, the portfolio yield rises to 3.4% from 1.4%.

We see private real estate as a compelling portfolio holding, one with attractive total return potential, a considerable portion of which may be delivered in the form of income. Private credit in our view is primarily a source of high income potential, and also warrants consideration as a long-term portfolio holding.

As a trade-off of investing in private market alternatives, capital is often locked up for specified periods. This means investors must plan around the lack of liquidity of the investment. In practice, this often means investors must source liquidity from other parts of their portfolios. For some investors, a semi-liquid investment structure may represent a middle ground between liquid and illiquid investments.

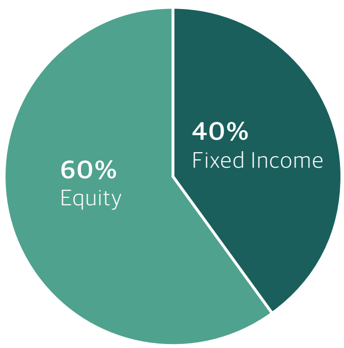
FIGURE 4

Traditional 60/40 Portfolio

1.4%
Annualized Yield

8.2%
Annualized Return

9.9%
Annualized Volatility

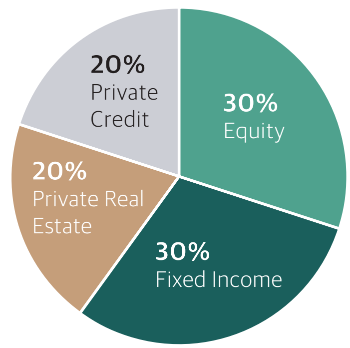


Portfolio with Private Market Alternatives Allocation

3.4%
Annualized Yield

7.9%
Annualized Return

5.8%
Annualized Volatilty



Source: Morningstar, Bloomberg, Cliffwater, as ofSeptember 30, 2021.

The yield on the traditional 60/40 portfolio was calculated using the S&P 500 dividend yield and the annualized Bloomberg U.S. Aggregate Bond yield. The yield on the portfolio with a private market alternatives allocation was calculated using the S&P 500 dividend yield, the annualized Bloomberg U.S. Aggregate yield, the annualized quarterly income for the Cliffwater Direct Lending Index and the annualized quarterly income for the NCREIF ODCE Index. There can be no assurance that any Blackstone fund or investment will achieve its objectives or avoid substantial losses, or that alternative investments will generate higher yields than other investments. Annualized yields as of September 30, 2021. Annualized returns and volatility are based on the quarterly returns over the 15-year period from October 2006 to September 2021.

This information is not meant to be predictive of the performance of any particular fund, nor is it meant to suggest that all private funds result in positive returns or may avoid loss of principal. Private equity investments involve significant risk and typically high levels of leverage. Hypothetical performance results have many inherent limitations and no representation is made that any investor will, or is likely to achieve, results similar to those shown. Opinions expressed reflect the current opinions of Blackstone as of the date hereof and are based on Blackstone's opinions of the current market environment, which are subject to change. Information herein may discuss general market activity, industry or sector trends, or other broad-based economic, market or political conditions and should not be construed as research or investment advice. There can be no assurances that any of the trends described herein will continue or will not reverse. Past events and trends do not imply, predict or guarantee, and are not necessarily indicative of, future events or results. Each investor's cash flows and returns will differ and may result in a total loss of principal. **Past performance does not guarantee future results.**

Important Disclosure Information and Risk Factors

The views expressed in this commentary are the views of Private Wealth Solutions group of Blackstone Inc. (together with its affiliates, "Blackstone") and do not necessarily reflect the views of Blackstone itself. All information in this commentary is believed to be reliable as of the date on which this commentary was issued, and has been obtained from public sources believed to be reliable. No representation or warranty, either express or implied, is provided in relation to the accuracy or completeness of the information contained herein.

Investment concepts mentioned in this commentary may be unsuitable for investors depending on their specific investment objectives and financial position. Tax considerations, margin requirements, commissions and other transaction costs may significantly affect the economic consequences of any transaction. Concepts referenced in this commentary and should be reviewed carefully with one's investment and tax advisors.

This commentary does not constitute an offer to sell any securities or the solicitation of an offer to purchase any securities. This commentary discusses broad market, industry or sector trends, or other general economic, market or political conditions and has not been provided in a fiduciary capacity under ERISA and should not be construed as research, legal, tax or investment advice, or any investment recommendation. Past performance is not necessarily indicative of future performance.

Blackstone Securities Partners L.P. ("BSP") is a broker-dealer whose purpose is to distribute Blackstone managed or affiliated products. BSP provides services to its Blackstone affiliates, not to investors in its funds, strategies or other products. BSP does not make any recommendation regarding, and will not monitor, any investment. As such, when BSP presents an investment strategy or product to an investor, BSP does not collect the information necessary to determine—and BSP does not engage in a determination regarding—whether an investment in the strategy or product is in the best interests of, or is suitable for, the investor. You should exercise your own judgment and/or consult with a professional advisor to determine whether it is advisable for you to invest in any Blackstone strategy or product. Please note that BSP may not provide the kinds of financial services that you might expect from another financial intermediary, such as overseeing any brokerage or similar account. For financial advice relating to an investment in any Blackstone strategy or product, contact your own professional advisor.

In the United Kingdom and the European Economic Area: issued by The Blackstone Group International Partners LLP ("BGIP"), authorised and regulated by the Financial Conduct Authority (FRN: 520839) in the United Kingdom. This communication does not constitute a solicitation to buy any security or instrument, or a solicitation of interest in any Blackstone fund, account or strategy. The content of this communication should not be construed as legal, tax or investment advice.

This material is exclusively for use by persons who are Professional Clients or Eligible Counterparties for the purposes of the European Markets in Financial Instruments Directive (Directive 2014/65/EU) and must not be distributed to retail clients or distributed onward.

Recipients should bear in mind that past or estimated performance is not necessarily indicative of future results and there can be no assurance that a fund will achieve comparable results, implement its investment strategy, achieve its objectives or avoid substantial losses or that any expected returns will be met.

The activity of identifying, completing and realizing attractive investments is highly competitive, and involves a high degree of uncertainty. There can be no assurance that a fund will be able to locate, consummate and exit investments that satisfy its objectives or realize upon their values or that a fund will be able to fully invest its committed capital. There is no guarantee that investment opportunities will be allocated to a fund and/or that the activities of a sponsor's other funds will not adversely affect the interests of such fund.

Recipients should be aware that an investment in a fund is speculative and involves a high degree of risk. There can be no assurance that a fund will achieve comparable results, implement its investment strategy, achieve its objectives or avoid substantial losses or that any expected returns will be met. A fund's performance may be volatile. An investment in a private equity fund or other alternative investment should only be considered by sophisticated investors who can afford to lose all or a substantial amount of their investment. A fund's fees and expenses may offset or exceed its profits.

Certain countries have been susceptible to epidemics which may be designated as pandemics by world health authorities, most recently COVID-19. The outbreak of such epidemics, together with any resulting restrictions on travel or quarantines imposed, has had and will continue to have a negative impact on the economy and business activity globally (including in the countries in which funds invest), and thereby is expected to adversely affect the performance of a fund's investments. Furthermore, the rapid development of epidemics could preclude prediction as to their ultimate adverse impact on economic and market conditions, and, as a result, presents material uncertainty and risk with respect funds the performance of their investments.

The foregoing information has not been provided in a fiduciary capacity under ERISA, and it is not intended to be, and should not be considered as, impartial investment advice.

Certain information contained in these materials constitutes "forward-looking statements," which can be identified by the use of forward-looking terminology or the negatives thereof. These may include financial estimates and their underlying assumptions, statements about plans, objectives and expectations with respect to future operations, and statements regarding future performance. Such forward-looking statements are inherently uncertain and there are or may be important factors that could cause actual outcomes or results to differ materially from those indicated in such statements. Blackstone believes these factors include but are not limited to those described under the section entitled "Risk Factors" in its Annual Report on Form 10-K for the fiscal year ended December 31, 2020 and any such updated factors included in its periodic filings with the Securities and Exchange Commission, which are accessible on the SEC's website at www.sec.gov. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in these materials and in the filings. Blackstone undertakes no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

There can be no assurances that any of the trends described herein will continue or will not reverse. Past events and trends do not imply, predict or guarantee, and are not necessarily indicative of, future events or results.

Certain information herein has been obtained from sources outside Blackstone, which in certain cases have not been updated through the date hereof. While such information is believed to be reliable for purposes used herein, no representations are made as to the accuracy or completeness thereof and none of Blackstone, its funds, nor any of their affiliates takes any responsibility for, and has not independently verified, any such information.