INTERVIEW

Legally astute

Americas reporter John Crabb talks to **Blackstone** senior managing director and chief legal officer, **John Finley**, about his time as general counsel, building a team and the private equity landscape

Before you moved to Blackstone you worked in M&A at Simpson Thacher. How do you think the role of a general counsel differs from your time in private practice?

The job at Blackstone is more of a management role. There was some management at Simpson Thacher because I was on the executive committee, but it is really not the same as being personally responsible for a global legal department. You have to address reviews, compensation and budgets, outside counsel and internal client services. Moreover, while my M&A background gave me broad-based experience in a lot of areas, I did have to learn some areas such as compliance when I came to Blackstone. So that was definitely a challenge and a learning curve.

The other aspect of being a general counsel is that you can't drill down as deeply on any one matter as you can when you are in private practice. You need to focus on the one tough judgement call or problem area, get the facts and move on. Your time is much more fractured; while you don't go round the clock on any one deal like in M&A, as a general counsel you still always have the sense that something was left undone. That is an issue you just have to manage.

What aspects of your current role, and working with Blackstone in general, do you find bring you the most satisfaction?

The most satisfaction comes from moving the firm, making it better. At a law firm you are problem solving at a very high level, but as a general counsel you are trying to facilitate the firm's overall strategy. You look to be – and this is a phrase I use with my team – 'legally astute,' being opportunistic in taking regulatory burdens and turning them into an advantage.

For example, the Alternative Investment Fund Managers Directive [AIFMD] in Europe contemplated the need for passporting in order to market into Europe. This was going to start in 2019 or later, but we complied early in order to increase our access to the European markets and raise incremental funds. The amount of incremental fundraising we have had because of the infrastructure that we set up in Europe to facilitate that passporting is very significant.

When you are building a team to put out on the field, what mantra do you follow and what lessons do you want your team to guide themselves on?

Of course the first mantra is that they make sure that the organisation and its employees

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comply with the letter and spirit of the law. That is the most basic part. But I also want them to be opinion leaders within their business units so that they are sought out advisors rather than being a traffic cop. In addition to being an opinion leader I want them to focus on 'winning legally,' being proactive in using the law to our advantage whether that means using changes to create opportunities or shaping changes that could benefit our clients and prospective clients. I also want them to be creative in using technology, both to be more efficient and enhance the client experience. For us, using technology to be effective is absolutely essential.

Finally, we are looking for people who can fit into our culture and work very collegially. Our culture is collaborative and consensus orientated. We put a premium on listening, vigorous debate and a high degree of coordination to reach the best judgements. This is not a place for 'Lone Rangers'.

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From a regulatory standpoint, what developments are currently affecting the firm, be it changes from the Securities and Exchange Commission (SEC), the impact from changes in Europe or others?

The SEC has indicated in the last couple of years that its greatest focus is going to be on retail investors, and the head of the Office of Compliance Inspections and Examinations at the SEC has recognised that it has already hit the private equity area pretty hard. But that doesn't really change the way that we do our job as the bar has already been raised and limited partner expectations have never been higher. We need to be sharp on transparency and disclosure in any event.

While there is no impetus for enhanced regulation affecting asset managers like ourselves in the US, Europe continues to be very active on the regulatory front, including AIFMD, market abuse rules and data privacy rules. Some aspects of this are challenging, because they apply in ways that are different from the US.

We also need to continue to consider the impact of Brexit, given our operations in London. Forming an office in Luxembourg was quite prescient, as a number of firms have copied our move.

How do you see the private equity landscape changing in the near and long terms?

A trend that will be occurring in both the short term and long term is what I would refer to as 'retailisation'. But, for the distribution of private and traditional draw down funds to a broader universe of high-net worth investors, this will mean continuing the broadening of distributions through not only bank feeder funds, but independent broker-dealers and registered investment advisors. And this is not only the case for sponsors like Blackstone who are launching products designed for high-net worth channels, but also small and medium sponsors who are increasingly using high net worth structures and relying on third party distribution.

But this growth for private funds is more than matched by registered funds that are designed for investors who can't satisfy the accredited investor standard. Those products range from listed closed end funds in the credit space, to listed real estate investment trusts, mutual funds and non-listed closed end funds. While these are primarily focused on some form of credit (including real estate credit), long term we see more availability of equity in such products as the SEC has expressed concern about the lack of access to private companies by retail investors.

Particularly as the universe of public securities shrinks, one vehicle could be a draw down fund of private equity funds, particularly if the SEC were to facilitate the ability to invest in such funds to registered closed end non-redeemable funds. In the long term, we also see the availability of private equity and 401ks broadening. Ultimately, this needs to happen because retail investors need the same diversity and higher return products as wealthy investors and institutions.

We are two years into the current administration. How have you had to react to the changes brought about in that time, is it hurting your business or have you been able to use it to your advantage?

In terms of the impact on our business, the changes brought by the administration have been more at the macroeconomic level rather than any specific changes.

Looking at taxes, while there was no material change in BX taxes and a modest net benefit to our portfolio companies, the macroeconomic impact of the higher growth rates has been positive.

Similarly, the deregulatory push by the administration has been positive in two respects. In certain industries, such as oil and gas, less regulation has fuelled higher growth, created jobs and benefited the retirees who are beneficiaries. But, even more important than any one specific change, the business environment has been unshackled as the focus is no longer on the next regulation with the accompanying uncertainty that can chill investment and expansion. The creation of more optimism has generally created a better growth environment for our portfolio companies.