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OPINION

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Blackstone: the first trillion is the hardest

The firm looks like it is the most unstoppable force in financial services

Could Steve Schwarzman be remembered as an innovator as accomplished as Steve Jobs? It might seem laughable on the surface. But Schwarzman's once niche leveraged buyout business, Blackstone, now looks like the most unstoppable force in financial services.

Its $144bn market capitalisation exceeds the likes of BlackRock, Citigroup and Goldman Sachs. On Thursday, when announcing its fourth-quarter earnings, Blackstone said it could hit a gaudy $1tn in assets under management later in 2022 — years earlier than expected. Not too shabby for a firm described as an "alternatives" manager.

The firm has roughly 60 different investment strategies. Those vehicles that put money into everything from apartment buildings to oat milk come with oddball names such as "core plus" and "tactical opportunities". That menu helped pull in a staggering $270bn of new capital to manage in 2021.

Big pensions and wealth funds have an enormous appetite for returns outside of public equities and bonds. The trick for Blackstone has been convincing those pools of capital to stay within the Blackstone factory to take advantage of the latest contraption coming off the assembly line.

Last year, Blackstone generated $11bn in cash revenue — $5bn in management fees and the rest in incentive pay (this figure excludes unrealised but booked incentives).Its multiple of market capitalisation to revenue of 13 times resembles a high-growth software start-up. Citi, for example, generated $72bn in revenue in 2021 off a balance sheet that has $2.3tn in total assets. Its current market capitalisation is just $127bn.

And while a bank is lucky to have a return on assets of 1.5 per cent, money management firms keep very little in the way of assets on their own books. The question for them is whether they can attract sizeable external funds and charge premium fees to manage them.

BlackRock, best known for its passively managed strategies, oversees $10tn, or more than 10 times that of Blackstone at the moment. Yet for all of BlackRock's success in attracting trillions of inflows in recent years, it has a market capitalisation of $120bn, last year bringing in just under $20bn in fees.

A rising tide for asset valuations over several years not only helps pump up fees but also means capital allocators feel better about pushing more cash into Blackstone funds, given its capacity. How newly volatile markets will affect returns and asset gathering is unknown. But expect Blackstone to try to find some new wheeze to exploit such conditions.