The Economic Club of New York

115th Year
662nd Meeting

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Tony James
Chairman, Jefferson River Capital

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Webinar

Moderator: Jason Kelly
Chief Correspondent, Bloomberg News

Introduction

President Barbara Van Allen

Good afternoon and welcome to the 662nd meeting of The Economic Club of New York. I'm Barbara Van Allen, President and CEO of the Club. And it's an honor to be here with all of you in our milestone year, 115th anniversary. So The Economic Club of New York is the nation's leading nonpartisan forum for discussions on economic, social and political issues. And we've had more than 1,000 prominent guest speakers that have appeared before the Club over the last century and have established a very strong tradition of excellence.

A special welcome to members of the ECNY 2022 Class of Fellows – a select group of diverse rising, next-gen business thought leaders. I also wanted to welcome other members of the Centennial Society joining us today, which thanks to their donations and contributions, serve as the financial backbone of the Club.

It's my pleasure to introduce our guest, Tony James, Chair of Jefferson River Capital and Costco Wholesale Corporation. In 2002, Tony joined Blackstone as President and Chief Operating Officer, and in 2018, he became Blackstone's Executive Vice Chairman. During his tenure at Blackstone, he was a member of the Board of Directors, a member of the Management Committee, and he sat on all of the firm's various investment committees.

Prior to his time at Blackstone, Tony was Chair of Global Investment Banking and Private Equity at Credit Suisse First Boston and a member of the Executive Board. Tony is actually Co-Chair of The Metropolitan Museum of Art, Chair of the Finance Committee of the Mount Sinai Health System. He's a member of the Center for American Progress Board of Trustees, and he's Vice Chair of Trout Unlimited's Coldwater Conservation Fund, Vice Chair of the Board of Trustees of the Wildlife Conservation Society, and many others.

In 2018, he co-authored the second edition of *Rescuing Retirement*, a book proposing a solution to America's looming retirement crisis. Tony has also published articles in *The New York Times*, *The Wall Street Journal*, *Financial Times*, *The Harvard Business Review* and many other publications.

The format today will be a conversation, and we're fortunate to have a fellow member, Jason Kelly, as the moderator. Jason is the Chief Correspondent at Bloomberg News. We're going to end promptly at 1:45, and any questions submitted to the Club have been shared in advance. A reminder that this conversation is on the record, and we do have media on the line. Jason, at this point, I'm happy to pass it over to you. Thank you.

Conversation with Tony James

JASON KELLY: Barbara, thank you so much. This is a delight for me to be here with my friend, Tony James. We've known each other for quite some time. I've seen a lot of his journey. Barbara did a very nice job laying out your CV there. But this, I'm seeing you really for the first time in this new milieu, as it were, your somewhat post-Blackstone life, although I think you never really get away from Blackstone. We'll talk a little bit about that. But tell us, share with us what you're up to these days.

TONY JAMES: Okay, well, thanks, Jason. I loved my time at Blackstone, but I also feel like there's more to life than just Blackstone. And when I was there Blackstone was all-consuming, so I figured it would be fun to do some things that benefitted the rest of the world. I love building businesses. I love making institutions great. And with the pandemic and many things, a lot of charitable organizations have plenty of challenges. And when there's lots of challenges, if you can get a leadership role, there's lots of ability to have impact and that appealed to me. And so I'm spending time on four charitable organizations where I'm privileged to be either Chair or Vice-Chair or the equivalent. So that's one bucket of activities.

Back in 1984, two guys knocked on my door and came in and said we have an idea. We're starting something called a warehouse club. We founded them money to open their first two stores, and that was Costco. And that's now the second largest retailer in the world, and I think the best retailer in the world. It's a fantastic company, fantastic board. I love the company, have been with them since birth. And so that's a real kind of connection I have that's really, really important.

And I just adore investing. You see, everything that happens in the world, you feel it right away in some way. And the ability to stay connected to the world in that way and react to it, it's just fun. And in the process, if you're in the private markets where you're controlling assets, you can also build and own great companies. So those are the three legs of my stool, so to speak. And it's been a great mix. I've only been out of Blackstone a little over 90 days, but still it's been a great mix so far.

JASON KELLY: So we're catching right as you're accelerating into this new world. So I'm going to take full advantage of the fact that you do have these different lenses, as it were, and obviously the sort of legacy Blackstone lens. But let's jump in and talk about the state of the world, if we can. And as we sort of tick off all the things that we, as business people, we, as journalists, we, as investors, economists, are all looking at, the members of this Club, it is daunting. I mean it is daunting to look around the world, look around this country, look around this city candidly, and there are lots of issues that we're facing. Let's start with the one that literally hits our pocketbooks, which is inflation. You see it through, again, multiple lenses. How do you think about it through your various, through the various ways that you see the world?

TONY JAMES: Okay, well, I think that the Fed was very slow to recognize that inflation is real. It's embedded, it's multi-faceted. I think we were on the record saying that at Blackstone a long, long time ago, and we see it everywhere. We see it in the cost of materials, the cost of labor, the cost of capital, everything. And so I don't think that's going to very readily go away. In my own view, yes, we have some shortage-driven things, but a lot of the trends that led to such low inflation are sort of reversing now.

Globalization, for example, China exported to us deflation for a long time. Now that's reversing. And I think that you can look at a lot of things. Climate change, I'm not talking about the right or wrong or the morals of it, but climate change itself adds cost. And dealing with it, resiliency and all that adds cost. So there's a lot of things that mean inflation is going to be with us, I believe, for a long time. I think the Fed will have a very difficult time getting it down much below 3 ½%. My own view is it will, it won't stay at 6 to 8, but it will get down to 3 ½ to 4. And we're going to have to deal with that and that will, of course, have lots of ramifications for interest rates first and then markets. So that all ripples through.

But I think we're coming into a phase where globally we've got a bunch of long-term trends which will sort of sap productivity a little bit, sap global growth. Deglobalization, I mentioned climate change. I mentioned aging, income inequality. A lot of these things are going to be with us for a while. And so I think it'll be, you know, I'm not a pessimist by any means, but I think it'll be a slower growing world.

And within that slower growing economy, long-term, and within that, if you look at the pendulum between corporate profits and labor, it kind of swung back and forth. It swung very heavily in the last decade to corporate profits. And I think frankly, appropriately in my view, it's going to swing more towards labor now. So I think we'll have a slower economy, but we'll also have corporate profits growing a little more slowly than the economy in that kind of environment.

JASON KELLY: And so from an investor's perspective, this was an incredible run. I mean post-financial crisis, and we'll go back in history in a little while, but post-financial crisis, you know, what a run for just about every asset class. Even during the pandemic, watching what happened with real estate has been pretty remarkable. As you say, so many of those things are reversing. So whether you're an individual investor or an institutional investor, how do you factor, just sticking with inflation, how do you factor that into a workable investment thesis?

TONY JAMES: Well, I'd say you've got to break it into pieces and find things that work. So I'm a big believer, for example, if inflation is here to stay, interest rates will be higher.

I think the big driver for the market values really is not just post-crisis. We've had a 40-year essentially long-term decline in interest rates. Right? So when that reverses, and that's driven asset values, multiples, everything up dramatically, as you'd expect when discount rates come down, when that reverses, it's going to have the reverse effect. I don't think anyone should be surprised about what's going on in the stock market now and I don't think it's over either, by the way. I think discount rates go higher and markets go lower.

JASON KELLY: What that says to me is you want to, when that happens, the assets that will perform better are the ones with the shorter payoffs. The ones with very long payoffs will perform worse. So what's a long payoff? In equities, it would be a tech company with no earnings for ten years and so on and so forth. Maybe there's a huge pot of gold out there but when you raise that discount, it's very sensitive to the price. Whereas yield stocks that pay a big yield today should be less sensitive to that.

It's interesting, a lot of people think, well, yield stocks, they're bond equivalents. When you raise rates, they're going to get hurt. But they shouldn't get hurt as much, as much as bonds. So, for me, I like, so I try to find things that will either hold their value in this environment or appreciate. So, as an example, I really like floating rate debt products, senior secured, where if rates go up you earn more money. Maybe the value of the security doesn't go up, but you're getting paid more income. And so I'm happy with that.

We have a bunch of products like that, whether that be in corporate credit. They're tradable. They're easy to buy. Anyone can buy them. And you can get a 7 or 8% yield. When rates go up, you're going to earn more.

In equities, again, I kind of like yield with growth. Where can you get that? Well, maybe China. China has been beaten down pretty good. The Bank of China, the last time I looked yielded over 8%. I think China is one of, the growth of China is one of the mega-trends and most investors are under __ about it. So you can find yield with growth and I think that relatively protects you in this market. I also look for anomalies where pricing has been distorted by non-economic factors. For me, oil and gas last year screamed out there, so I bought a lot of energy-related stocks. MLPs also, slightly different but similar.

I think this environment gives you a lot of, when the markets drop, of course, good companies drop as much as bad companies. Sometimes if it gets really panicky, the more liquid, the better companies actually drop more because that's where people can get liquidity. And there's going to be a lot of fallen angels that are good companies that still need access to capital and so I think things like structured equity and things like that where you can give someone their equity. You can get a senior position and ride all the upside. There'll be a lot of interesting opportunities around that too. For the really adventuresome people, there's always values to be found.

And then, for me, also I love real estate. And if you buy a commercial building in a good part of the country where the long-term economic and demographic job-creation trends are all good, you pay less in physical replacement cost, that population growth, that job growth which rides through recessions and booms, will require more commercial real estate. What's happening to build more commercial real estate, of course, inflation is pushing building costs up, very big. And so rents have to go up or there's no building. So you either have a scarce asset and rent will go up or, you almost can't lose. Hard assets hold their value very well. So I think there's a lot of interesting things to do, and if you get the right mix of that, you're earning more income. Some things, like oil and gas is up this year while the rest of the market is down. Right? In the last year, it's been up 50%. Right? So you can do very well in this market.

JASON KELLY: You know, it's interesting you mentioned that sort of 40-year time frame, which is a really interesting one, I think, especially when I think about your career. I mean I remember, just as an aside, one of the best magazine articles I ever read, you made a cameo in, and it was about T. Boone Pickens. It was written by Joe Nocera back in the 80s for *Texas Monthly.* So you've been doing this for some time, which leads me to the question, as you think about that history, you know, the old saying is that history doesn't necessarily repeat itself, but sometimes it rhymes. What does this remind, does this period remind you of another time, especially as we think of inflation, and we'll get to some maybe geopolitical issues in a second? But are there echoes of anything from your business career that this feels like?

TONY JAMES: You know, I wish I could say yes to that but I've never, every time, there are certain similarities obviously, but every cycle has different elements and different causes, different effects. It hits different parts of the economy and the markets differently. So I think it's dangerous to think you've seen this movie before. To me, right now we have, we have a lot of inflation but we've never seen anything like shortages driving it. Throughout my career, we've always had globalization and other things as positive trends, not negative trends...

JASON KELLY: It's an environmentally friendly office.

TONY JAMES: It's an environmentally friendly office. There we go.

JASON KELLY: This is live television, folks.

TONY JAMES: Sorry about that, everyone. So I think right now the consumer is in very good shape, generally speaking. Businesses are in very good shape. I don't think the economy, the economy is strong, but not overheated per se. And so it's not, this is not like anything I've really seen. I think the federal stimulus was massive, but it wasn't for economic reasons. It was for COVID reasons. So all that makes it feel different to me. It does make me feel there's a reasonable chance that the Fed can tighten without tripping us into a recession, but there's certainly a recession risk. I don't see it in the next year or so.

But out there, beyond that, I do think there's recession risk, partly because it's very easy to overdo that, number one. Number two, geopolitical effects can impact consumer confidence in a hurry and that's unpredictable. And then I would say if you look at our trading partners, China is certainly softening. Japan headed down 1/4 in GDP. And Europe with energy prices spiking much more than here, and it looks like they'll stay up, and Ukraine right on its border, I think Europe could have, and they didn't come out of Covid as strong and it didn't have the kind of economic momentum we had anyway.

So for a lot of reasons, if the rest of the world is going to slow, it is an interconnected world. It's hard for us to defy gravity indefinitely. But we're in very good shape now. Our companies across the board are looking at robust orders. They're looking at, they're getting price increases. Their customers are healthy. I don't see any signs right now of a slowdown.

JASON KELLY: Yes, I have to say that that is one of the things that, and I'm not nearly as bright and sophisticated as you are, but it befuddles me that we can have these, you know, massive shortages of everything from semiconductors to baby formula. We can have what looks like is the prelude to a World War going on in Europe and could blossom into a full-on World War, the economic slowdowns that you're talking about, and yet I feel like there are lots of pockets in this country, and I'm guessing you see this through Costco and other companies, where people are like, yep, I'm going on vacation. I'm buying a new car. I'm buying a new TV. I'm buying things if I can get my hands on them. I don't know how to explain that.

TONY JAMES: I think Covid meant there was a lot of pent-up demand for certain kinds of things, especially services. So at Costco, I think we're seeing more, looking – believe it or not – at cruise ships. People thought who would ever do another cruise, you're trapped...remember that cruise ship that was off in Japan and people were trapped there for months and they all got sick. But it's back. So there is some pent-up demand. We read about shortages but companies are navigating that and to me that just stretches the growth out longer in some ways. It's less of a peak and then a return to normalcy. It's actually a good thing in economic terms.

Wages are going up so people have more money in their pockets. Our economy is 70% to consumer. I think that's a very good thing. So I think there's a lot of fundamental healthy things that aren't negative. I'm not surprised at all.

JASON KELLY: Well, and you touched on something earlier that I don't want to get too far away from, which is this pendulum swinging back to labor in some ways. You know, you look at people being very confident about finding a job. Unemployment going down, wages going up. Tight, tight demand for talent. Like I have teenagers who were very easily able to get summer jobs, which was not always the case in some ways. And I guess those people ultimately are the ones who are spending, you know, they're willing to spend money, I guess.

TONY JAMES: Yes, I mean I think wages are up sharpest for the low end of the wage scale and they have the highest propensity to spend. I think that's good. I think it's also good because I think inequality was one of those seminal issues for our generation. And, you know, I think the pendulum starts to swing back. You know, people able to work for a living and earn a lot more, materially more, and not only have the money in their pocket, but the confidence about the future, the confidence about how their kids will do, the self-esteem, all of that I think is really important. So more of that, to me, has some intangible long-term benefits of making this world for many people feel a little less unfair.

JASON KELLY: Yes, well, and it's interesting. I mean this is a little bit of a divergence, I'm getting to this issue maybe a little bit earlier than I planned to in this conversation, but I know you've thought a lot about inequality. You've though about retirement. You've thought about the wealth gap. You alluded to the fact, sort in the opening part of this conversation, that you're spending more time thinking about that. Post-pandemic, if we are post-pandemic, post-2020, I know you've done work with HBCUs and whatnot, do you have any optimism that we're moving sort of in the right direction? What do you see from this generation coming up that might give us a little bit of hope?

TONY JAMES: Well, I think, particularly the young people care a lot more about that what they do is good for the world. I mean honestly, I'm not proud to say it, but when I took a job, I didn't care about that. I didn't think about that. I wanted to get ahead. I wanted to earn money. I wanted to have a good job. More than anything else actually, I worried about being bored, so I wanted to be challenged. But I certainly wasn't worried about how, if what I'm doing is going to save the world. All of our young people here and all the young people all over, they care deeply about climate change, I think. They really do want to, and many, many other social issues.

And I think that's being reflected in business executives. I'm not saying they're ever going to substitute societal objectives for shareholder value. I think that would be a mistake actually. If you muddle those two things, then what game are you playing? What are the rules of that? How are they measured? But what we're all hearing from our employees is this is important. We can't hire and attract the best employees if we're not sensitive to it. We're also hearing from our customers. So it's not being imposed on us by the shareholders actually. It's those other constituencies. I mean we really have to be mindful of this. Take it seriously. And business needs to be a force for good. And where business can have, let's face it, whether you like it or not, business is a critical part of the economy and drives jobs and everything else.

So, I mean one of the great things about Costco, they have the smallest margin of just about any retailer, they've always started their employees at a huge premium over any other retailer. So you think, how do they get away with that? And again, they believe that the employees are part of the team. If you invest in your employees, you have much lower turnover, you get better people. Your people really care about doing a good job. They identify with the company and that's a virtuous circle.

JASON KELLY: Why did they do that? It sounds like they've done that from the beginning. But why?

TONY JAMES: From the beginning, for the reasons...

JASON KELLY: Because that was counter to what a lot of people were doing at that moment.

TONY JAMES: Absolutely. Absolutely. It was counter to what just about everyone was doing until a couple of years ago truthfully. I mean when some other retailers were starting people at near minimum wage, Costco was at $14, $15, almost twice the minimum wage. And they're still, now that a lot of people have moved up the wages, there's been a lot of regional minimum wage things, but in addition, if you're going to fill your seats, you've got to offer more money. Costco is still a big premium over everyone else. And again, they just feel like that way they get better, more motivated employees that care about the company and care about the customer. The customer has a better experience and it's a virtuous circle. And what that does, if the customers are happier, they spend more. You get more volume so you spread your labor over a bigger cost and it's worked fantastically.

JASON KELLY: I have pushed many, many large, large shopping carts, not just carts, like the big, you know, they're like tractor size pushing through there. So I want to shift gears a little bit and talk about something that is near and dear to a lot of our members' hearts, which is this evolution of Wall Street. And as I think about your career, you know, spanning just, DLJ to Credit Suisse to Blackstone, we could spend an hour talking about each of those chapters.

But I want to talk about the Blackstone element because we were talking before we came on air and I was doing a little bit of research and, you know, the number, you know, I'm a Bloomberg reporter at heart, I love these numbers. You joined in 2002, as Barbara said in the intro, and Blackstone is roughly $20 billion in assets under management, which back in 2002, seemed pretty good. Like that's pretty great. Here we are $900+ billion, on the verge of a trillion dollars, ahead of schedule, by all accounts, the schedules that you and Steve and John set a couple of years ago. Help us understand sort of the catalytic moments across those, call it 20 years. Because in the story of Blackstone, in many ways, I dare say, is the story of kind of the new Wall Street. Do you agree with that assessment? And you were not just an observer, but a participant and a catalyst in that.

TONY JAMES: Yes, that's a big question. And I don't want to say we were visionaries. We started off with a hand to play. And we had certain guiding principles and it just sort of built on itself. And I think our guiding principles were, first of all, we don't care about our shareholders or anything else as a primary objective. We care about delivering high returns for the risk to our investors. If we do that, then our shareholders and our employees and everyone else will do well. So never lose sight of that goal.

We got to a point somewhere in sort of the mid-2000s where we were pretty big and we were multi-strategy. And that actually emerged at the time, this was actually probably early 2000s, when LPs were telling us, you know, that's very nice, Blackstone, you've got a big fund, but I don't want that. I want a small fund that does one thing. There's a genius who sits in the corner and he divines wonderful investments and that's all he does. And we thought, well, we can't go back and do that. Right? So how do we create an entity that compensates for its size and scale, if you will. In other words, how do we make size and scale an advantage, an advantage in terms of delivering returns to our LPs first but also in other ways.

And so that was kind of the conundrum, that wasn't what the market wanted. But we realized that we could use our size and scale to invest in capabilities other people couldn't have. We have, Blackstone has something like 30 data scientists that help us analyze investments. Well, that's not a group that any other private equity firm is going to be able to afford to have. We invested in retail distribution. We have 300 people almost in that area now. And we started way, way back before it got popular. Now everyone's trying to scramble to catch up.

But we also, it was culture where the sharing of ideas and the sharing of information and the sharing of relationships had to be seamless and from the heart. Not forced from the top, not you will do this, you will talk to that person. Seamless and from the heart. And if we did that and if everyone really cared about that, we could harness that intellectual library to give us insights, then by not being just a monoline firm, because it's like pieces, the world's a mosaic. We had a piece of the mosaic from real estate, a piece from credit, and a piece from all these other funds that we invested through our secondary businesses. We could put together a better vision of the future than anyone else.

And then, you know, people said, well, did you map out the strategy? I was always a believer that in financial markets you can't have a multi-year strategy really because something changes. And then if you're locked into that, if it's the right thing today, and there's a lot of changes, it will be the wrong thing tomorrow, almost by definition. So our strategy was to be able to be opportunistic in a very effective way. And that is see things, identify trends and see things before other people do. Be able to make the right decision as to how to react to those before other people figured it out. And then move nimbly to do that and have the talent and the structure and the systems that all reinforce that.

And I think as the world's gone through lots of twists and turns over that 20-year period of time, but in each case, we've emerged stronger from every one of them. And I think that's part, this all goes together and it's just built on itself. And I look at something like Citigroup – I shouldn't really use any names, but I look at some of the other institutions and they haven't been nimble at all. They haven't reinvented themselves. They haven't been able to respond. And look, they all have lots of constraints I'm glad we never had. Right? For one thing, you know, we have 3,000 people. We don't have 300,000 people.

JASON KELLY: And I think it's worth mentioning that you and the firm were able to step in post-financial crisis into a world that was more regulated for a lot of people and not for you, to some extent. I mean there were big banks getting out of businesses that you could then step into.

TONY JAMES: Okay, a lot of our businesses are not regulated as heavily as some others. But that was a choice too. And similarly, if you look at some of those big firms, they could have chosen to be in our businesses. There's nothing that kept them out. And they didn't make that choice.

JASON KELLY: In some cases, got in and got out.

TONY JAMES: Some of them got out of the businesses, and some of them actually got into more regulated businesses. So, you know, I don't really think that's the answer. Blackstone was regulated, it is regulated. I can assure you the FCC is very, very diligent in regulating and scrutinizing everything we do.

JASON KELLY: And so from a leadership perspective, how did you maintain, you know, there are a lot of leaders on this call, you know, that was hyper-growth in many ways, and you were at the helm of the ship with Steve. What were the sort of management decisions you made or what was the mentality that you had as a leader to insure that you were going into the right businesses, that you were seizing those opportunities?

TONY JAMES: Okay, well, there's soft stuff and there's less soft stuff. Let's start with the less soft stuff. So what businesses do we want to be in? Let's just say there are certain common elements. First of all, we had many, many more opportunities than we pursued. Right? Many more opportunities that we could have done well. So number one is let's do a few things really well. That sounds easy but, nonetheless. Let's do a few things really well. And let's make sure, if we're only going to do a few things really well, that they can all be big.

And also they can't be capital-intensive businesses, or they shouldn't be in our criteria. And they shouldn't be people-intensive businesses either. Like we don't want a lot of body, we're Navy Seals, we're not the U.S. Army. So does the business we're thinking of getting into qualify that? Then, does it add as much into the intellectual library as it takes out? And that's very important. It's got to be accretive to the other businesses and it's got to benefit intellectually from the other businesses.

And then actually if we're in the business, do the people, by being part of Blackstone, actually get, are they better off than if they were independent? Because if they're not, they're always going to want to be independent and they're always pushing to get more of the pie. So we always looked at, are they getting more from the house than they're giving the house? And then we looked at, we didn't want to get into a business if we couldn't be a leader. So we're looking at the competition. Can we do this business better than other people, or at least as well as anyone else? That was an important factor.

And then once we do that, do we have a defensible position that, there's nothing that's patentable in finance. Right? Anyone, tons of smart people, they can see what you're doing, oh, I'll do that too. So do we have a mix of attributes that allow us to sustain leadership with a moat? So any business we got into had to have all six or seven or eight of those criteria. And that led us to not do a lot of things.

Now, did we make some mistakes? We did. We got in some businesses where we didn't have all those things but we were smart enough to get out of them, I think, fairly quickly. And they weren't disasters. We were just average. We were small and average. And when we realized that that wasn't changing very fast, we were able to get out of them very quickly and reasonably quietly so people don't perceive that we, you know, we've gotten out of, after the financial crisis, five or six businesses. But they were a little bit irrelevant there.

And, you know, some of these businesses are businesses we created from whole cloth. I'll come back to why that's important. Some of the businesses are businesses we acquired but we are not going to acquire a leader. We wanted to acquire something that was small that we could use the Blackstone platform to scale. Because if you just go buy an already leader – sorry about the light...

JASON KELLY: We're seeing a very green office here at Jefferson River Capital.

TONY JAMES: I'm going to have to do something about that climate change here. (Laughter) You get scale, you get bragging rights, you get a trillion dollars, but you don't create any value for shareholders. And so we wanted to buy things that we could make much better.

JASON KELLY: GSO.

TONY JAMES: GSO, strategic partners and secondary business, on and on and on. We've done about 15 acquisitions. They've all worked. That's another, you know, thing people don't quite appreciate about Blackstone. And then, on our core businesses, we didn't try to keep pushing private equity into an ever-bigger fund or a bigger fund. It was much more, if you look at the private equity, I mean it's grown, but the core business has grown, you know, modestly. But now all of a sudden we have; we have an Asian private equity business. We have a tactical opportunities business. We have a life sciences venture business. So things that built on what we already had.
And one of the imperatives to grow, yes, the stock market likes it, but one of the imperatives to grow is if you have a really talented team and you have a young management team, there's not that much room for the up-and-comers, right, to assume those seats. We don't have, hierarchy is flat, and I don't want to lose great talent if I

don't have to. So what I wanted to do was great opportunities for them to run new businesses and show what they could do. As much as anything for me, it was a way of hanging on to our great talent. And so those are just some of the philosophies behind...

JASON KELLY: And so we're going to very quickly run up against time, and so, but I want to expand the conversation a little bit to think about what is very front of mind for this audience, which is this new Wall Street. Sort of post-financial crisis, we sort of thought that there was a new Wall Street, which there was. And then Blackstone was, I would argue, you know, one of the leading forces in that.

Here in 2022, as we come out of the pandemic, as we think about New York City as a place to live and work and the other financial centers, Wall Street is also reconsidering lots of different things about itself. Private equity, I would argue, is much more public-facing literally and figuratively. It things much more holistically about what it does. What does the next few years look like for financial services and for the broader concept of Wall Street in terms of its ambitions, in terms of the people that it attracts? Because even in your post-Blackstone life, you're still going to have a hand in that. I know you think about it.

TONY JAMES: I mean I think about it but I don't have any really good answers. Let me just talk about some of the elements perhaps. I think technology is going to have a huge impact. It's going to have a huge impact particularly on the commercial banking sector, how they deal with customers, payments, etc. etc. etc. You can see it. It's explosive everywhere.

I was talking to a friend of mine the other day, actually we were at a Costco board meeting, he works for a venture firm. He was saying every business is going to be a fin-tech business. That's going to roll through the entire financial services sector. I think it's going to hit, what's it going to hit more? Anything that touches the consumer and their money, anything that touches payments, anything that touches...I think Blackstone is relatively protected from that. And if we manage our businesses right, we can actually be a beneficiary. We can have, be a major fin-tech player and so on and so forth. But I think that's going to be the, probably the biggest impact on Wall Street.

In terms of investing, I think you'll see more and more assets, continuing to float the private assets versus public assets. I think, you know, in general, the most sophisticated investors are probably the endowments. They're at about 50% private equity, private assets versus public. Pension funds are in the mid-20s. Retail investors are 2. So you're going to see a lot, I think, a continuing push, all those numbers going up. Because even 50% of the assets for endowment, do they really need to be able to sell half of the entire endowment tomorrow? No, they don't. So liquidity has a cost. It has a cost whether you're buying a company or a building or buying an investment-grade bond. You pay for liquidity.

And so in our insurance business, one of the reasons we wanted to be in the insurance business, you know, we can pick up 20 to 30 basis points on an investment-grade bond in the private markets versus buying in the public markets. That doesn't sound like a lot but when interest rates were a little lower, it was a big premium. And the further you get out in the risk curve, the wider that premium gets.

So I think there's going to be continuing movement towards private assets, and I think that's one of the big mega-trends that favors Blackstone. And that's particularly coming from retail investors where it's so much less penetrated. So I think that's another one of those big trends.

JASON KELLY: What about, I mean this is a very parochial question, but I say this as the former New York Bureau Chief of Bloomberg, like what about New York? What about New York as a financial center? You've made your career here. You've seen this, you know, retain and be resilient through so many things and yet this feels like a tough time at this moment.

TONY JAMES: Well, I don't know. I'm a bull on New York. So I know that there's been a lot of publicized, very wealthy CEOs, managing partners moving to Florida, becoming

Florida residents. I got that. But where are their teams? With a few exceptions, their teams are still here and this is where young people want to be. It's the vibrancy of the city, the services, the entertainment, the transportation hub, it's New York. We saw some vacancies and whatnot in our real estate portfolio in New York. It's back. It's full and people are streaming in. So I think you go, you know, businesses go where the talent is and the talent wants to be here. There are other cities that wants to be, but...

JASON KELLY: You're long New York...

TONY JAMES: New York is pretty unique in that. I think where I'm not sure it bounces back as fast, is how welcoming is it to people from China, from Russia, from, we can name a lot of hot spots, from the Middle East even? And New York was a very cosmopolitan city and, you know, I wouldn't want to lose all of that long term. That's a little harder to see bouncing back in the near term but young people are streaming in. This is where the talent is. And the big tech companies are particularly putting __.

JASON KELLY: So before I hand it over to Barbara, I'm going to ask you one more quick question which is what's the thing you're most excited about over the coming year for you?

TONY JAMES: Okay, well, I'm glad you asked that. I think the most exciting – and this is going to take two minutes here – the most exciting thing, I think, for me right now, ironically is something that I started with a friend about five years ago called the Partnership for Education Advancement. And what that does is it brings the kind of portfolio operations discipline from private equity and helps HBCUs manage themselves and run their businesses, so to speak, much better. They get remarkable educational outcomes.

So, in other words, they take the highest percentage Pell Grant first-generation college, 10% of African Americans who enroll in college go to HBCUs. They almost, they account for almost 20% of graduates, though, so they're getting people through. And then once they get through, 20% of African American graduates from HBCUs, they account for 50% to 70% of all African American doctors, lawyers, professors, judges and so on. And on average an HBCU graduate earns 50% more lifetime income than an African American graduate from a non-HBCU. And they do that with less than half the money per student. So what an amazingly effective way of creating a path to the middle class for the sort of bottom end, in terms of education and income of the African American community.

So I think those 101 institutions in America provide, do a remarkable thing. And what my group does is try to help them raise their game, put a pre-med program in, help them fill out their financial statements, help them, best practices. And it's been a fantastic thing and it's like a growth company. We started off with two people, funded out of my pocket. We've now got offices in New York, Washington, Florida, Texas, and it's burgeoning. And we've got a long list of HBCUs waiting to get on the program and we've got so many new services we could provide. It's just a geometric progression. So right now that's my most exciting thing.

JASON KELLY: I love it. Well, that's a great place to end. Barbara, I'm going to send it back over to you with my thanks.

PRESIDENT BARBARA VAN ALLEN: Well, many thanks to you both. That was just an outstanding conversation, and we particularly like learning about that last endeavor that's your focus right now.

So I'm pleased to report we have many more great speakers coming up this spring. And we, as always, encourage our members to bring guests. Next up we have Nicole Elam, who is the President and CEO of the National Bankers Association, June 6th. Followed by Arvind Krishna, as you can see, Chair and CEO of IBM and a member of our board. That will be followed by Shawn Henry, the President of CrowdStrike. Evan Greenberg will be joining us in the middle of June there, June 16th, for an in-person/hybrid event. And he, of course, is Chair and CEO of Chubb. And then we have the Chair and CEO of Target, Brian Cornell, joining us for an in-person/hybrid event, June 21st. And then on

June 27th, we have our Award Dinner where we will be giving out the Peter G. Peterson Leadership Excellence Award. And that will be given – we're just about to announce it so I think I can share it today – to Roger Ferguson and to Stanley Fischer. So we're very excited about all of those. And we certainly hope folks will join us.

And again, thanks to our Centennial members who have helped the Club remain very strong financially and able to offer our very important, we feel, and diverse programming. So thank you. And thank you to Tony and Jason for joining us today. Everybody, have a good rest of the week.