

Blackstone

Mortgage Trust

Final Transcript

Blackstone Mortgage Trust, Inc.: 1Q 2018 Earnings Call

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SPEAKERS

Michael Nash – Executive Chairman

Stephen D. Plavin – Chief Executive Officer

Douglas N. Armer – Head of Capital Markets

Anthony F. Marone – Chief Financial Officer

Weston Tucker – Head of Investor Relations

ANALYSTS

Don Fandetti – Wells Fargo

Douglas Harter – Credit Suisse

Steve Delaney – JMP Securities

Rick Shane – JPMorgan

Stephen Laws – Raymond James

Jade Rahmani – KBW

Coordinator Good day ladies and gentlemen. Welcome to the Blackstone Mortgage Trust First Quarter 2018 Investor Call. My name is Jenata and I'll be your operator for today. At this time, all participants are in a listen-only mode and later we will conduct a Q&A session. [Operator instructions]. I would now like to turn the conference over to Weston Tucker, Head of Investor Relations. Please proceed.

W. Tucker Great. Thanks, Jenata. Good morning and welcome to Blackstone Mortgage Trust's First Quarter Conference Call. I'm joined today by Mike Nash, Executive Chairman; Steve Plavin, President and CEO; Tony Marone, Chief Financial Officer; and Doug Armer, Head of Capital Markets.

Last night we filed our Form 10-Q and issued a press release with a presentation of our results, which are available on our website and have been filed with the SEC. I'd like to remind everyone that today's call may include forward-looking statements which are uncertain and outside of the Company's control. Actual results may differ materially. For a discussion of some of the risks that could affect results, please see the Risk Factor section of our most recent 10-K.

We do not undertake any duty to update forward-looking statements. We will also refer to certain non-GAAP measures on this call and for reconciliations, you should refer to the press release and our 10-Q. This audio cast is copyrighted material of Blackstone Mortgage Trust and may not be duplicated without our consent.

So a quick recap of our results: We reported GAAP net income per share of \$0.56 for the first quarter, while Core Earnings were \$0.64 per share, up from \$0.61 in the prior year first quarter. Last week we paid a dividend of \$0.62 with respect to the first quarter of 2018, and based on today's stock price, that dividend reflects an attractive yield of over 8%. If you have any questions following today's call, please let me know. With that, I'll turn things over to Steve.

S. Plavin

Thanks, Weston. Following a record year for originations in 2017, BXMT entered 2018 with strong momentum. In the first quarter, we originated \$1.9 billion of loans, our highest ever quarterly total, and grew our balance sheet by \$1.0 billion. Post quarter end, we closed, or have in the closing process, an additional \$3.5 billion of loans, including our largest ever single asset origination. The activity so far this year already exceeds all of last year's production.

This extraordinary performance demonstrates the power of the Blackstone platform broadly and our outstanding investment team.

The origination focus of BXMT generally matches the investment themes of Blackstone Real Estate. This alignment creates our biggest competitive advantage in sourcing, evaluating and asset managing loans for BXMT. And we try to really scale up in these areas of high conviction. Two of Blackstone's favorite real estate investment themes currently are housing and the recovering economy in Spain.

Our largest 1Q loan origination is a great example of executing on this platform philosophy: a €1.0 billion participation in a €7.3 billion acquisition financing of a portfolio of Spanish loans and properties. Over 63% of the underlying real estate has a residential use and is well positioned to participate in the improving housing market.

The portfolio was acquired by, our borrower, a JV of Blackstone sponsored real estate equity vehicles and Santander Bank. We love the Blackstone equity sponsorship and its strong asset management presence in Spain. The opportunity to be a scale

lender in this investment is a win for BXMT shareholders and a great example of the special value of being part of the Blackstone Real Estate platform.

Our other 1Q originations were secured by apartment assets in New York, Texas and California, furthering our initiatives in the multifamily space, as well as a hotel in Hawaii and an office building in Florida. We also advanced \$180 million on loans originated in prior quarters.

Post quarter end, we closed our largest origination to date, a \$1.8 billion construction loan for the Spiral, Tishman Speyer's development of a world class New York City office building, 28% leased to Pfizer. Our loan will be supported by \$1.9 billion of equity and funds less than 50% of the total \$3.7 billion of project costs.

The Spiral loan has a beneficial funding structure – a 10% subordinate portion of the \$1.8 billion loan is advanced during the second quarter. After that, the remainder of the equity funds over a two-year period before the senior loan starts to fund in 2020. So we get good, call-protected duration on the initial funding and have a long runway to syndicate or finance the senior portion of the loan. Because of the magnitude and construction aspect of the

Spiral, there were few other lenders that could compete with us, and it checks our favorite BXMT boxes: large size, major market, top quality, great sponsorship and low basis at \$632 per square foot.

The Spiral also exemplifies the success of our relationship lending philosophy. It is our third construction loan for Tishman Speyer, a highly skilled and experienced developer with whom we have an excellent relationship. The other two loans financed high quality projects in Atlanta and Boston, also on a low loan-to-cost basis.

Although we continue to build our volume and source great origination opportunities, the market as a whole is highly competitive. As a result of this competition, lending spreads have continued to compress. While some of our largest loan opportunities are more protected, we are having to reduce spreads to win competitive deals.

We have offset much of this spread pressure with more efficient borrowing and the beneficial impact of higher LIBOR. To fund our new originations in 1Q and going forward, we have been very active raising debt following our 4Q equity offering. We issued \$220 million of 5-year convertible notes at an attractive 4.75%

coupon. We borrowed €800 million in the bank market on a term, index and currency matched basis to finance our participation in the Spanish portfolio loan. And we also established a new \$1.0 billion credit facility and upsized two others by \$500 million, all on improved terms that will help offset spread compression and fund our loans in closing as well as future production.

Our loan portfolio has an overall origination LTV of 62% and remains 100% performing. Post quarter end, a \$20 million loan acquired from GE on a hotel in Pittsburgh that had been our only “4” risk rated loan was repaid in full, a great resolution from our asset management team.

Our focus remains on dividend quality and stability. With its portfolio floating rate, match funded senior mortgages and very attractive yield, BXMT is highly compelling for shareholders. With that, I’d like to thank you for your interest and support, and turn the call over to Tony.

T. Marone

Thank you, Steve, and good morning everyone. We are very pleased with our quarterly operating results, with GAAP net income of \$61 million and Core Earnings of \$69 million. While our earnings are down slightly on a per share basis, in whole dollar

terms our Core Earnings are up nearly \$5 million, or 7% relative to 4Q. As a reminder, we issued 12.4 million shares of Class A common stock in December, raising \$392 million of new equity. These shares were outstanding for the entirety of the first quarter, with only a slight impact on earnings per share in 4Q. We are actively deploying this new capital, with a marginal J-curve impact on the first quarter, which we view as a testament to the strength of our lending platform and the advantages of our scale business.

Our earnings remain positively correlated to increases in LIBOR, with 94% of our portfolio generating floating-rate interest and only 6% earning a fixed coupon, down from a high of 22% in 3Q 2015. All else equal, a 1% increase in USD LIBOR would increase our annual net income by \$0.24 per share. This provides a natural hedge against any future credit spread tightening, and represents additional value potential for our stockholders.

As Steve mentioned, we originated a record \$1.9 billion of loans, including the €1.0 billion Spanish residential portfolio loan, which increased our European loans to 19% of our portfolio, up from 10% in 4Q. This loan was fully funded at closing, significantly contributing to our aggregate \$2.0 billion of loan fundings during the quarter. These fundings are notably in excess of our 1Q

origination volume, as we have continued funding \$180 million under previously originated loans. Total loan fundings outpaced 1Q repayments by nearly \$1.0 billion, increasing our total portfolio to \$12.1 billion, up 9% from the prior quarter, and a record loan portfolio size for the second consecutive quarter.

Our loan portfolio remains 100% performing, with an average origination LTV of 62%, and risk ratings largely unchanged at an average of 2.7 (on a scale of 1 to 5). Importantly, our only “4” risk rated loan was upgraded to a “3” this quarter, and fully repaid in April. This \$20 million loan was part of the GE portfolio acquisition, and following its upgrade, we no longer have any loans rated below a “3” on our balance sheet.

Our origination momentum is supported by dynamic activity on the right-hand side of our balance sheet, with \$220 million of convertible notes issued during the quarter, and \$2.8 billion of new or upsized credit facilities. These new facilities, similar to our existing agreements, provide term and currency matched financing at low interest rates, with no capital markets mark-to-market provisions, allowing us to generate stable ROIs for our assets. The convertible notes have a five-year term and fixed coupon of 4.75%, an attractive rate for these long-term liabilities, and further

increasing our positive correlation to rising interest rates. Our debt-to-equity ratio remains a modest 2.3x, and we have ample liquidity of \$887 million at quarter-end.

One note on liquidity, related to the Spiral loan Steve mentioned earlier, is that although this loan was a record origination of \$1.8 billion for BXMT, only \$185 million will be funded in 2Q, with a long future funding schedule. As a result, this new loan did not significantly impact our available liquidity going into the second quarter. Thank you for your support, and with that I will ask the operator to open the call to questions.

Coordinator [Operator instructions]. Your first question comes from Don Fandetti with Wells Fargo. Please proceed.

D. Fandetti Good morning, Steve. As you listen to bank earnings calls, it sounds like the non-banks are continuing to gain market share. On one hand that's good, but on the other hand it could signal that companies like Blackstone are sort of getting a little aggressive towards the end of the cycle. Do you have any thoughts on that?

S. Plavin Don, I think there are many reasons that you're seeing an uptick in non-bank lending. One is that the share of non-bank lenders as a

percentage of total market has increased - there are just more of us. I don't think it speaks to any kind of negative credit quality aspect.

I think the credit quality of the loans that we are seeing out there is very good. I think in general the banks tend to be more cautious than non-banks, but we are not in a dangerous environment now. So, to me, I just think it's more effective competition from non-banks, while the regular way banks continue to do their business, but not nearly as actively as the non-banks in terms of being in growth mode.

D. Fandetti

Gotcha. And then, do you have plans to syndicate out the Hudson Yard's development loan and also the Spanish loan? If you look at the size of these transactions, which on one hand are very good because it shows your unique access to deal flow, these are big loans for a company that has about \$3 billion of common equity. Can you talk a little bit about the syndication process?

S. Plavin

Yes, the process is complete for the Spanish loan. We borrowed €800 million against that loan and so the loan size has been mitigated through that financing, and we generate our return on that equity investment in the loan.

As it relates to the Spiral, it has a really favorable funding structure for us. The higher yield component of the loan gets funded initially and then the equity gets invested after that. So the funding obligation for us in the senior portion of the loan doesn't begin until 2020, about two years or so after closing. So we have a really long runway to decide whether we want to finance that or syndicate it or how we are going to do it. It's something that we are actively thinking about, but given the nature of the schedule, it's a very comfortable exposure for us.

And also, as it relates to the Spiral in particular, it's a really low risk, low LTV loan. So, it's a really an attractive piece of paper and one that we feel very good about owning and having the opportunity to distribute into the market or finance.

D. Fandetti Okay, thank you, Steve.

Coordinator Your next question comes from the line of Doug Harter with Credit Suisse. Please proceed.

D. Harter Thanks. Can you just talk about your available liquidity heading into the second quarter, and how do you see that? And how the larger unfunded commitment on the Spiral, even just in the

context of that two year schedule, kind of how do you think about holding liquidity against that and other unfunded commitments?

D. Armer

Hey, Doug. It's Doug Armer here. We ended the quarter with roughly \$880 million of liquidity, as Tony mentioned. The Spiral funding on the senior, post the \$185 million that will go out during the second quarter, is back ended and two years away, so we have a good amount of runway to deal with that syndication or potential financing.

Generally speaking, we maintain roughly \$500 million of liquidity in terms of target liquidity and that's relative to our unfunded commitments, our covenants and working capital requirement. So we are pretty flush, I think, at \$880 million. Our policy with regard to maintaining liquidity relative to our various funding sources, we talked about the \$2.8 billion of new funding sources that we developed during this quarter, is something that we are very comfortable with.

D. Harter

Got it. And then, just on the Spanish loans, I believe you said that the equity providers are kind of Blackstone and Santander. I guess if you could just talk about how you would manage the potential

conflict of being the lender and Blackstone also being an equity provider in that loan pool?

S. Plavin

Well, we have a 14% participation in that loan, and for the purposes of voting and control rights to that loan, we stand down. The reality is that 14% participation does not come with a lot of rights given its relatively small minority interest in the overall loan.

We take great comfort in the opportunity to finance the greatest equity sponsor in the world as it relates to this loan and so, yes, we do give up control, but on a net/net basis to get this amount of capital investment in such a strong loan at an attractive return, we think is a great trade for BXMT and its shareholders.

D. Harter

Got it. And then, just on that, could you talk about when that loan funded and the impact on average balances for the quarter? And how much it contributed this quarter versus will more really be contributing next quarter?

T. Marone

Sure. The loan was fully funded at closing and it closed about a week before the end of the quarter, so your average loan balance during the quarter was roughly \$1.0 billion – a little bit less than

\$1.0 billion below where it ended for the quarter. So it will have a bigger impact on earnings quarter.

D. Harter Great, thank you.

Coordinator Your next question comes from the line of Steve Delaney with JMP Securities. Please proceed.

S. Delaney Good morning, everyone. Thanks for taking the question. In slide three, you give us a snapshot of what dividend coverage has looked like over the last 12 months and you've been, on average, covering the dividend by about 2.5 cents. When I take that backdrop and I look at slide seven and the fact that you see your portfolio adding about \$0.06 in annual earnings for each 25 basis point hike, it kind of begs the question to me, looking out six months or more, what level of coverage would management and the board like to see before you would be able to entertain an increase in the dividend? Thanks.

D. Armer We are very comfortable with the level of dividend coverage - the 104% that you referred to when you look back over the trailing 12 months. When you think about the increase in our equity base, the increase in the size of our balance sheet and leverage on our

balance sheet in the rising rate environment, those are arguments for additional stability and potential increase in the dividend.

We also think about the dynamics in terms of spreads on our assets and our ability to maintain ROIs. Stability is always the priority. I think in our dividend policy our board is focused on stability and quality, above all else, when it comes to the dividend. So, we've been maintaining our strategy of low leverage, low LTV, senior loans on a match-funded basis and produced a lot of stability in that dividend, and I think that will continue to be the focus in this environment. We are obviously cognizant of potential for growth that comes with a growing balance sheet and growing scale in our business.

S. Delaney

That's helpful and I appreciate the thought that we have to watch spreads very closely because it's nice that LIBOR goes higher, but that's just one part of the equation as you pointed out.

One quick follow up on Doug's question about the Spanish portfolio and the involvement of Blackstone funds. I read the 8-K of March 9th pretty closely and I thought there was some wording in there that really tried to help us understand the role that Blackstone Mortgage Trust had in terms of the financing package

for that entire \$7.0 billion. I believe you said there were other parties, obviously big global banks that were leading that financing, and it sounded like you were downplaying your input into structuring the terms. I am just curious if that your role in the financing was one reason also why you were comfortable?

And I guess the follow-on to that is, would it be still unlikely that you would make a standalone loan directly from BXMT to a Blackstone fund where the Blackstone fund owned a 100% of the property and you were making a 100% of the financing? Thanks.

S. Plavin

It's a great question, Steve, and as much as we love Blackstone and their equity sponsorship, we are mindful of the potential of conflict. And so, we did not have an active role in the negotiation of the loan terms of the Spanish loan. That will generally be the case in situations where we consider participating in loans with Blackstone equity sponsorship and it's essentially how we address the conflict.

So we look at the financing that's available on the asset and make a determination as to whether we think it's something that works well for BXMT or not. We independently evaluate the asset and the loan in terms of how we feel it fits into our portfolio and we make

those decisions independently, but we are not leading the negotiations in the loan. So we are essentially a taker of the terms that are negotiated.

So, for that reason, we won't be a whole loan lender to a Blackstone equity vehicle. You'll always find us in loans with other participants who are driving the terms and then, again, us making the determination as to whether or not we find it's appropriate for the REIT or not.

S. Delaney It makes sense. Thanks for the comments.

S. Plavin Sure. Thanks for the questions.

Coordinator Your next question comes from the line of Rick Shane with JP Morgan. Please proceed.

R. Shane Good morning, guys. So, I'd like to talk a little bit, by our calculations now, north of 15% of your assets are denominated in euros. And I understand that you match fund those loans off of your European facilities, but I just want to make sure that we understand from an accounting perspective how this works. I assume you're hedging out some of that with derivatives, but just

want to make sure that as rates move around, we understand the implications in terms, the difference between how GAAP and tax might diverge.

D. Armer

Rick, it's Doug. That's a great question, and you are right. We are hedging out that exposure. In particular, we are hedging out all of the new exposure in Euros and other currencies, so that would include the total capital invested in the Spanish asset loan. Our hedging strategy produces ultimately a swap for the FX base rate and USD LIBOR, so that our results, and particularly in terms of Core Earnings reflect the earnings of the levered spread over LIBOR as opposed to over EURIBOR or GBP LIBOR, for example.

And with regard to the potential for a tax or a GAAP disconnect, I think there is a slight difference in terms of the way GAAP treats those earnings and defers them through OCI. Tax treats them sort of real time. But in terms of Core Earnings, we capture that impact real time as well. So, with regard to our dividend, I think you will see the impact of LIBOR over the FX base rates in our results.

R. Shane

Got it. Okay. And then, second question, obviously, we've seen base rates rise. You guys provided income sensitivity on page seven, as Steve had pointed out. We've seen so far very low beta to

higher LIBOR within your yields due to spread compression. How should we think about this over the long term? What do you guys think the real beta to LIBOR is over the next two to three years?

D. Armer

Rick, it's Doug again. The first thing I would point out is that there are couple of other dynamics that play besides the change in LIBOR in terms of our returns in our earnings. One of them that's very important obviously is our cost of debt (our cost of capital) and we've made a lot of progress in reducing that over time. It's sort of by definition a lagging indicator, if you will, relative to what's going on in the assets, but if you look at the last quarter in particular, our all-in cost of debt was down by 1/8 on the entire portfolio. And so you can get a sense for how big of an incremental change there might be to move the all-in average down by an 1/8. That will go a long way towards catching up our movement in ROIs with the changes in LIBOR.

But ultimately, the phenomenon that you are referring to where there is an inverse correlation between spreads and changes in LIBOR is going to continue to play through for some time while LIBOR is very low. As LIBOR gets into a more normal range, so if we are talking about 3% as opposed to under 1% if you go back a year or two, we think that we'll see that correlation loosen up a

little bit and we think we'll see some net benefit from the change in LIBOR. And so when that happens, whether it's at the end of this year or into the next year or the following year, that remains to be seen.

R. Shane Got it. Okay. That's very helpful. Thank you, guys.

Coordinator Your next question comes from the line of Stephen Laws with Raymond James. Please proceed.

S. Laws Hi, good morning. Thanks for taking my questions. First, I want to touch on the GE Capital portfolio. I know that continues to pay down, but can you maybe give us some color on the average duration of the portfolio? And then how much of an impact the remainder of the GE Capital portfolio has? I am guessing that the duration for those assets is quite short at this point.

S. Plavin Yes, we don't have the portfolio broken out by the GE assets in front us, but I can give you a more general answer in that almost all the GE assets that remain are either fixed rate or swapped in call protected assets that for the most part runs between now and 2020 or they are assets that we have significantly modified the

loans and I would sort of re-characterize those as now BXMT loans as opposed to GE loans.

So I don't think there's much differential impact from the GE loans relative to the BXMT loans anymore, except for the little slice of pie you see in fixed rate that is almost all from the remainder of the GE fixed rate loan portfolio that we acquired in that 2015 deal. But we are really near the very tail end of it and it's become a very small percentage of our overall enterprise.

S. Laws

Okay. And then tied to that, obviously, it looks like about \$560 million of financing on that GE portfolio credit facility, I think it was mentioned in the 10-Q. Is that adjusted to still tie to those loans? Or does it have a shorter pay down period on that financing facility?

D. Armer

That's still tied to those loans. And as a matter of fact, it's cross collateralized with the other Wells Fargo credit facility. For all practical intents and purposes, we look at those as one combined facility on a portfolio of not differentiated loans as Steve mentioned.

S. Laws Great. And then, I guess switching to the bigger picture to liquidity, and you've covered it in a few of the different answers, but leverage is at 2.3x. You've raised capital through both debt and equity since December. Can you talk about where you are comfortable with leverage? How you think about future capital raises, whether it will be debt or equity offerings, especially given the longer term underfunded commitments you now have with Spiral and the growing portfolio?

D. Armer It's a great question. I think with regard to debt-to-equity we are currently at 2.3x, which we regard as very low and I think that there is room for sure in terms of debt-to-equity to be at 3.0x or even 3.5x. So there is a lot of room for balance sheet growth that would be funded by additional issuance of debt.

And I think we will evaluate the liquidity position, sort of relative to net fundings on an ongoing basis, as we have in the past and make whatever decision in terms of the type of capital that we would raise based on market conditions at the time. Right now, with \$880 million of liquidity, we feel like we have ample liquidity to fund additional growth in our business. And certainly that additional half turn of leverage or so comes from existing capacity on our balance sheet in terms of liquidity and debt.

S. Laws Great. And one last question and a follow up on something Steve Delaney mentioned earlier. How are conversations going with borrowers as you talk to them given rates have started to move and certainly are higher now than six and twelve months ago? How much impact does that have on transitional and construction loans? Have you seen any shift in conversations or new discussion points with borrowers in this new rate environment?

S. Plavin We really haven't seen anything rate related. Rates are still low and we underwrite our loans to endure a much higher rate environment than what we are experiencing now or what we think we'll actually experience throughout the term of the loans, so they are really built to handle this. The only pressure we feel is on loan spreads, not on base rates. The compressing loan spreads create a lot of refinancing opportunities for us and it's the source of new product, but it also gives our borrowers occasionally an opportunity to refinance their loans. So we are really mindful of maintaining our existing balance sheet loans and looking for other refinance opportunities in a compressing spread environment, but we're not really seeing a lot of impact from base rates.

S. Laws Great. I appreciate the color on that. Thanks for taking my questions.

Coordinator Our final question comes from the line of Jade Rahmani with KBW. Please proceed.

J. Rahmani Thanks very much. I was wondering if you could give your thoughts on how much further increase in LIBOR or the tenure it would take before you think we could start to see potentially some negative credit trends in commercial real estate overall, noting that there is still about \$1.0 trillion of expected debt maturities over the next, say, four years?

S. Plavin Yes. Jade, we look at the LIBOR curve and listen to what the Fed is saying. We think there's a reasonably good chance that LIBOR could get to 3% and potentially higher than that, but one-month LIBOR is about 1.90% today, which is the index for most of our loans.

And as I mentioned in the last answer, we just don't see that as a credit issue at this point. Rates are just historically low. Cap rates are in a good place relative to treasuries in terms of the historical gap between cap rates and treasury rates. The market is relatively healthy overall. It feels like we are still in a good environment. We are not seeing the same kinds of lending abuses that were prevalent in the market in 2006 and 2007. Our sponsors still want

to put more equity in deals rather than less. We are seeing improvement in leasing in business plans across our loan portfolio and all the positive trends that we expected when we underwrote these loans.

So we are just not seeing any of the end-of-the-cycle gloom and doom that I think underlies your question. We are sort of seeing a very constructive, positive environment that is good for our business, and we don't see that changing in the near term.

J. Rahmani

And if that further increase in LIBOR to 3% translated in parallel to a similar increase in the ten year, you would be talking about north of a 4% ten-year treasury, do you think that would impact cap rates? The spread over institutional cap rates would seem to be quite compressed at this point and would necessitate a higher cap rate to maintain ROEs.

S. Plavin

Yes, I think if treasuries increased by that magnitude, it would impact cap rates. We've actually seen cap rates on the equity side of the house compressing at the same time we've been seeing treasury rates increasing just for the demand for institutional quality real estate, but over time I think you have to presume that cap rates would increase.

Remember, when we make our loans, we are underwriting what we think cap rates could reasonably go during a five-year period of time. We typically make loans that with extensions are five years and there is margin in the business plans and in the cap rates. And also, we also expect to see NOI growth in conjunction with increased economic activity that seems to be leading to the higher rates. We are seeing hotel performance begin to improve with increased economic activity. Also, we are seeing a little bit more rental take up in some of the office markets, and more so than what was anticipated I think prior to tax reform. So, I think on the ground things are still pretty well balanced.

J. Rahmani

Okay. Can you comment on where levered returns are overall today in the bridge loan space, maybe a post 1Q snapshot? I mean, some of your peers have press released spreads in the L+2.50%-2.75% range. Granted LIBOR's increased, but assuming 3x leverage and where you are financing, where would you say levered returns are? Is there enough room to support the dividend at that spread level?

D. Armer

Hey, Jade. It's Doug. The short answer is, yes. I would note that our portfolio, being a low leverage portfolio of senior loans, is levered 4x not 3x at the asset level. And we also commented a little

bit on the efficiencies we are able to achieve in terms of our cost of financing, our cost of liabilities down a 1/8 quarter-over-quarter on an all-in portfolio wide basis, so down significantly more in terms of incremental costs. When you add all that up, I think maintaining low double-digit ROIs is what we see on the horizon.

J. Rahmani

And can you comment on the A-note market? It seems that there is starting to be a bifurcation between players like yourselves with Blackstone sponsorship who can get more attractive financing rates through warehouse facilities whereas others that are dependent on A-note financings have a cost of capital disadvantage. Would you agree with that?

D. Armer

Hey, Jade. It's Doug again. Yes, we would agree with that. Our credit facilities and our bilateral relationships with our credit providers are a big advantage for us. They are very economically efficient and they are also extremely structurally sound. They are the mainstay of our liability structure and it helps us maintain a very strong competitive position in terms of loan pricing.

J. Rahmani

And lastly, just given the competitive environment and potential risk of higher interest rates, is it time to start thinking about other

businesses that could complement the platform and even be defensive in some respects?

S. Plavin

Jade, we continue to believe that the senior mortgage business and strategy is the best available use for our capital. We've been able to achieve a lot of growth in performance based upon this business model and it continues to work and to resonate well to us, our board and our shareholders. We will always consider other lines of business that might be complementary or that would be beneficial for shareholders overall, and we are always thinking about ways to make BXMT better and a more compelling investment, and that will continue to be the case. If we see something that we believe is additive, then we will definitely combine it with our regular way business. But, right now, you've seen we are able to grow production in our regular way business, maintain returns, and produce very stable results and we don't see anything environmental that is going to compromise our existing business in a meaningful way or that would lead us to feel like we need to have a more defensive offset.

So for us, it's more that we love what we are doing. If we see something else that we think is very beneficial or additive, we'll

add it. And if not, we think we have a great business and one that's going to perform very well.

Coordinator I would now like to hand the call back over to Weston Tucker for closing remarks.

Weston Thanks, everyone, for joining us today. Please let me know if you have any questions after the call

Coordinator Ladies and gentlemen, thank you for your participation. This concludes today's conference. You may now disconnect. Have a great day.