Goldman Sachs Exchanges: Great Investors

Private equity investing with Blackstone’s Joe Baratta

Joe Baratta, Global Head of Private Equity, Blackstone

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Alison Mass: Welcome back to another episode of Goldman Sachs Exchanges: Great Investors. I'm your host, Alison Mass, Chairman of Investment Banking at Goldman Sachs. And today I'm delighted to be joined by Joe Baratta, who runs the private equity business at Blackstone, one of the world's largest alternative asset managers with $1 trillion in assets under management. Joe's career has mirrored the growth of the private equity industry from what started out as a cottage industry in the 1990s to the trillion-dollar industry it is today.

Joe joined Blackstone in 1998, established Blackstone's private equity business in Europe in the early- to mid-2000s. And has served as Blackstone's global head of private equity since 2012.

We'll be talking to Joe about the evolution of the private equity industry, the investment environment today, and what he's learned from building one of the world's largest private equity businesses. So, Joe, welcome to the program.

Joe Baratta: Thank you for having me, Alison. Great to be here.

Alison Mass: So, I want to start with your early years and career. But I want to rewind the clock back to talk about your life before private equity. You grew up in Sacramento, California as the son of a bodybuilder. Your dad also, Joseph Baratta, was a fitness enthusiast and businessman who opened up one of the first health clubs in California hosting bodybuilding contests that attracted people like Arnold Schwarzenegger and Lou Ferrigno among others. All of this is new to me because I didn't know this about you.

So, what type of influence did your father have on you and the way you think about running businesses?

Joe Baratta: My dad was, first and foremost, passionate about health and fitness. And he was a bodybuilder. And to sustain that interest, he needed a job. He needed to make money. So, he started a small gym in southern California that was actually ladies only. And it was called Joseph's Figure Studios, which is funny. It's basically a modern-day physical trainer. But he built some equipment with his hands.

And then he ended up opening and running six health clubs, just what he could manage himself. He was not thinking about building a big business and franchising and doing all that. It was just something to sustain his passion and to raise a family.

And so, what it instilled in me is you have to love what you do, or you can't be great at it. And he was an optimist. And he said you can do whatever you set your mind to. I mean, the general arc of my family, on my father's side, was grandparents came on a boat just before World War I and worked with their hands, helped building, in the case of my grandfather, the transcontinental railroad. My father was born into a lower middle-class family in Cleveland. And I think he spent only one year in college at Kent State and then decided to leave college. Moved to California to pursue his dream.

And he was passionate. He loved what he did. He was fair as long as the day was honest. And always an optimist. And instilled in me this idea that there is no limit - if you love it and you're good at it and you fully commit, you can get there. And so, that's what I learned from him.

Alison Mass: You're lucky to have had a role model like him.

Joe Baratta: Yes.

Alison Mass: So, I have to ask, off script, did you ever meet Arnold Schwarzenegger and Lou Ferrigno?

Joe Baratta: I did. So, your intro was mostly right. The contest that he ended up hosting was at the California State Fair. And was probably now in early 19- we're mid 1970s. And it was more of an exhibition than, like--

Alison Mass: A contest.

Joe Baratta: The Mr. Universe Contest. And he would have guests. He would call them guest posers. In this case that's a good thing. Not a bad thing.

Alison Mass: Right. I get it.

Joe Baratta: And so, this was in the pumping iron days of Arnold Schwarzenegger pre *Terminator* and him being a movie star. But he would come. Lou Ferrigno, I think at the time, was the incredible Hulk in the TV shows. He came. Franco Colombo, who was Arnold's sidekick if any of you've watched *Pumping Iron* or watched the amazing documentary on Arnold on Netflix, which I recommend. And they would come and do, like, feats of human strength. I think I remember Arnold basically lifting the back of a bus, a literal bus, and pushing it, you know, 50 meters or 100 meters.

And then my dad would take these people out to dinner. And I remember having dinner with Arnold Schwarzenegger when I six, seven years old.

Alison Mass: That's amazing. How fun for a young boy.

Joe Baratta: Yes.

Alison Mass: Okay, so back to your background. So, you went to the East Coast for college and attended

Georgetown. So, why did you decide to pursue finance?

Joe Baratta: When I was applying to college, Georgetown was interesting because it had an undergraduate business school and, of course, it was in Washington DC. And between the School of Foreign Service and the government program, that was also on offer. And really on a lark, the only school I applied to on the East Coast was Georgetown. Back then there weren't, particularly from families that were first generation college grads, which I was, it wasn't a normal path to go to the East Coast. And I went to an all-boys Jesuit high school. Georgetown's a Jesuit school, although there wasn't much of a pipeline or relationship between my high school and Georgetown. I was maybe not the first, but one of the very few who had ever gone from my high school there.

I was politically active as a high schooler. But I thought finance and business held interest. My father was an entrepreneur, of course. And I said, well, you never know. It's cool that they had an undergraduate business program.

So, when I got there, I applied and was accepted to the undergraduate business school. I majored in finance. And I minored in government. I worked on the Hill one summer for a US Senator from California, which was interesting. It was actually during the Clarence Thomas confirmation hearings. And that was very interesting.

But I caught the bug of the business thing. And it turned out I had aptitude for finance in particular. I liked it. I wanted to learn how to invest. And I was fortunate enough to get a job at Morgan Stanley as an analyst in the M&A group right out of college in 1993.

Alison Mass: So, you said you went to M&A in Morgan Stanley. But instead of staying on and becoming an investment banker longer term, you gravitated towards what was then a very nascent industry of private equity. So, what attracted you back then, when private equity wasn't then what it is today, to that industry?

Joe Baratta: I wanted to learn to invest money instead of advising people doing that or companies on capital allocation. That was very interesting to me. And at the time, this was the first year that firms like KKR and Bain Capital and I think TH Lee were hiring kids right out of the investment banking programs. Heretofore, those firms were quite small, including KKR, which was by far the largest and most prominent. They were hiring people out of the business schools or even laterally out of investment banks later in their career. They were not hiring 24-year-olds at that time until this year, which was 1995.

And so, I interviewed at KKR, which was like a terrifying thing. I figured I'd never get a job there.

Alison Mass: By the way, I hear it still is.

Joe Baratta: No, but actually, it was Todd Fisher who couldn't have been--

Alison Mass: The nicest person.

Joe Baratta: Yeah, more disarmingly charming. And even in that moment I'm in this big conference room and it's KKR and they're amazing. And he made me very comfortable.

But anyway, I ended up taking a job at a smaller private equity firm. And the reason private equity was interesting to me is you were closer to the businesses. And you could learn to be a businessperson, not just an investor engaging with a management team, helping them through important strategic and operating issues, rather than just like looking at the screen, reading the 10K. Because the hedge funds was the other path for young people at that time. And I was also scared to death of you can be right long term but very wrong in the moment in a market. And I figured as a young person, that was a high-risk way to try to build a career. It could go really well. But also, if you started at the wrong time, maybe it wouldn't go quite as well.

So, private equity had the combination of you could be a capital allocator. You could work with management teams. You could learn to be a real businessperson. And you had a long time to figure out if the decision you made was a good one. It's not just like where it is on the screen the next quarter, the next day.

Alison Mass: Or the next hour.

Joe Baratta: Or the next hour as it is today, yeah.

Alison Mass: I'm just curious, what firm did you go work for?

Joe Baratta: McCown De Leeuw, which was a prominent middle market kind of buy and build oriented firm in that moment.

Alison Mass: Where they based in New York?

Joe Baratta: It was based in New York. They had an office in Menlo Park and an office in New York. And I ended up working in New York. Yeah.

Alison Mass: So, what attracted you to Blackstone in 1998, which was also a relatively modest player in PE at the time?

Joe Baratta: I think Blackstone had begun to differentiate itself along with a few other firms like Hicks Muse, TH Lee, Bain Capital, TPG, as firms that seemingly were growing quickly and attracting great talent and would be a good long-term place to build a career.

And I had met a few people who worked at Blackstone on a deal that we were looking at in partnership. Mark [UNINTEL] and David Blitzer. And I asked Mark if they were looking for people because I thought it was a good firm with good people. And they gave me a job.

Alison Mass: That's great. Those are two great people. I understand why you wanted to go work with them.

So, you and I both remember what it was like to work in and around the private equity industry in the 1990s. And it was definitely more of a cottage industry than the institutionalized asset class that it is today. So, talk a little bit about what it was like working in private equity when you began.

Joe Baratta: I was recounting a story to my team just last week about when I was an associate at Blackstone or even before that, an analyst at McCown De Leeuw, we would have to go write bank books and pitch banks on financing our deals. We did not have Goldman Sachs and Morgan Stanley and J.P. Morgan coming in and saying, "Here's the financing we want to do for this deal." We had to go pitch, write the business plan, do the model, do the diligence calls ourselves. And so, we were trying to create a capital market to finance kind of middle market and upper middle market buyouts. This wasn't the, like, junk bond, Mike Milken

Drexel stuff. These were smaller deals that needed bank lending and other things.

So, obviously, the debt capital markets and the whole investment banking intermediation platforms have been built to now serve these deal machines at huge scale. And the capital markets have appreciated over many decades that lending money into buyouts has been a very good thing to do over long periods of time. Very low loss ratios. You can earn a good return lending money at the top of a capital structure. 400 or 500 basis points wide of the risk-free rate. That's been a good thing.

It's evolved now much more into a much more scaled industry. The types of companies we can buy, the counterparties we can work with, large-scale public to privates or corporate carve outs, buying great businesses, that just was not something we could do even in the late '90s or early 2000s.

Alison Mass: Yeah. And now you even have your own capital markets business.

Joe Baratta: Yeah.

Alison Mass: And you were one of the first firms to do that.

Joe Baratta: Yeah. I think we and KKR pioneered being participants in the debt capital market. It's very important that we have that perspective, know what the state of the art looks like in the market, can help get deals done. And particularly in times of distress. For example, if we didn't have a capital markets group in October of '22 when the credit markets completely froze up, we would not have been able to place the financing for the carveout of Emerson's HVAC compressor business called Copeland. We needed to place $5 billion. The bid in the market from Goldman Sachs was not at all something that we could have made the returns work with given the pricing. And so, we individually went out and placed $5 billion of debt, account by account with banks and, you know, real money accounts.

And if we'd not had that expertise, we would not have been able to get that deal done. And that would have been a real disservice to our LPs.

Alison Mass: So, what you're saying is you used your capital markets expertise at Blackstone to go directly place the debt that you needed for that capital structure.

Joe Baratta: That's correct.

Alison Mass: That's spectacular. So, in 2001, David Blitzer and you went to London to set up Blackstone's business in Europe where the industry was even younger than it was in the US. So, how did you both go about building that business in Europe?

Joe Baratta: We were two young guys-- I was 30, David was 32 -trying to understand how to navigate the very early days of private equity in Europe. When I moved in November of 2001, the single currency hadn't yet been implemented. That was January of '22. So, you still had French francs and German deutschmarks. And so, this was very early. There wasn't an established debt capital market. The industry was still largely called venture capital, even though they were buying more mature businesses. It was really early days.

And so, my insight to the extent I had one was given that this market is a good ten to 20 years behind the US in its development, what worked in the US? And I drew on my experience at McCown De Leeuw and in the sort of middle market and buy and build. And there were so many industries, particularly in the UK, but also Germany and France, that were highly fragmented. Some of them, they even owned operating businesses owning their own real estate, which had been separated long before in the US. So, we were able to do a series of buy and build transactions in healthcare services, in leisure and location-based entertainment, in pubs and bars and restaurants where there were many ways to create value, both through M&A and also separating the real estate, which would be owned by a different set of owners from the operating businesses. And so, it was really a wonderful time to be there. And it did look like the US in the early 1990s or late 1980s when we showed up there circa 2002/2003. And then it very quickly matured. Very quickly.

Alison Mass: Yeah, no, I remember those days. There wasn't the robust capital market and ability to finance.

Okay, in 2012 you were named the global head of private equity at Blackstone. And at the time, 11 of your 14 years at Blackstone were spent in Europe outside the mother ship, so to speak. So, was it difficult to come into that kind of a senior role after working aboard for so long?

Joe Baratta: It was. I knew, of course, all my partners very well. And I had their support. But I wasn't plugged into the deal community in the US. I had spent 11 years building a network and doing deals in Europe.

Some of it was transferable, but not all of it. So, I had to build that network in the US deal ecosystem. Fortunately, at firms like Goldman Sachs and Morgan Stanley, a lot of people did tours of duty. John Waldron I met in London, and we became good friends. The private equity community at that time in Europe, there were also a lot of Americans. Egon Durban, who's a good friend who, obviously, runs Silver Lake. Todd Fisher, who I mentioned and reconnected with Todd at KKR. And he, ultimately, moved back to the US. So, there were a lot of people moving back to the US, back and forth between the London ecosystem and the New York ecosystem. But it was a challenge in those early years. And just, you know, trying to figure out how we were going to grow an already pretty mature business.

And this was after the financial crisis. And we were managing the largest fund in the world that was raised around 2006/07, our fifth fund, which was $21 billion. And of course, post financial crisis, the performance wasn't great in that moment. We're talking 2012 before the markets had really recovered. And so, looking at how we were going to really define our business, grow the platform, we were already one of the biggest in the world. That was my mission.

Alison Mass: Okay, so under your leadership, Blackstone invested significantly in operational infrastructure. Going so far as to put operational experts, whether it was in procurement, health insurance into board seats. So, why is operational focus key for you?

Joe Baratta: I think as the industry has evolved, many of those inefficiencies that we saw in the '90s of hard to access financing, there were very few firms competing for assets, financial engineering could generate a good return. The multiples that one was paying for assets was much, much lower than today. The whole investment banking intermediation ecosystem hadn't been built to auction every asset and have real price discovery.

Today, it's much more competitive. More capital. More firms. Better intermediation. More financing. More accessible financing. And so, the way one generates returns today is doing something to the businesses that you buy. Operationally. So, control matters. The ability to hire and incentivize the best possible talent. So, we have a big group focused just on talent and assessment and finding the best people in the world to run our companies.

Building excellent boards. Gone are the days of three private equity people on the board and somebody like me is chairman of the company. We have fit for purpose, non-executive chairpeople. And we build boards with independent directors from all walks of life who can add value to the companies.

We have a big group purchasing platform buying on behalf of the $100 billion dollars of revenue across our control private equity portfolio. We engage with our companies in go-to-market strategy, B to B sales on pricing. And so, we've built in house the capability to help identify and then drive these operating actions to make our companies better, grow faster, better margin structures, make them better capital allocators, have better incentive alignment between employees and management and ownership.

And so, that was an imperative to continue to deliver great returns to our investors.

Alison Mass: That's a huge differentiator in what you aptly said is such a competitive environment now.

So, Blackstone's strategy of investing has moved from more value-oriented investing to higher growth investing and in particular with a lot of focus on high tech. Can you talk a little bit about how that pivot in strategy happened?

Joe Baratta: Yeah. We understood coming out of the financial crisis when you looked at how many industries were disrupted by ubiquitous broadband internet to your phone, to your house, that the pace of change in industries was so rapid that it was very hard to invest in old legacy industries that were going to be disrupted. So, traditional linear media, brick and mortar retail, those became very difficult industries to invest in at any price.

And so, we just locked arms as a group of partners and strategy at the firm and decided we're not going to buy businesses no matter the price that are suffering from very significant technology disruption. And we're going to find a way to invest more in technology. And we promoted a great young partner who now runs our business in the US, Martin Brand, to focus on that area. Because our prior efforts had been less good. We did a couple of deals in the tech sector, mostly in hardware and semis, which had not been great. And we watched with respect Vista and Thoma Bravo had done in understanding that software business models were sticky, could be leveraged and could grow very rapidly. And then you could transition from an old way of selling software to a new way, which is as a service hosted in the cloud. And so, we began investing incrementally into the software sector.

But the fundamental insight was that value investing was extremely hard. Classic value investing where all you look at is the valuation multiple or the in place free cash flow yield. Because if those cash flows are declining, it's very hard to predict how fast they're declining in industries that are being disrupted. And it's very hard to sell those companies.

And the way the private equity industry makes money is it sells companies at higher multiples than it pays for them at its very basic level. Yes, there are other ways, but that's the best way. And those generate the highest returns. And that's the strategy we wanted to pursue.

Alison Mass: What year was that strategy changed?

Joe Baratta: I'd say 2014/15. And then of course, Jon Gray, my boss, president of Blackstone, when he really took over the reins in 2018, he felt very strongly that you have to invest in good neighborhoods, in industries only with secular growth trends with high quality businesses. And that sort of really reaffirmed the commitment to that.

Alison Mass: So, today private equity is a relatively mature asset class among institutional investors. But has barely scratched the investment landscape among retail investors. What role do you see alternatives and private equity playing in the retail space?

Joe Baratta: It should play a very significant role. You're right, the retail pools of capital for equities are the largest in the world and the ownership of alternative assets within that channel is extremely low, less than 1 percent. Versus in the institutional channel where in university endowments it's as much as 50 or 60 percent. In the big state pension plans it's anywhere from 6 to 25 percent.

And the issue has been designing a product that is attractive for retail investors, where they can invest their money and it's immediately invested. And there's some element of liquidity if they want to come out. And it's taken a long time to develop such a product. But we've been able to do that because of the breadth of private equity activities we have at Blackstone, which range from the control private equity business, which we've been talking most about today, to special situations which we call tactical opportunities where you're making structured investments into companies who need capital. Our life sciences business. Our secondaries business. Smaller buyout strategy. Our growth equity business. We are able to mine that platform with hundreds of really talented investment professionals turfing things up across all of these different asset classes.

Alison Mass: How many investment professionals do you have under your umbrella in global PE?

Joe Baratta: A couple hundred.

Alison Mass: Okay, can we pivot to the macro? You have a unique view on the economy through your global private equity portfolio, both in terms of all sorts of industries and geography. So, things like wage growth, supply chain delays, financing costs, what is your view of the global economy from your seat looking through the Blackstone portfolio?

Joe Baratta: In real time, what we're seeing across the industries in which we invest, software, IT services, leisure, travel, hospitality, industrials, the housing cycle is a definitive slowing in growth in the economy. And across all those industries. Companies have less pricing power. Consumers are beginning to push back on thousand-dollar hotel rooms and expensive flights, coach flights. Even corporate IT spending, the rate of growth is beginning to decelerate.

And so, we believe and we're seeing in our portfolio, companies, inflation in the rearview mirror. The significant increase in input costs is down close to zero. Wages are continuing to grow, but at 3 or 4 percent, not the 6 - 7 percent. We're seeing rents come down across most of the real estate asset classes. And we don't see the inflation in our companies that the Fed is currently talking about. And we are seeing the US economy slowing and the European economy very slow.

The one bright spot in the global economy is India, which is growing very rapidly for lots of reasons we can all understand. And Japan has now come out of its slumber, even that is not a high growth economy.

Alison Mass: And you've been in India longer than many of your peer organizations.

Joe Baratta: Since 2005. Active. Yes.

Alison Mass: So, are there sectors or geographies other than India and Japan around the world that look particularly attractive to you?

Joe Baratta: I think the single most important sort of economic driver that we see is the fact that the demand for electricity in the United States, which had been virtually zero for decades because all of your home appliances got more efficient. The air conditioning got more efficient. Is now growing at 3 percent. And the electricity infrastructure in this country, both generation and transmission and distribution are not able to keep up with that demand. So, there will be a huge investment made in this country by utilities and power developers in incremental generating capacity, in improving transmission and distribution grids.

And you can invest across a huge ecosystem in that, not just building renewables, which gets all of the press. But in component suppliers, in services, in technology, in software, addressing utilities and this giant spend in electricity infrastructure that the country's going to need to have.

Same thing in Europe. And that's being driven for the obvious reasons. AI. Data centers. Electric vehicles are all conspiring to increase the demand for electricity.

Alison Mass: Yep. All around the world. So, let's switch gears to talk about your investment approach. And in the private equity world, it's all about making a deal. And those deals are often very complicated. Can you talk a little bit about your personal approach to negotiation?

Joe Baratta: I think when you have a counterparty, they want to believe that you're reasonable. And that you argue for what you need, but what you don't need. It's not about keeping score. It's not about how many points I won. Or oh, I improved our position. It's about getting a deal done and making your counterparty feel great about the experience, because this is a long cycle business. It's not a trade. You'll interface with the same bankers and often the same companies and the same sellers if it's a private equity firm. And we want to have the reputation of doing exactly what we said we were going to do and being pleasant to deal with, but securing the things we need for the deal to work for us and our investors.

And I can point to the example of this transaction we did with Emerson in October of '22. The world changed materially from when we started looking at the deal in November of '21 to when we actually got the deal done in October of '22. And we had to make several material changes to the transaction to accommodate no debt market and the market having dropped very significantly.

And our counterparty, while they didn't love the changes, accepted them. We're still great friends. They're partners in the company with us still. And they feel good about the experience.

And so, it's all about how you treat people and doing the right thing by them while securing the deal you need for your investors to make the deal work.

Alison Mass: Yep, that's a good measure of success, that you can have a tough negotiation with someone and still have the respect and partnership after the fact.

So, we talked a little bit about Blackstone's shift from value to quality investing. Is there a right way to strike the balance between being prudent and managing for no downside, but also pursuing big opportunities?

Joe Baratta: One truism is you can pay too much, even for a great business. 2021 showed that. And before that, 2007 showed it. And before that, 1999/2000 showed it. So, valuation discipline. To say that we're not, quote, a "value investor," that may be technically true. But we are valuation oriented. We believe that there is a price that's just too much. And had we won every deal we tried to win in 2021, we would have had terrible performance. But we had the valuation discipline that stopped us short of doing a deal, making a mistake.

And so, you have to be disciplined as an investor. You have to figure out what is the risk that I lose all of my money? Because the worst thing you can do in a fund is lose money. That actually has more of an effect on the overall fund returns than having something that makes four or five times your money with ten or 15. If everything can make four or five times your money, great. But that really only ever happens in ten or 15 or 20 percent of a fund. With the rest of it, you have to make darn sure you do not lose the money.

And so, discipline and a focus on the price you pay matters enormously through cycles.

Alison Mass: It also has an impact on the culture when you lose money in a fund.

Joe Baratta: Yes.

Alison Mass: And we're going to pivot to talk about leadership in a second. I am curious, do you ever go back and look at the deals that you walked away from because, quote, "that valuation got too high" and say, were we right?

Joe Baratta: We do, all the time.

Alison Mass: And?

Joe Baratta: And we were wrong a lot until 2022. And then we were more right.

But even some things that got done in '21 or '20 or '19, if somebody bought a great company. They were able to do a lot with it. They'll make a great return. It's not like every deal done in '21 was a bad deal. But people lost discipline in 2020. All investors in equities. Public, private, venture, growth. It was just a moment of belief that things could continue to grow forever, and that money would be free forever.

Alison Mass: It's interesting for us who sit on the other side of some of these processes where oftentimes somebody will walk away and just say, "I can't get to that price." And I just don't understand how those people across the street got to that price. And then all of the sudden there are other people who say, "What do they know that we don't?" And they have this envy. They must have some macro view or--so, it's a healthy paranoia.

Joe Baratta: Right. And we think we have two sides of our brain asking those two questions. Like, are they crazy? And, like, what did we miss?

Alison Mass: Right, exactly.

Joe Baratta: You know, what did we not bring to the table that they did?

Alison Mass: Yeah. So, I want to talk a little bit about leadership because you manage a very large business and a lot of people. And you've been at Blackstone for about 26 years now?

Joe Baratta: 26.

Alison Mass: So, talk about how you think about building a strong culture as a company grows, because Blackstone has grown tremendously in the last two and a half decades.

And what do you think are the keys to establishing a cohesive investment culture, especially at a time when the economic environment for PE is so challenging, as we talked about?

Joe Baratta: The first thing is you have to be a truth teller. The tendency is you want to try to get a deal done. So, you basically reiterate all the positive things that the investment bank and the management team's telling you about the company.

But to really endure through cycles, Blackstone's been investing in private equity for 37 years, you have to see the truth about a business. And you have to take your personal motivations out of the analysis and really, really be a truth teller about the risks in the business, what you think you can do with it, how good the people are around it, the management teams, what's the quality of the due diligence you're able to, how solid do you believe in the numbers and the accounting?

So, the standard of care is very high. And you have to have people who are willing to take the time and make the sacrifice to figure all those things out. Because you have to make decisions with full information.

And we make mistakes. And then when you make a mistake, it has to be something that the whole group owns. There's not a culture of saying, "You screwed that up. That's your fault." We come to these decisions together. We talk about individual deals multiple times. If there's a problem, we all get in a room together. We figure out how to solve it. And that culture of, like, socializing problems, not individualizing problems, and also socializing success. Success has many fathers.

But how an individual deal comes to happen, particularly when these really large ones, it's the firm. It's the brand. It's the track record. It's the portfolio operations team that are the enablers. It's not just one human being. And so, having everybody understand that, believe it is the key to an investment culture.

Alison Mass: Yep, those are important parts of an investment culture. So, I know that creating opportunities and access for underserved communities is also important to you. And one of the programs you established to recruit, develop, and advance historically untapped talent is the

Blackstone Career Pathways. What is Blackstone Career Pathways? And why is that program so important to you?

Joe Baratta: My observation over decades was that one of the problems in our country is not a talent or a skills gap, it's an opportunity gap. And even in some small ways, like, people who didn't go to a certain number of schools didn't have the same access to opportunities on Wall Street even back in the '90s. And so, scratching and clawing to try to get an interview when you didn't go to Harvard or Wharton.

And then imagine if you were from an ethnic minority group or you didn't go to even a top 25 school or somehow your career got derailed, a three strikes you're out drugs charge, which was a crazy policy that we had back in the late '80s and '90s. If something happens to one of your parents, you have to step in and care for the family for a while. Those people who get derailed somewhere in that linear progression from high school to college to job, it's very hard to get it back on track.

And so, when I was in a position to spend both time and money philanthropically, this is where I wanted to spend my time. And I met through actually one of my partners at

Blackstone, Gerald Chertavian who started Year Up. Year Up is the leading organization in the country that trains for one year people who've had their lives derailed for one reason or another, but they have the skills, they're finishing high school or they're in a two-year or even a four-year university program, but they don't have the skills and the access.

They give them the skills. And then they get them an internship at Goldman Sachs, at State Street, at Salesforce, at Meta in a career sustaining job in the middle or back offices. And you're profoundly changing the lives of these people and their families.

So, I went on the board of Year Up probably 10 years ago. And after about five or six years on the board I said we ought to be able to look systemically across Blackstone portfolio companies and how are we recruiting? And what are we doing about accessing these talent pools that, historically, had not been accessed?

And so, we started with six pilot companies. We engage with Year Up and other community-based organizations to help us figure out where we can access talent, what we need to change internally in our recruiting practices. And we're now up to, I think, 55 of our companies. And some companies in other GP's portfolios, in other private equity funds.

I think it's a profoundly important thing. And I'm happy that we're able to in some small way do that in our portfolio. And I think if other private equity firms and other companies in America begin doing this more systematically, we can make a big dent in this opportunity divide, actually.

Alison Mass: Fantastic. We like to end with a little lightning round. So, we're just going to run through a couple of questions and perhaps get a quick answer. What was your first investment at Blackstone?

Joe Baratta: The real first investment was helping buy a 50 percent stake in Universal Studios Florida.

Alison Mass: That's fun.

Joe Baratta: It was a 50/50 partnership between Seagram, which actually owned the media asset MCA, which owned

Universal. And a British conglomerate called Rank. And we bought Rank's 50 percent stake. And we ended up owning that business through six or seven different corporate partners because Seagram's sold itself to Vivendi that sold itself to NBC Universal which sold itself to Comcast and Comcast ultimately ended being our partner and they bought us out of that investment 13 or 14 years later.

Alison Mass: That must have been fun due diligence though too.

Joe Baratta: It was. Yes.

Alison Mass: What is the biggest lesson you learned as an investor, knowing that sometimes the best lessons that we learn are from transactions that didn't go well?

Joe Baratta: Yeah. I think it's all born from over confidence. You have success and you press that same bet. And it doesn't always work. And so, I've done a lot of buy and build related transactions in healthcare facilities and pubs and theme parks and visitor attractions, as I had mentioned. And we tried to do a similar thing in restaurants in the UK. And that ended up not being great.

The financial crisis didn't help. But you know, you learn just because it worked before doesn't mean it's going to work again. You have to maintain that intellectual distance from something and honesty about it.

Alison Mass: Yeah. And the restaurant industry is notoriously challenging for private equity investors. All right, so what is the best piece of investment advice you can give our listeners that you wish someone had told you when you were younger starting out in the business?

Joe Baratta: I think the most dangerous thing in investing is to assume that this time it's different, that something's somehow fundamentally changed to repeal the laws of nature in finance. And that's associated with an acute fear of missing out, seeing other people make money, chasing that trade. Because inevitably you come to it late. And you don't want to be the last person in a crowded trade.

So, you have to have a very long-term perspective and believe that mean reversion is a very powerful concept in the world.

Alison Mass: Okay. So, when you're not working on deals, what do you like to do out of the office to relax? I heard you say when you walked in here you like to bike ride. But what hobbies do you have?

Joe Baratta: I like to cycle in all forms. Road. Gravel. Mountain biking.

Alison Mass: Soul Cycle?

Joe Baratta: Less that. Every now and then a Peloton if the weather's not good. I grew up in northern California in the mountains, in the foothills of the Sierra Nevadas. And grew up skiing from when I could walk. And so, all versions of skiing, including more recently ski touring. So, hiking up and skiing down in the back country.

And then I've got teenage children. And so, making sure that they're on their way and on the right foot in life. That's a big part of my joy.

Alison Mass: What are you most excited about in the world right now?

Joe Baratta: I think the technology revolution just keeps on rolling. And that in every moment in human history has created enormous opportunity. I benefited from the revolution in financial technology and markets. Obviously, people benefited enormously from the internet and from mobile telephony. And I think our children have the opportunity to benefit enormously from AI and the revolution that it will have for businesses and the efficiencies that it can drive and the new business models that will crop up.

Alison Mass: All right. So, Joe, it was such a pleasure having you on the show. Thank you for joining us and sharing your perspectives. It was really fascinating.

Joe Baratta: Thank you for having me.

Alison Mass: Thank you all for listening to this special episode of Goldman Sachs Exchanges - Great Investors. This podcast was recorded on Monday, June 3rd, 2024.

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