Corrected Transcript

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The Carlyle Group LP (CG)

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CORPORATE PARTICIPANTS

Glenn A. Youngkin
Co-President & Co-Chief Operating Officer

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Deutsche Bank Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Brian B. Bedell
Deutsche Bank Securities, Inc.

Welcome, everyone. So for those of you who don't know me, I'm Brian Bedell. I cover the online brokers, asset managers and exchanges here at Deutsche Bank. And today, we're very happy to have Glenn Youngkin with us, who is President and Chief Operating Officer of the Carlyle Group.

It's founded in 1987 and headquartered in Washington D.C. Carlyle is one of the largest private equity and alternative management firms with nearly $200 billion in assets under management. Glenn joined Carlyle in 1995 and before becoming President and COO in 2011, he led the Industrial Sector investment team globally as well as Carlyle's buyout activities in the U.S. and UK, while also serving briefly as the Interim Principal Financial Officer before Carlyle became public in 2012. And we also have Head of the Investor Relations, Dan Harris, with us in the audience.

So without further ado, I'll turn the podium over to Glenn.

Glenn A. Youngkin
Co-President & Co-Chief Operating Officer

Thanks. Thanks, Brian. Okay, everybody awake after lunch. So I will hopefully not add to any sleepiness. Thanks for being here. I'm just going to spend about 20 minutes doing just a brief overview of Carlyle, and then we're going to have a conversation then we'll take some questions. So, perfect.

So, the firm is organized in a very straight forward way. We manage $193 billion of assets and we manage it through four distinct segments. The first segment Corporate Private Equity is our buyout business and our growth business, that's $64 billion of assets under management. Our real assets segment is energy, infrastructure and real estate, that business is run through private equity-style funds, that's $43 billion of assets under management global market strategies are our structured credit, distressed, mezzanine, energy lending, hedge funds and our BDC and that's $36 billion of assets under management. And the Investment Solutions business is our private equity fund to funds business, our liquidity alternatives business and our separately managed accounts business, and that's $49 billion of assets under management. So, all of it together $193 billion of assets under management and the firm has an extraordinarily rich culture, we cooperate extensively through almost a cultural iconic word called One Carlyle, I mean one of things we believe deeply in is that while we have separate funds and while we have separate segments, the most important thing we can do is bring together the resources around the firm to deliver the best execution and investing client's capital that we can.

Just a few points and highlights over the course of results into the first quarter, on a latest 12-month basis, both distributable earnings and economic net income are at $1 billion, we had great performance for another quarter in most of our funds. Our corporate private equity business on a latest 12 months basis was up 23%, the real estate assets were up 27% and the global market strategy private equity funds were up 20%.

All of that translated into the continuation of our accrued carry balance, that's where all of our performance fees come out of when we exit things, that balance has been maintained at $1.8 billion for quite a while. Offsetting that will be an enormous amount of exit activity, I'll talk about it in a second and that really has been one of our great hallmarks of the firm is that we've been exiting quite a bit and yet maintaining that carry balance. We have $44 billion of dry powder to invest $60 billion across the whole firm, $44 million in our carry funds, that seems like a lot to a lot of people [ph] because in an absolute (00:03:54) number it is, but we tend to average $8 billion, $9 billion, $10 billion a year of investing. Our fund lives are about five years and so we generally have about five years of capital to invest in our carry funds.

Over the last 12 months, we've raised $23 billion of new capital to invest. It is reflective of what is an extraordinarily good fundraising period right now. I do think that period is very reflective of the fact that our industry as a whole and Carlyle, particularly, has performed very well. We've realized proceeds, that's exit activity of $21 billion over the same time period and that strong activity really was an underpinning to our comments on our most recently quarterly call in April, where we said the second quarter was off to a great start. Particularly underpinned by two wonderful transactions around one of our portfolio companies, Axalta where we told everybody we had already recognized and realized net carry of $150 million right at the beginning of the quarter. So great way to start the second quarter, so that's just a little summary of the firm.

Specifically about performance and the one of the great things about the alternative asset management business is you can tell you're doing all the time because there's no running away from track record, and I think that's actually a comparison that we are always eager to take up because for almost 30 years, we've had very strong performance.

You can see on this slide, the overall carry fund appreciation, the top line was 6% in the first quarter, that's a blend of a number of various asset classes. The corporate private equity business was up 8% in the first quarter, that's following on from 23% last year. The real asset segment was up 2% in the first quarter, that really is a blend of our real estate business which was up 11% in the first quarter in our energy business which has a blend that was down a little bit and that's reflective of the re-rating of a lot of the energy values based on the drop in oil prices.

One quick comment to make and you'll see us report this in all of these tables, we have a legacy energy business which was an old partnership that we had with a firm called Riverstone that's running off. We have very, very, very low economic participation in those funds, although there is still a reasonable amount of AUM associated with them, it has a little economic impact on us. We have a new energy business that we have built over the course of the last three years and that is what we call natural resources and that's where really all the economics for Carlyle's energy business sit.

And then finally, in one comment about the global market strategies business, the carry funds continue to perform well. We had a performance challenge last year in our hedge fund platform in the fourth quarter. You can see it was down 9% in 2014, candidly that was pretty much all in the fourth quarter. The funds rebounded and performed well in the first quarter at 2%, of course how they perform over the course of the year will be determined over the course of the year, but we felt very good about that first quarter performance.

All of that performance activity has translated into symmetric's that we try to pay a lot of attention to. This is really how we track our business. So, on the fund raising side, I said over the latest 12 months, we've raised $23 billion that follows up of a pretty strong 2014 at $24 billion and a strong 2013 at $22 billion. We've invested over the latest 12 months about $10 billion in our various carry funds, that's up from $6.8 billion over the similar time period through the first quarter of 2014. I want to make one comment around investment pace and I'm sure we'll talk about it in a bit, but the investment environment's very challenging right now and in fact, even though we have a $10 billion number posted over the latest 12 months, our first quarter investment pace was $1.5 billion.

And I think that's really reflective of our desire to be very, very selective in what we're investing in around the world and a recognition that sometimes – actually all the time, it's better to not do a deal than to do a bad one. And with prices where they are today, we have been very selective. But one of the benefits of Carlyle's platform is because of the breadth of what we do around the world and all the various asset classes; we do continue to find things to do. We have been slow in the United States and so our largest U.S. buyout fund, in fact, invested less than $100 million in the first quarter in what they do and that's a $13 billion fund.

The flip side is, we have found interesting things to do in other parts of the world and just recently you will have seen us announce just over $500 million investment in the largest hospital chain in Brazil. So, one of the benefits of being global is, we're able to seek out opportunities all over the world and that does not all the time offset the reality that when the investment environment is like it is today, we have to be very, very choosy. I'll come back and talk more about that in a minute.

Fee-related earnings as you can see were $261 million for the 12 months ended on March 31, that's up from $151 million in the same time period. And the biggest driver, of course, of our earnings are our performance fees. It's a wonderful business, if we make a lot of money for our investors then we can actually earn a substantial amount of performance fees. And for the latest 12 months on March 31, it was $771 million, up from $673 million from a similar time period. The metric that all of you, hopefully, do worry about and what we worry about is, how does that translate on a per unit basis and we posted through the 12-month period $2.95 per unit, that's adjusted for a tax payment we made associated with a French tax matter. We've appealed it but we have to pay it, adjusted for that is $2.95, that's up from $2.55 from the period before. We've had a good solid steady growth rate. We payout the vast majority of our earnings in quarterly distributions to all of our unit holders. Our distribution policy is set at 75% of our after-tax distributable earnings. And so, you'll see on that same period we paid out $2.26, which was up from $1.88 from a similar time period.

This is what we try to do. We try to grow our earnings on a per unit basis. And then we turn around and pay it out in cash and collectively, to all of our unit holders, we think that translates into a very, very, very good business model. We just, earlier this week, announced the sale of 7 million units in a secondary offering, it's actually called a synthetic offering because we're a publicly traded partnership, but it is effectively a secondary offering for some of the management team to sell into the market. It doesn't change any of these numbers because it's all secondary. It was about a $200 million offering all in. We had some executives who sold, some didn't. I did not sell. Two of our founders, David Rubenstein, one of other founders, did not. So, it was just really – a really routine liquidity opportunity for a handful of our senior executives.

One of the questions that we have gotten recently is, tell us about your management team and, particularly, we read that your co-President with me was a gentleman named Mike Cavanagh, who recently left. And I think it's important to really highlight the fact that, one, we have a very deep and broad management team. This chart is busy. On the top part of the chart is our firm management, that's our founders and me and our CFO and the main corporate functions, the bottom half of the chart are our segment leadership for each one in the big four segments that I went through. The people who actually run those segments as the CEOs, CFOs and COOs of those segments.

The color coding is important to us and what the color coding reflects is the blue is people who have been at Carlyle for more than five years and the green are people that are reasonably new, one to five years. And one of the things we believe deeply in is that a combination of veterans, plus new talent is really important in order to continue to be a vibrant leadership team. And so can see that we've tried hard over the years to continue to follow that model. Mike's departure, and Mike joined us last summer and left three weeks ago to become the CFO of Comcast, while we wish Mike hadn't left, the reality of it was that I think Mike really felt strongly that he was most drawn towards very, very big companies, he came from JP Morgan, which was a $200 billion company and he's gone to Comcast, which is a $150 billion company. And while Carlyle aspires to be a $150 billion company, today we're $10 billion. And I think, he was very much of the mindset that his talents were best put to use in that environment. It was hard to see him go, he and I were very good friends and so, we'll miss him. But that's our management team, it's deep, it's varied and I think is a great combination of long-term veterans and new people.

One of the questions that we routinely get is are we at an exit peak? And the short answer is, no, and that's a Carlyle answer and the reason is, we have been exiting our portfolio on a pretty consistent basis over the last four years. I mean what this chart shows on the left hand side is the latest 12 months total of exists for each one of the quarters and what you'll see is really for the last four years each quarter we have averaged about $15 billion to $20 billion of exits for our realized proceeds out of our portfolio. There is not a race-up or race-down at any given time, it has to do with when the companies are ready to be sold, when we think they've really met their business objectives and how we can actually recognize the best proceeds for our investors.

The right hand side is really important because this is our inventory of what we have left to sell. And one the key metrics that we pay attention to is that are we maintaining our inventory even though we're constantly exiting, and that's a healthy balance, which you'll see in the right hand side is that it bounces up and down a bit, but the reality is we've maintained our inventory very well. You'll also see on the right hand side that about half of what's in our portfolio today and our carry funds is three or more years old and so there is also a large reserve of things for us to sell. About 30% of this portfolio is actually publically traded today.

What that translates to this $62 billion and to try to put it into context is that we've been able to maintain that $62 billion while we have been selling out of that portfolio and just from the beginning of 2013, so two years in one quarter. We've exited $40 billion, almost $42 billion of the portfolio, but we put capital to work and appreciated what was left. And as a result, the overall remaining fair value of what's in there has stayed constant, that has translated into our crude performance fees, which is a balance sheet item, which was really the carry bank at value that we devout off when we sell something and create performance fees.

So the model actually has performed very well, continues to perform very well, and so when people talk about peaks and exit cycle, these are the kinds of things that we look at as a senior management team to actually assure ourselves that we're actually running a process that's consistent as opposed to something that cyclical.

Can we invest in this environment? The first question I think, is aside from, is it a good time to invest is, can you invest the capital? I mentioned earlier, we had roughly five years of dry powder in our carry funds to invest. This chart's an important dataset for us. We look back over all of our major funds nearly to the beginning of Carlyle in 1994, and what you'll see is that, on average, we invest 96% of the capital that's been entrusted to us.

We generally have a five-year investment period for these funds. It's really important to recognize that the fund documents don't mandate that we have to invest it ratably over the five years, right. We pick when, I mean, the right time to invest is and whether it's a – a 10, 15, 20, 25-ish kind of spread or we actually may have reasonable period of time where it's close to zero, but we have five years to invest the capital and what we've done since the beginning of the firm is successfully invest it and invest it to the full amount.

Equally important, of course, [ph] and almost more so (00:17:34) is that when we invest it, we invest it well. And so, when we look back at periods of time in fund that needed to be invested at high value points in the cycle. We've done well. So our U.S. buyout funds' on the top, our European buyout funds' in the middle, our Asia buyout funds' down at the bottom, time periods 2004, 2005, 2006, 2007, previous peaks in the market and what you'll see is the multiples invested capitals of 1.72 times, 2.4 times and IRRs that truly range from 18, 20s up into the 30s. And the key to this is that you don't have to invest at any given time, but you actually have flexibility to choose when to invest so that you can optimize the performance of the portfolio.

Finally, I just wanted to cover how we grow the firm and there's three primary ways that Carlyle has grown over the years. The first is really straightforward, which is have a big family of funds and have more of those funds in carry, paying out carry tomorrow than you had yesterday, pretty straightforward, very performance-oriented. And so what's happening is a number of our very large funds have moved from not paying performance fees, to being able to pay performance fees, to paying performance fees. And so this table is our largest selection of funds, there's ten more and then in fact are accruing or paying carry that aren't on the table and what you'll see is a checkmark if they're paying, if they're accruing performance fees and in the right hand side whether they've actually paid the cash. That's an important step for us and so the right hand side of this table has in fact become more and more populated over the course of the last few years. As you can see, there's still room for further growth in paying the performance fees and that's why our performance fee earnings when the exit pace has been reasonably consistent between $15 billion and $20 billion a year, has indeed generated more and more and more performance fees. We think that's a trend that can continue.

The second way that we have grown of course is by increasing the amount of assets that we manage under management. The best way to do that of course if through fundraising. We have an extraordinarily capable collection of fund raisers around the world. And we've developed over many years, we think, the most prolific and supportive group of investors.

You can see that from 2009 to 2015 we've added 350 new investors around the world, and I think the most important thing to recognize is on the bottom right hand side of the chart, which is the value of a new investor to us. Because what the right hand side shows is that nearly 60% of our capital that we manage comes from investors that in fact are in six or more funds. It's a stunning – it's a stunning [ph] stat, we track (00:20:46) it very carefully.

So what that means is, each one of those new investors that we have added over the course of the last six years is truly gold. Because when they come into one fund, there's a very high probability they're going to come into a second fund, and a third fund, and a fourth fund, and a fifth fund. And so, that [ph] stat (00:21:05) for us is almost the most important thing we manage, which is new investors doing a fabulous job for them, having them have the best Carlyle performance and Carlyle investment experience that they can have and then introducing them to a second fund, introducing them to a third fund.

On the left hand side of the chart, you'll see that our general spread of investors covers just about anybody who invests in alternatives. Public pension plan still our largest segment although I will say, as a percentage basis, that segment has shrunk as the sovereign wealth fund has grown. And then finally, the third big growth avenue for us is adding to the capacity of the firm to, in fact, do what we've just described. And so, what we try to do each year is think very carefully about new areas that are either underpinned by our current capabilities or sometimes we access them by bringing on new teams or actually acquiring a platform and adding them to our platform and introducing them to our investors and doing the exact same invest, perform and hopefully introduce the new fund cycle I just discussed.

So, you'll see from the beginning of 2010 all the way up through last year, there's a solid three, four or five new things that we're doing just under 50% of the capital that we manage today and AUM comes from new stuff in the last five years. And there's always a wonderful secret list of stuff that we're up to that we think will be, hopefully, very interesting for our investors to trust us with more one time.

So, that's the Carlyle Group in a snapshot. I'll go back to where I started. I think, we have a wonderful business that we're lucky enough to participate in. We have a pretty basic philosophy, which is, if we do our job well and generate solid returns for our investors, they'll entrust us with increased capital. And if that cycle works, we'll generate more cash for the firm and if we generate more cash for firm, the earnings go up, we pay out 75% of it, our distributions will go up and the result of that is that our unit holders hopefully will be very happy.

So, thank you, all, for your attention and I think we're going to have a short conversation.

Brian B. Bedell
Deutsche Bank Securities, Inc.

Sure, yeah.

Glenn A. Youngkin
Co-President & Co-Chief Operating Officer

Thanks.

QUESTION AND ANSWER SECTION

Brian B. Bedell
Deutsche Bank Securities, Inc.

Q

Great. Have a seat. And it was, I think [indiscernible] (00:23:25) but getting it done in 20 minutes I think [indiscernible] (00:23:29) so we have a little more time for Q&A. Maybe I'll just start one, while people are thinking of questions. Maybe just a follow-on to Mike Cavanagh comment, maybe just say how your role changes if it does at all. And what do you see as Mike's most significant contribution to the firm?

Glenn A. Youngkin
Co-President & Co-Chief Operating Officer

A

Sure. I think. So, when Mike was recruited and he joined, he and I agreed, as I said earlier that we were not going to divide the firm and take pieces right out of the box, but instead work together in a collaborative relationship to make sure that both of us were engaged in all aspects of what we were doing. And I think that was a very good decision at the time simply because he was new to Carlyle. I've been around Carlyle for 19 years. And so the two of us actually locked arms and really were working in a very partnership fashion as co's in the [ph] full ramp remit (00:24:27) of our positions.

And so, the reality is, he was at Carlyle for about 10 months and we were just getting to the end of that first year period where we agreed to work this way and we're beginning to think about how we would, in fact, now begin to – really begin to focus on different spots of the firm.

So, the reality is, his departure didn't change my responsibilities because we hadn't gotten to that stage in our evolution. I think some of the meaningful contributions Mike brings to any organization and he brought to Carlyle was one of the clear recognitions that when you have a multi-segment firm or divisional firm, we do need to make sure that we have very strong teams in each one of those segments, and from the chart I put up earlier, what you'll see is clear leadership in each one of the segments. So, segment heads you can think of them as almost CEOs of the segments, sometimes co's, sometimes single leadership COOs and CFOs in each one of the segments. And I think that was a very strong belief that Mike will hold in his management style that when you have a segment-led business like we do now, that you need to make sure that you have deep teams at each one of those segments.

Brian B. Bedell
Deutsche Bank Securities, Inc.

Q

[indiscernible] (00:25:49) just a follow-on to that. The Corporate Private Equity that this has been so successful for you in the growth recently has been extremely strong and it is now dominating about 80% of the earnings. How do you think about growth initiatives in the other three segments, so within real assets, GMS and solutions and if you think [ph] obviously you want, (00:26:06) it's a high quality problem to have Private Equity do so well and hopefully that perpetuates in the future. But as you think about the business mix two, three, four, five years out, what are your strongest growth drivers in those other segments?

Glenn A. Youngkin
Co-President & Co-Chief Operating Officer

A

Sure, what I will first say is that the – our Corporate Private Equity business is a wonderful business. And therefore, anything we do that doesn't include the care, feeding and nurturing of our Corporate Private Equity business...

Brian B. Bedell
Deutsche Bank Securities, Inc.

Q

Yeah.

Glenn A. Youngkin
Co-President & Co-Chief Operating Officer

A

...we've made a mistake. And so, that business will continue, we think to be a major contributor to the firm. We've just had a wonderful fund raising cycle where we've been able to raise full funds of capital in each one of our major businesses. The portfolios are performing very well. The leadership of that business is in great shape with Pete Clare, he's been here for 23 years and Kewsong Lee, who's been with us for 18 months and those two together are really talent in pair. So, the Corporate Private Equity business continues to be in great shape, and we do everything we can to nature it, care for it, feed it.

GMS, which is the second topic here, second business, that I want to spend some time on, global market strategies. One of the great things to know about global market strategies is in 2012 and 2013, GMS generated about $200 million of distributable earnings and that $200 million of distributable earnings was out of about $800 million on an average during that time period, so about a quarter of our earnings came through GMS. And fortunately, Carlyle was able to overcome the performance challenges that they had in the fourth quarter of last year in the hedge fund portfolio and still grow, and yet the GMS business on an LTM basis has generated $78 million in distributable earnings.

So, we think that GMS certainly should be able to recover to its full earnings horsepower. It's going to take more than a year to get there, because the hedge funds are on a multi-year recovery, I mean, it's very easy to look at the – they were down 9% last year, most of that was in the fourth – in the fourth quarter. They generally market themselves with a high single-digit kind of return profile and as a result, that's more than one year work in order to get there. But with that said, the GMS business, we think, should absolutely be able to recover to its full earnings horsepower. Meanwhile, the Private Equity business continues to do what it's doing.

Brian B. Bedell
Deutsche Bank Securities, Inc.

Q

Yeah.

Glenn A. Youngkin
Co-President & Co-Chief Operating Officer

A

The real assets business is, we think, somewhat confusing and we apologize for that, because it's really got two key segments in it, our energy business and the energy business is really poised, we think to be a meaningful contributor to Carlyle. We've raised over $10 billion to invest in the energy sector. We have some nearly capable teams that are ready and ready to invest and that cycle is just – kind of the investment cycle is just going to have to play out. It will be a strong fee generator today because of the capital we've raised and the performance fees will come as that – as that capital is invested. And I think to-date, [ph] we probably – there's (00:29:28) really haven't got anything out of the energy business today, and so there's real upside there, we think. And then the real estate business, again, over the last few years, has not been a big contributor to the firm and yet our U.S. real estate business for the first time in a number of years turned on Carlyle Realty Partners VI carry stream in fourth quarter. Carlyle Realty Partners V is now in carry. We've just – we've told everybody in our first quarter call that we feel very comfortable that we will meet the cap in our seventh real estate fund, which is just over $4 billion, that's on the back of just over $2 billion fund last time. So, we think there's really positive developments in the U.S. real estate side. So, the net of – the net of all of that is that the core engine of the corporate private equity business continues to perform well and we see some really solid developments across the rest of the business that will hopefully be additive.

Brian B. Bedell
Deutsche Bank Securities, Inc.

Q

Yep. [indiscernible] (00:30:29) there's a question over there.

Q

Thank you. So, a quick question on the energy portfolio, $10 billion you're talking an estimated five years to deploy. What if the capital markets remain open to the E&P companies and, therefore, those assets are not for sale? Are you – do you return that capital?

Glenn A. Youngkin
Co-President & Co-Chief Operating Officer

A

Yeah. So, let me – I'll take that just a little bit. So, the first is, today – the capital that we're investing in energy today is primarily coming out of our credit business, because in today's opportunities, they seem to be a little bit more on the credit side than the equity side, but there is good flow on the credit side today. The equity side, as I think many of you probably know, really hasn't – from a private equity standpoint, hasn't really opened itself up, because there's been a reasonable gap between what sellers are willing to accept from a price book and what buyers are willing to buy from a price book. Our sense is over time that there is more overlap, I think the rebound in crude prices over the last month or so, will add to that. I think with crude prices, I think WTI is at $61 today and Brent's at $65, that's a fundamentally different world than when they were sitting down in the low $50s and touching $49. And so I do think that the bit ask gap between buyers and sellers will begin to close over time, it hasn't closed yet. But activity levels sure feel like they are getting closer.

So the underpinning to your question, I think I just want to clarify, we actually do believe that there will be a fair amount of energy investing activity and while it hasn't happened in the first five months of 2015, we actually see a lot of ingredients necessary to expect that it will happen may be not in the second quarter or may be not the third quarter, but at least the back half and running into 2016.

We have a tremendous track record of investing the capital. It gets put to work, gets put to work well. So we have not been in a position where we've had to return capital to people and what generally happens in private equity funds is if you get to the end of a fun life and you haven't invested the capital. You stop for a minute and you have a discussion with your limited partners and your limited partners have the ability to just to take a vote and say we'll extend the lifecycle of the fund, and we'll give you another year or another two years to invest the rest of the capital. That routinely happens, that is not a an odd thing to happen, that is in fact much more of a normal thing to happen at least to Carlyle, and that's usually underpinned by – here is a pipeline of things that we see. This is why we think you should vote yes, and so rarely are we in a circumstance where our investors say to us, five years are up, sorry, give us the money back.

Q

That's helpful.

Brian B. Bedell
Deutsche Bank Securities, Inc.
Q

No question? I can jump in with – do we have anything else? I can jump in with one. The fund raising cycle.

Glenn A. Youngkin
Co-President & Co-Chief Operating Officer
A

Yes.

Brian B. Bedell
Deutsche Bank Securities, Inc.
Q

So, the baseline of the question is cyclical effect, [ph] it's so secular, (00:33:54) if we think about 2006, 2007 that was also a really good fund raising cycle. It seems right now we actually have a lot of secular conditions with not only the performance being good and more money shifting to alternatives generally, but both on the institutional side with more barbelling and on the retail side with very, very low penetration rates in retail, combined with something that you talked about, the concentration of more capital raising to larger firms like yours with exceptional track record. So, the question would be if the market turns and if we move into a bear market, do you think that slows down the fund – the fund raising cycle or do you think it really is secular and then the problem, the high quality problem of where to invest that, can you be innovative enough to continue growing that fund raising – the growth in fund raisings?

Glenn A. Youngkin
Co-President & Co-Chief Operating Officer
A

Great. So, that's chopped full. I am going to jump at a couple of different pieces. So, the first piece of that is what's going in – from environmental standpoint in LP's minds today. I always love to say, if you understand one limited partner – if you understand one limited partner, each institutional investor has their own objectives of what they're trying to achieve, but I will say there is a general trend that because the performance has been very good and because the exit activity has been consistent and they got very comfortable having 10%, 12%, 14% of their portfolios allocated to private equity and venture, and other alternatives. As the exits happen, they find themselves in a position where they actually have to recommit the appreciated amount.

Brian B. Bedell
Deutsche Bank Securities, Inc.

Q

Right.

Glenn A. Youngkin
Co-President & Co-Chief Operating Officer

A

So they may have put $1 in the fund, they got $2 back, but they had $2 allocated on their asset ledger. So, they allocate $2 back in order to keep the allocations where they are. So that's one basic phenomena that I think the performance over the downturn, particularly, has suggested to the portfolio management they need to maintain, that's a big topic number one. I'd say big topic number two, on the fund raising cycle, is that the flipside is the funds are actually constrained a bit in capacity.

Brian B. Bedell
Deutsche Bank Securities, Inc.

Q

Yeah.

Glenn A. Youngkin
Co-President & Co-Chief Operating Officer

A

And one of the things you'll hear at The Carlyle and many of our peers talk about is the cap of the fund. And the reality is that we assess and then we assess in partnership with a lot of our big investors at the beginning of these funds, how big the funds should be given the investment opportunity to pay some investment and all those kinds of things. And so, we will routinely have a capital and fund, not all the time, because some strategies don't get capped, but many of them get capped. And so, that recognition that a fund's going to get capped. There's more capital that needs to be committed, has created this fundraising environment where funds are getting raised more quickly. They're being raised up to the levels where they're generally comfortable being invested over a five-year period. And that's a very good dynamic for the private equity firms today.

Now, your last part of your question was on the – should the world change materially, does that get interrupted. I think the first thing I would say is, we recognized that asset values today are very high. We recognize today that there's lots of discussions around bubbles and those types of things, but there are also a lot of fundamentally good things underpinning all of that.

So, the economic condition around the world is actually, reasonably good. It's not great, but it is not terrible. And when we look around the world, while China is probably not growing as fast as people would hope and the U.S. is probably a low two as opposed to a three. Europe is outperforming people's expectations versus what they would have thought just six months ago or nine months ago. Japan is fundamentally outperforming what people would have thought as an economy. Yet Brazil is having its material challenges, but the net is – the global economy is in a reasonable shape and that is a very different feel to what we went through back, let's say 2006 and 2007.

There are, I think lots of concerns around the overall liquidity in the markets today and that maybe a catalyst that people need to keep their eye on. But, this idea that we're going to have an abrupt change to the current environment is one that we generally are cautious of, but don't fully embrace. So, we've got to do our job. So, we've got to find good companies to invest in, we've got to bring our operating capabilities in order to create value in those companies and we've got to find some way to take $1, ¥1, £1, €1, BRL 1, I'm out of currencies. And turn it into two or two and a half or three. And we have to do it with an expectation that over a five year hold period, the backdrop will change during that period. [indiscernible] (00:39:24) are multiples, they're going to contract, we would think, from where they are today, interest rates will go up, maybe those two things are actually in parallel. But the deals that we're doing today, the investments that we're making today hit that mindset and our expectation, as a result, is that from our investors standpoint, at least for the intermediate term, they're going to continue to want to commit capital to this asset class.

Brian B. Bedell
Deutsche Bank Securities, Inc. Q

So something to $20 billion plus run rate that you've had every year for fund raising should continue for a while?

Glenn A. Youngkin
Co-President & Co-Chief Operating Officer A

Yeah. I do think one thing to comment there, which is fund raising is a product of two things, what the funds you have in the market and then the market. And so one of the things that we've had a real blessing of is we've had great big funds that we've been raising a lot of capital for over the last few years of 22, 23 and we've always said to everybody that we would expect $15 billion to $20 billion on an annual basis.

Brian B. Bedell
Deutsche Bank Securities, Inc. Q

Right.

Glenn A. Youngkin
Co-President & Co-Chief Operating Officer A

Some of that is – some of that fund raising is pulled forward a little bit.

Brian B. Bedell
Deutsche Bank Securities, Inc. Q

Yeah.

Glenn A. Youngkin
Co-President & Co-Chief Operating Officer A

Stuff that we've expected to happen in 2016 or 2017, because that's happened faster.

Brian B. Bedell
Deutsche Bank Securities, Inc. Q

Yeah.

Glenn A. Youngkin
Co-President & Co-Chief Operating Officer A

We still think its $15 billion to $20 billion in any given year. We're not saying we're not going to have a wonderful fund raising year next year, but we've got a lot of new stuff we're going to bring to market. We think the environment is great. But we're not giving guidance on whether we're at the bottom or the top of that $15 billion to $20 billion.

Brian B. Bedell
Deutsche Bank Securities, Inc.

Q

Right. That's still a good number.

Glenn A. Youngkin
Co-President & Co-Chief Operating Officer

A

Yeah.

Brian B. Bedell
Deutsche Bank Securities, Inc.

I think we're out of time for questions. So I wanted to...

Glenn A. Youngkin
Co-President & Co-Chief Operating Officer

Thank you, all, very much.

Brian B. Bedell
Deutsche Bank Securities, Inc.

Thank you very much, Glenn.