31-May-2016

The Carlyle Group LP (CG)

Deutsche Bank Global Financial Services Investor Conference

CORPORATE PARTICIPANTS

David M. Rubenstein
Co-Founder and Co-CEO

MANAGEMENT DISCUSSION SECTION

Unverified Participant

For the next session, we're very excited to have David Rubenstein with us today, who is Co-CEO and Co-Founder of The Carlyle Group. And for those of you who don't already know Carlyle is one of the largest Private Equity supplier in alternative investment management firms with nearly $200 billion in assets under management.

David, Co-Founded Carlyle in 1987 in Washington D.C., and the firm is now growing to over 1,700 employees in 40 offices across six continents. I think Antarctica is the only one we don't have an office yet.

David M. Rubenstein
Co-Founder and Co-CEO

Not yet.

Unverified Participant

But it's coming, right. And the – before founding Carlyle, David also practiced law for more than a decade and also served as Deputy Assistant on Domestic Policy to President Carter in the White House. And among many charitable board positions, David is also the President of the Economic Club of Washington. So maybe you're the best person at this conference who tells us who's going to win the election and then when the [ph] Fed (00:50) will also raise rates.

David M. Rubenstein
Co-Founder and Co-CEO

Yeah. I can tell you, well, I don't know who is going to win the election, but somebody from New York, [indiscernible] (00:55).

Unverified Participant

[indiscernible] (01:00) Okay. So, but we're actually, we're looking forward to your global investing perspective in your growth plans for Carlyle.

David M. Rubenstein
Co-Founder and Co-CEO

Okay. Sure. Well, thank you very much for having me.

Unverified Participant

Thank you very much for coming. Yeah.

QUESTION AND ANSWER SECTION

Q

Yeah. So may be, I'll just start up, a good place to start, may be, what's your house view on where we stand in the economic and market cycle in the U.S. and globally? I think you recently raised your view that risks are more balanced rather than talking to the dates but...

David M. Rubenstein
Co-Founder and Co-CEO

A

Right. And the last quarter.

Q

Should we think, we can continue the expansion for a while here and how is that [ph] dovetailed (01:32) with monetary policy?

David M. Rubenstein
Co-Founder and Co-CEO

A

Well, I'm not an economist and as you know economist have different views on where are the economy in the United States was going. But generally, I think our view is that the concerns that some people had that we were likely to go into more of a downturn this year and early next year, seem to have abated. And I think it is our own view that the economy while it will have a low growth mode, it's not likely to be in a dangerous situation. So, I think the Fed has telegraphed now that it's going to likely increase interest rates in the near future, and I think the market has accepted that and therefore the concerns that some people had that the Fed would increase interest rates two times or three times this year and that could have a downward effect and the economy doesn't seem yet to be having that impact.

So, I suspect the economy will go along at probably 1.5% growth this year, I wish it would be slightly higher but 1.5% growth is pretty good when you consider the Japan's growth is maybe 1% at best and Europe growth might be slightly lower than 1.5%. So, for a mature economy at this point in this cycle, I think we're doing reasonably well. Inflation could stay probably at about 1%, unemployment around 5%. I suspect that probably most business people will be cautious until the election is behind us, if we know who the next President is going to be, and therefore, you always have some slowdown before an election, but right now I think the economy is in reasonable shape.

Q

Do you think that the Fed can hike during the election cycles, just say in September or October or do you think that's too close to the election and it have to go [indiscernible] (03:11).

David M. Rubenstein
Co-Founder and Co-CEO

A

It's my own personal view that the Fed has a done a pretty good job recently of telegraphing that they want to do something in let's say the June period of time. Once they do that, it would be my expectation though they haven't consulted me about this that they probably would do another increase, if they were to do one after the election. [ph] Be my guest (03:29) that it probably wouldn't want to do something right before the election, I think that would probably be unlikely in my view, but again trying to predict what the Fed is going to do is always difficult. I do think that they've done a very clear job of signaling that the increase is coming relatively soon now.

Q

Okay. Good. Maybe when you think about where we are today in the market cycle globally, really across all the asset classes, equity fixed income, even real estate and commodities. What do you see as the prospect for longer-term asset class returns and to the extent that those were lower than they have been previously? Do you see that growth driving much greater allocations to alternative if that's a particularly private equity?

David M. Rubenstein
Co-Founder and Co-CEO

A

Well, over the last five years, 10 years, 15 years and 20 years, if you go and look at every single asset class, which one has performed the best? It's clearly Private Equity. And I think people increasingly see that interest rates while they might go up a little bit aren't going to go up dramatically so, and therefore I think people are concluding that if they want to have a reasonably good rate of return above inflation or so, they probably are going to be better off to allocate more to Private Equity than [ph] in maybe (04:33) they did before. So, with only the exception of maybe endowments, every other aspect – every other owner of assets of high net worth families or public pension funds or sovereign wealth funds or others are all increasing their allocation or intend to increase their allocations they say to Private Equity, so I think you're going to see more money coming into Private Equity. I think the two biggest classes of money coming in are probably going to be from sovereign wealth funds.

Sovereign wealth funds, let's say about year 2000 probably had about $1 trillion under assets and under management. Now they're probably closer to I guess $7 trillion. So they've gone up dramatically and about 60% of that is not from the oil related parts of the world, that the sovereign wealth funds are growing all over the world. And so, these sovereign wealth funds are dramatically increasing their Private Equity allocations.

In addition, you have high net worth families. High net worth families have dramatically increased their net worth over the last five years or 10 years and as a result they now have about – what I think about $77 trillion high net worth AUM and that increasingly is going into Private Equity. Every time you do a survey of family offices, they say they want to increase or have a higher allocation of Private Equity than they currently do. So, I think those would be two very large sources of capital for Private Equity firms for the next five years, 10 years or so.

Q

Yeah. And do you see that growing faster, right now it's a – I think kind of what's already transferred over 20% of your capital commitment, yeah?

David M. Rubenstein
Co-Founder and Co-CEO

A

Well, I do think so, because the sovereign wealth funds are – they're doing two different things. One is they are coming in the funds, but they're also looking to have special managed accounts. So, it used to be the case that if you got $100 million from a public pension fund, you were feeling like that you've had done a great job that day.

Now, you have sovereign wealth funds coming and saying, well I'd like to give you $1 billion, $2 billion or $3 billion or $4 billion and I'd like some discount on it, I'd like some more co-investment, I'd like some internships, I'd like other ways of [ph] know (06:45) what you're doing. But I really want a partnership that's both strategic and you can hold on to this money for 10 years or more.

And so, we're seeing that. I just got back from Asia and there I met with a lot of sovereign wealth funds, or their equivalents. And they are all talking about these kind of longer-term partnerships and not with just with us, but with others as well. I think that is going to be [ph] biggest source (07:06) of capital for people like us. And high net worth families, let me talk about that in a moment. I used to feel that everybody used to grow up and say, their mother or father would say, hope you grow up to be President of the United States.

Now, everybody wants their kid to grow up to have a family office, because everybody wants to have their own family office, that's the measure of success. Everybody [indiscernible] (07:24) has a family office, but the family offices are exploding. And you have family offices that are proliferating around the world and these family offices are increasingly saying, I'd like to be in Private Equity. And you're seeing allocations there. From as much as 25% of the money that family offices have typically are now going into Private Equity, and I think that trend will continue.

Q

Okay that's a good segue into fund raising more broadly, so you've averaged nearly $20 billion per annum over the last four years in fund raising, you're on track for $15 billion or so this year. How should we think about that real market cycle? You've basically got one of the most diversified line of carry funds [indiscernible] (08:05).

David M. Rubenstein
Co-Founder and Co-CEO

A

Right. Well our own business models has been to have many different funds and to let the investors select which area they want to go into, I'm not saying it's the best model but I think it's our model and it's worked quite well for us. And so, we have variety of funds out there and investors can pick and choose. Increasingly, we're seeing investors coming and saying, I'll give you $1 billion or $500 million and I'd like you to help me select which of these funds to go into so I can have [indiscernible] (08:29) Carlyle kind of fund to funds, and we're doing that as well. But I think fund raising is in pretty good shape for this reason.

While have made less – we've probably raised less money this year than last year, because we don't have our big funds in the market. Our big funds are U.S. Buyout fund or Asian Buyout fund or Europe Buyout fund or another cycle or so away from being raised. But those funds are doing quite well and I think they will attract a great deal of capital.

The exits from our large Buyout funds, Europe, Asia, United States are averaging a gross internal rate of return of 20% in a time when 20% returns are not that common. And so, I think that the track record of those funds will likely attract a lot of capital when they come back into the market and will produce a fair amount of AUM growth for us.

But the funds we have in the market today are doing quite well. And I think most of the funds we have had in the market and have closed have been oversubscribed in the last year or so. And I suspect the ones we have in the market today will also be oversubscribed. In fact some of them already in their first closings are doing as well as we did in the whole previous funding they might have had.

So, we're quite pleased with the fund raising market, and our – we have a large team around the globe that does it; it's not just a few people, we have like a team that covers the globe and we just find it increasingly investors want to participate in Private Equity which has a success, and it's not just us, it's other Private Equity firms that are also doing quite well in fund raising.

Q

And then maybe just on real estate core plus, I think you're...

David M. Rubenstein
Co-Founder and Co-CEO

A

Right.

Q

[ph] Steve Schwarzman (09:59) thinks it could be $100 billion product that it's from [ph] one day (10:02).

David M. Rubenstein
Co-Founder and Co-CEO

A

Right. For those who aren't that familiar with real estate, let me describe what it is, I would say 95% of all real estate in the world is core, which means it's probably a 4% to 6% rate of returns. So, you buy a fully leased office building, there's not much improvement you can make on it, you're just collecting rents and maybe some slight increase over a period of time, 4% to 6%.

And then, after the great recession – and not the great recession, a recession of 1988, 1989, [ph] the U.S. government took over the SNLs (10:30) and they ultimately got all the real estate – the SNL zone, ultimately the RTC began to sell that real estate sort of at big discounts. And it turned out that if you bought at discount, you could make a great deal of money like almost Private Equity type return. That type of real estate became known as opportunistic, where you're trying to get 15% to 20% rates of return as opposed to the 4% to 6% rates of return you traditionally get in real estate.

Opportunistic is probably on the – maybe 2% or 3% of the total real estate market now in the world, maybe 2%. So, there is another 3% or so that's called core-plus. Core-plus is trying to get, I would say 9% to 11% kind of rates return maybe 12% as well. These are – the example is if you have a building that's three quarters leased, but one quarter unleased, and therefore your trick is to find out a tenant for that and get a reasonably good rent for it, and then fix up the building a bit.

So, it's not as quite as opportunistic as if taking a building that has no tenants, but it's a little bit risky than buying a fully leased building. And I think that building – that market is going to increase. We have a fund in the market, it's already had a closing, and we expect to have another closing not too long for now and we have a pretty good team doing this. So, we're pretty optimistic that it's a good business for us, and I think a good business to be in.

Q

Great. And then maybe a good segue into deployment. So you've got one of the largest pools of Dry Powder in the industry, [ph] $57 billion (11:52), certainly as a percentage of your AUM. So about two-thirds of this, I think is in the Private Equity in the Real Asset segment, $43 billion in that area, right.

David M. Rubenstein
Co-Founder and Co-CEO

A

In that area, yeah.

Q

So can you talk about where you see the most compelling investment opportunities right now, and I know energy would certainly be one, maybe if you can talk about that?

David M. Rubenstein
Co-Founder and Co-CEO

A

Yes. Well, we think that energy is compelling, and we've built up our energy platform quite considerably. We have – so there are different ways you can do it. We use them on an affiliation where the firm that we helped to start called Riverstone, and we didn't actively manage that in the latter years. So we decided to ultimately take something under our wing and actively manage it. So we now have a stake in NGP which used to be called Natural Gas Partners and they are very good in E&P investments in North America, and they just posted a $5.3 billion fund and they're investing that and we're – we think that they're going to get some very good values because prices are relatively low now.

We also have an Energy Mezzanine fund that's part of our Credit business, but that's a fund that's now in the market, it's posing about $3 billion already, and its well above its previous fund and they're funding a lot of opportunities in the Credit space. We also have a Power fund that we disclosed on $1.5 billion, and that's in pretty good shape and then we had about a – we have a $2.5 billion International Energy fund that does things outside the United States and we are launching our Infrastructure fund that's mostly Energy/Infrastructure in the United States and Europe mostly.

And so that fund we think will do quite well also. So we got all these being pulled together, being overseen by [ph] Glenn Youngkin (13:23) in our firm, and I think that that's an area we really want to be a big investor. And because we think that prices are relatively stable now, but maybe a little bit lower than $50 a barrel. But at some point, we expect that you'll see an increase and I think assets will rise in value when that occurs over the next couple of years or so. So that's one area.

The second area that we think is very attractive is distressed related investing, distressed debt. We have a distressed debt for control business where we – we don't just trade by securities. We actually try to take over the companies and ultimately improve them using our Private Equity skills, and we've had a first closing on that when that has been very, very strong and we're very confident that our team there will get a very good size fund, and we're very excited about that.

We're also attracted to Europe. I think prices in Europe have been lower than the comparable assets than the United States and then – we have a fund there and we are quite active in Europe. We've done a lot of deals in Europe in the last 12 months. We're pretty attractive to that area as well.

And let me just also mention that in Asia, we are very bullish on Asia. I've discussed – as I said there last week in our Asia Investor Conference, in our Japan Investor Conference, and while people can say that China might not be growing at 10% anymore, it's still growing at 6% or so or 6.5% and that's a relative growth compared to what we're doing and given the size of the economy there it's now about $11.5 trillion to $12 trillion and the population 1.4 billion people, it's a great growth market for us. So we have a Buyout fund there and a growth capital fund and we're very bullish on China as well as India, which is part of those funds as well. So there are many different areas that we're attracted to. We think generally the environment for investing is pretty good. In fact we've invested about $11 billion over the last 12 months, and so and that's a pretty good bid for us.

Q

Maybe if you – as you think about EBITDA multiples and [indiscernible] (15:16).

David M. Rubenstein
Co-Founder and Co-CEO

A

Right.

Q

Right now they are similar to where they were in [indiscernible] (15:21) near 10 times is that mostly the U.S. and does that make you a little bit more cautious in the U.S. versus...

David M. Rubenstein
Co-Founder and Co-CEO

A

No, when Private Equity first started in the late 1960s or early 1970s, the sellers were not all that sophisticated about the value what they had, and so you could buy things that six times and seven times EBITDA multiples and you'd make a lot of money in particular because in those days, the leverage was 95% to 99%. So, with those kind of leverage ratios and you're buying at those purchase prices, you're going to do extremely well. Obviously sellers are more sophisticated, there's more competition. When I [indiscernible] (15:53) to start Carlyle there were 200 Private Equity firms in the world, now there are 5,500 firms, so there's more competition.

Nonetheless, because of operational improvements, now there are still some Private Equity firms we had, we can still make investments at nine times and 10 times EBITDA multiples and get pretty good rates of return. Returns will not be as heroic as they were 20 years ago. There's more competition, there's much less leverage but there is also less risk. I think that, when you're doing a deal with 95% leverage, it might not work out so well, if the economy goes down. Today, there is much greater balance under these Private Equity deals, typically you're dealing with 37% to 43% equity, so much stronger equity components and therefore much less risk.

Today the value of that Private Equity firms are bringing to the table is mostly, what I would call, EBIT operational improvement. Operational improvement is where we're getting most of the value, it's not leveraged so much. And

I think that we can – all these Private Equity firms have attracted enormous numbers of former CEOs who sits on our – sit on our boards, who are advising our CEOs and sometimes might replace some of our CEOs, some of our portfolio companies for a while. So, I'm pretty bullish that we can get pretty good rates of return for a sustained period of time. There's probably going to be, I would say, in the high net teens is probably what people should be realistically expecting. In other words, I think it's difficult to invest billions of dollars in Private Equity and get 25% net internal rates of return or even 25% gross.

But I think today probably 15%, 16%, 17% net internal rates of return for a large amount of money being put in Private Equity is probably realistic and probably achievable.

Q

And then if we are at bear market scenario that would accelerate that process and that...

David M. Rubenstein
Co-Founder and Co-CEO

A

Well, bear markets will obviously have some longer hold periods associated with them. In another words, if markets go down, typically you're not going to sell in those down markets. You probably can buy more attractively priced assets then and you hold on for three years to five years, maybe even a little bit longer. Some of our funds now are able to hold on for much longer periods of time.

Some investors say to us, we don't really want you to give us money back after three years or four years, because we don't know exactly what to do with it, so hold onto it for 10 years. And so, we do have some fund now that is a very long-term fund where the investors say, hold onto it for let's say 10 years and give me an average net internal rate of return of 15%, 16% over 10 years as opposed to let's say maybe 19% over two years or three years, and I have the money back and then I'll know what to do with it for a couple of years and I'll give it back to you.

So we – I think that's a trend you'll see more and more of people willing to give money to people like us for a longer holding periods.

Q

You're finding a lot of good opportunities now, but you're holding back a little bit on the deployment in anticipation of better pricing down the road?

David M. Rubenstein
Co-Founder and Co-CEO

A

Well, I wouldn't say we're holding back, we're investing at a very good cliff. We have an enormous amount of Dry Powder as you pointed out and – but we – we're pretty determined to be disciplined and we don't want to chase deals. It's always tempting in life to say, well I can pay 10 times EBITDA or I can pay 10.5 times EBITDA. Well, if I can pay 10.5 times EBITDA, I can pay 11 times EBITDA, if I pay 11 times EBITDA, I can pay 11.5 times EBITDA.

Now the truth is, in private equity, whether you pay 10 times EBITDA or 10.5 times EBITDA, it doesn't really make that much difference. Because the incremental half a point isn't going to drive the return as much as the management and the kind of core business. So, generally, if we want a business and we want it badly, the extra 5% in purchase price isn't going to determine whether we buy it or not. It's really whether we really are comfortable, that's a great business to buy or one that we can turnaround with the management team.

But, there's no doubt that EBITDA multiples have crept up over the years and I'd say right before the great recession, the average EBITDA multiple for a Buyout was roughly 9.7 times, and that's roughly 9.8 times or 9.9 times now, it's actually higher than the great recession – before the great recession now, that's a little misleading because, before the great recession interest charges were lower. And so when you're buying something in a certain multiple, you're actually – it's going to cost you a little bit more because you're paying a lot more in interest, but still multiples are roughly what they were before the great recession, I would say now.

Q

Okay. Great. Maybe shifting gears to the business segment strategy of Carlyle. Now basically, the Corporate Private Equity segment is a foundation of your company, and it's averaged about 90% of economic net income over the past three years. But so what is – do you think you can grow the global market strategies in Investment Solutions segment and scale those up to be bigger contributors today?

David M. Rubenstein
Co-Founder and Co-CEO

A

Well, there is no doubt that, as you point out, we have built a very good global Corporate Private Equity business and it expands the globe and it got enormous number of investment professionals in that area. Overall, we have about 700 investment professionals. And probably about half of them are in corporate Private Equity. So, it's a large part of our business. But we have not been as successful yet in our Credit business, we call it GMS. We have some very strong components of that, our Energy Mezzanine business is very strong, our BDC is very strong. We just have a joint venture now with PSP from Canada in our BDC business and that's going quite well. We also have a very good and I think we're the second largest CLO operator in the world now. And I think that business will continue to operate quite well because there's going to be a consolidation in that business because of the risk retention rules that require you to have 5% of equity into the CLOs and very few of the operators probably can actually afford to put in 5% of equity in those.

So I think you'll see a consolidation there. But we haven't been as big in lending to larger companies, as I'd like, and I think we're going to do more in that area. We are looking on a couple new projects there and I'm pretty comfortable that we will build a Credit business to be as good as our Corporate Private Equity business down the road. I want the Credit business to be a very significant part of our business. It's an easier business to scale, doesn't require quite as many people and I just think we haven't done as well there as I think we can do and we have now made some changes there that I think will bring that to fruition.

Q

In Investment Solutions also?

David M. Rubenstein
Co-Founder and Co-CEO

A

Well Investment Solutions is largely AlpInvest, we bought that for a – it turned out to be an attractive price. It has a very, very good business in Secondaries for example, we're [ph] out raising (22:01) a $6 billion Secondaries fund and I'm pretty comfortable that will get raised, it's got a very interesting business model where AlpInvest's two largest investors historically are putting in a large amount of the money and then we go out and raise third-party money.

And the Secondaries business is run by Walter Morale who nobody here would have ever heard of maybe, not sure of Secondaries investor, but I'll just tell you an interesting story about him. He worked at the European arm of Carlyle when he was a young man and then he quit. And so, I didn't really pay that much attention, I thought he was relatively young and he quit, and [ph] he (22:38) don't know what he ever wants to see people leave, but people come and go. And so, I figured okay. And then he ultimately round up at running the AlpInvest Secondaries business and then we bought it. So, I said, this guy might not be happy because he quit Carlyle and now he climbs out and he is working for Carlyle again, I don't know if anybody here ever it's happened to you where you quit your job and then you found out you're working for your former employer again. Anybody ever had that before?

So, this has happened to him. So, I called him and I said, okay, is this going to be a problem for you? He said, no, no, no, I love Carlyle. I said why did you quit? Well, he said, here is the reason. When I was working for Carlyle, my wife and I had two children, two young children and then pregnant with the third and then she called me one day and said it's time I got to go to the hospital, the baby is coming, can you go to the school and pick up the two young children and he said, I don't know what school they go to.

So, he realized that he wasn't being a very good father and he does not and he quit for a year to actually get to meet his children, learned out what school they went to and he rejoined the workforce. So, anyway, I assume everybody here knows what school their children go to.

Q

Always a challenge. Maybe before I open up to Q&A, maybe just switching gears a little bit, what impact do you think being a public company had on the way you manage the company strategically. Obviously, speaking to the Private Equity business and the cash earning that has really served the limited [ph] partner (24:05) is the best, but [ph] there is a more enhanced (24:08) focused on cyclicality and fee-related earnings of the public unit holders to ensure your priorities in a new way?

David M. Rubenstein
Co-Founder and Co-CEO

A

Well, people asked me all the time here, is that being publically traded, and my answer is no. Obviously, it has more challenges than we have before, because we have investors that we have to please, but we also have unit holders we have to please and sometimes they want different things. What investors typically want is a good rate of return in your funds. And if you get a good rate of return, you will earn a lot of carried interest, 20%. And they're very happy because that means they're getting 80% of profits and plus their capital back.

In the public world as you know from being an analyst that covers us. The analysts don't like carried interest as much, because it's harder to predict, harder to project, and therefore it's not valued as much. And what they value more in the public setting is that dedicated fee income which is your management fees. The problem is that investors in your funds don't want to see you making a lot of money on management fees, because they figure you're charging too much, and there's a lot of sensitivity to it. So you've got this [ph] strange (25:12) by economy, your investors and your funds wants you to make a lot of carry, your investors in your units don't care about carry as much, as they want to you to make fee income, [ph] which of your investors (25:21) and your funds don't want so much. So you have to balance that, and it's always a challenge. But I'd say the principle benefit to being public for us, is that it has focused us on cost controls, we weren't as focused on it before. It has focused us on quarterly numbers, we probably weren't as focused on our quarterly numbers, they weren't as significant to us when we went public, but I think that's given us a certain discipline and I think the discipline is good.

I also find that there are a few investors who are initially skeptical of all Private Equity firms being public saying that there was a conflict of interest, because you would lose things to help your shares and not benefit your investors, in other words it was thought initially that you would sell a company prematurely in order to get quarterly earnings in a certain way and therefore you disadvantaged your investors by having [ph] stalled (26:10) the company too soon. That has gone away as a concern, I don't really see that as a concern, nobody really raises that anymore.

So virtually no investor that I'm aware of that we have or have had – cares about our being a publicly traded company. I think it has given us more discipline, it's a challenging thing at times, preparing for the earnings calls every quarter. It takes some time but in the end, I'm glad we're public and I think we are a pretty good public company and I think the best days of us as a public company are ahead of us.

Q

That's great. Maybe I'll open it up for questions in the audience. Do we have any questions up here?

David M. Rubenstein
Co-Founder and Co-CEO

A

Not all at once.

Q

[indiscernible] (26:46). Yes, exactly. Meanwhile I just thought – while people are thinking. Let me just talk about hedge funds, [indiscernible] (26:52) any industry, obviously performance has been challenging including across the industry. Has this caused you to rethink your hedge fund strategy in anyway, and to what extent do you think the recent headlines, there's been a pension plan reduction – hedges funds are just temporary and reacting to poor performance or more structural?

David M. Rubenstein
Co-Founder and Co-CEO

A

Hedge funds have not done well generally in the investment world I'd say over the last year, so they've been very challenged, and I would say we haven't escaped that, but remember it was never that larger part of our business. I think today our total amount of hedge fund assets are managed about $6 billion. So, it's not a big part of our business. I'd say we keep what we have monitored and see how it does, but obviously performance is the most important thing in the hedge fund world. So, the performance is they will be very pleased, but it's not a major part of our overall strategy. I think we're generally a Private Equity firm and we do have these – some small hedge funds associated with us, but yeah we're very happy with the performance of ESG, which is one of the emerging market, their hedge funds [indiscernible] (27:53) quite well, but generally that's not a major part of our strategy.

Q

Continue to focus on the Private Equity [indiscernible] (28:00)...

David M. Rubenstein
Co-Founder and Co-CEO

A

Well, we're focusing on what we've done pretty well and over the many, many years, yes.

Q

Okay. It is a question in the middle and then up in front.

Q

You've mentioned that you're bullish on China...

David M. Rubenstein
Co-Founder and Co-CEO

A

Yes.

Q

What about some of the concerns about further depreciation of the Renminbi, capital outflows, increase in corporate leverage get default...

David M. Rubenstein
Co-Founder and Co-CEO

A

Okay.

Q

Does it concern you?

David M. Rubenstein
Co-Founder and Co-CEO

A

If I were a trader, a day trader or even trade every week or month, I might be more attentive to some of the issues you just raised, but the way I look at China is that it's got 1.4 billion people, it's got a growth rate of about 6%, 6.5%. It is the second biggest economy in the world, in the lifetime of everybody in this room, it's going to be the biggest economy in the world. So, if you take perspective of a 5 year or 10 year horizon, which is what we do in Private Equity, you're going to be I think capturing the upside of this enormous growth.

Remember the United States economy is growing – it is bigger than China, but we're actually growing at only 2% a year. And while we have some other good advantages here, China is going to be growing 6% plus for quite a long time in my view. And I therefore think if you can be in businesses that are not necessarily state-owned enterprises, but entrepreneurial businesses. We have got great entrepreneurs building businesses. I think you've got a very good chance to make a fair amount of money.

I – when I was in our Asia investor conference, I interviewed one of our panels the CEO of Tencent, Martin Lau. Now that's a company that many people and I'd say may not have even heard of, but it's got a staggering market cap. It's one of the biggest internet companies in the world and just think about the number of customers you can have in Asia and in China for almost any really good internet-related business, you're going to be quite happy I think in the end with those results. So, we are very committed to China and I am fairly familiar. I go there four times or five times a year, and I spend a lot of time with the Chinese government officials and private investors there, and I think yes, there will be some occasional downturns and some occasional challenges, but I think right now China is doing quite well.

And when I [ph] cite (30:19) to a 6.5% growth, actually it's probably 10% growth in the entrepreneurial sector. It's the state-owned enterprises are not doing as well, but generally I'm pretty bullish on it. So, again I'm not a day trader. If I was a day trader, I wouldn't worry about some of the RMB issues. Overall, I can't predict where the RMB is going to go and I don't think anybody can really predict in the end. But in the end, I think currencies are likely to appreciate when economies do well and I think in the end the RMB is probably likely to appreciate over a period of time because the economy is likely to grow in my view in China.

Q

A bit of question in the middle – right in the front here actually, right here?

Q

Hi. That was an interesting discussion on the needs and wants of investors versus unitholders.

David M. Rubenstein
Co-Founder and Co-CEO

A

Right.

Q

As you're addressing a room of unitholders, potentially unitholders, what do you think has to happen for the units to work as an investment?

Q

Okay.

David M. Rubenstein
Co-Founder and Co-CEO

A

I think what we need to do is be more consistent in our earnings growth. I think we've been I would say not as consistent as I would like. So, you always want a steady progression up, but when you have sometimes quarters and amount of steady progression up, that's a challenge. And so, we've got to do a better job at that. I think Carlyle probably wasn't as good at some efficiencies as I would have liked and therefore I think we're trying to make the firm running more efficiently, obviously you have to balance, making it a pleasant place to work with certain efficiencies, but I think we can probably do a better job on certain efficiencies.

Some of our earnings, quarters – some of the quarters we had a one-time charge here and there and I think we're trying to address kind of things that led to those. But generally I think we have a very good business, our investors are happy, our employees are happy, I think we have a very prestigious kind of reputation around the world and I think that's likely to lead to a very strong stock price in time.

It's about a year ago that all the Private Equity firms stocks began to go into a spoon. I think with almost no exception starting from about last June or so when the stock market went down in China and then around the United States, you saw the Private Equity firms stocks units go below their IPO price, and I think very few have recovered from that as much as they would have liked. I think there's a lot of upside to go because I think the stocks are unduly depressed relative to where I think they have their earning power.

I think the reasons that are [indiscernible] (32:56) many people around the world, when I go to people around the world, investors and people don't buy units [indiscernible] (33:03) invest in our funds, they have the hard time understanding why the stocks of all our peers and Carlyle are relatively depressed. When you consider it, you're getting a 10% plus dividend on a fairly consistent basis and predictable basis, our people think that the prices are too low. I think in time the markets will come back and I think in our case, they will probably come back somewhere maybe a little more consistent in some things and maybe people have seen more fee-related earnings than maybe they currently see. That is not our obsession, our obsession is making certainly that the investments work well, the investors give us money and ultimately I think people will see that our carried interest is pretty consistent, and we like to argue that it's like a fee, it's very consistent because almost every quarter we have a very hard – a large number of carried interest dollars that we're earning, and I think we tried to argue it from the beginning, not as successfully as I would have like that we should have our carried interest being viewed as others management fees because it's relatively predictable because we have such a cross section on global funds from which we can get carried interest every quarter.

Anyway, I think we can still run the company better and I intend to do so, but generally we're pretty happy with where we are today.

Q

And I think there was a question back there. We have another one minute left. Yes?

Q

Hello. Is this working? Some people feel that India's position comparable to where China was say 20 years ago, [indiscernible] (34:33) thoughts on...

David M. Rubenstein
Co-Founder and Co-CEO

A

What was the question?

Q

India comparable to...

David M. Rubenstein
Co-Founder and Co-CEO

A

Okay. India is a country where many Americans would think it would be an easier place to invest for people like us because they speak English and we speak English. The truth is about 80% of people in India don't speak English, at least as the principle language. And so, that's one issue. Secondly, India has not been as hospitable to foreign investment as I think China has been. Third, more money has gone into India and not come out than is the case in

China. And so, there's been a lot of concerns about whether India is as attractive place to invest as China. That has changed in the last year or so. I think the government under [ph] Mr. Modi (35:17) has really done a very good job of trying to make it more appealing to foreign investment to come in. We are increasing our efforts to invest more in India we have a Growth Capital team there and a Buyout team there and we're putting a fair amount of money in.

We've done reasonably well there, but not as well as we've done in China, but we are [ph] excited (35:35) about India. Remember India is growing at 7% or more, it's actually growing at a higher growth rate than China. And so, I think the two biggest economies in the world in our lifetime will ultimately be China and India followed by the United States. I think India may take another five years or so to be as attractive as China as a place to invest, I think it's increasing, but it's still not quite as attractive as China in my view, but it's getting there.

Unverified Participant

Okay. I think we're out of time. Please join me in thanking Dave.

David M. Rubenstein

Co-Founder and Co-CEO

All right. Thank you very much.