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MANAGEMENT DISCUSSION SECTION

Alexander Blostein
Analyst, Goldman Sachs & Co.

Okay. Great. Good morning. Good morning, everybody. My name is Alex Blostein. I'm the capital markets analyst here at Goldman Sachs. Welcome to the conference, everybody.

It is my pleasure to introduce David Rubenstein, Co-CEO and Co-Founder of The Carlyle Group, which of course is a leading alternative asset manager with deep expertise in private equity and growing presence in both real assets as well as credit markets.

In addition to getting an update on Carlyle, David's extensive expertise in Washington, including being part of Jimmy Carter's administration will be, I'm sure, of particular interest to many of us in the room as we all try to assess what the Trump presidency could mean for the U.S. economy and the markets broadly. So, thank you, David, very much for joining us.

David M. Rubenstein
Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP

It's a pleasure to be here. Thank you.

QUESTION AND ANSWER SECTION

Alexander Blostein
Analyst, Goldman Sachs & Co.
Q

So, as I mentioned, why don't we kick off with a question of the U.S. election and the outcome it may have on both the U.S. economy and the markets? And the way I would like to structure it is maybe around three areas. Let's talk about change in taxes, the probability of something changing and what that could mean, infrastructure spending, as well as potential deregulation.

David M. Rubenstein
Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP
A

Okay. So, first, I will try to – I live in Washington, D.C., and I did serve in the government. And so while I'm not in the government and haven't been since we lost the elections to Ronald Reagan in 1980, and there's been no demand for me to go back in government. [indiscernible] (01:27) in the Carter years, I do observe what's going on, and I know people on both sides of the aisles, and I'll give you what I would say is conventional wisdom.

But I'll preface it by saying that conventional wisdom in Washington, as John Kenneth Galbraith once said, is almost always wrong. So I'm going to give you the conventional wisdom, but it may be wrong. The conventional wisdom, remember, was that Hillary Clinton would be the next President of the United States. I would say 98% of the people in Washington probably thought that would be the case. So let me tell you now what the conventional wisdom is, but you obviously have to discount it because conventional wisdom is not always right.

The conventional wisdom in Washington on taxes is that it's a 100% certain that there will be some tax changes. Now, remember we haven't had comprehensive tax reform since 1986, and before that we hadn't had it since 1954. So it happens rarely. We've been – obviously had modest changes in tax code since 1986, but nothing comprehensive. I think had Hillary Clinton been elected and I think with Donald Trump being elected, there is a real feeling that the tax code should be reformed in some ways.

The conventional wisdom in Washington is that there will be some reductions in the corporate tax rate, that there will be some closing of so-called loopholes, that there will be a repatriation opportunities for money that's offshore, and that there'll be more incentives for people to invest capital. I think it could be lower capital gains rate or other things.

Now, you have to remember that it's not been the case probably since 1954 that the President of the United States actually sends a bill to Congress and says, here is my tax bill because it's too complicated, it's too detailed, and there's no point to it. So actually, the tax bills are really written by the Ways and Means Committee. As probably everybody knows under the Constitution, tax raising bills are supposed to start in the House and then go to the Senate. Now, theoretically, you could do it a different way, but that's the way the Constitution works.

So, it's the Ways and Means Committee that really writes the tax bill. The President of the United States will make proposals to the Treasury Department, but probably there won't be a detailed legislative bill because it's just too detailed for Treasury to do. It takes too much time. It's much better for the Treasury to stay up to work with the House Ways and Means Committee there. My expectation is that early in the administration, the administration will say here's what they want to do. I suspect in the inaugural address, you'll see some specifics about it. And then you'll begin to see a process between the Treasury and the House Ways and Means Committee.

I think it probably will take at least a year to get it done. I know there'd be a desire to get it done sooner, and anybody that wants tax reform would like to see it get done sooner. But it's very complicated. And what everybody is going to do, since we haven't had tax reform since 1986, everybody who has a pent-up desire to have something change in the code, they're going to show up in Washington with a lobbyist and a member of Congress that might want to do this. It takes a long time. So it's got to go to the Ways and Means Committee, through the House, through the Senate, and then you have to have a conference committee.

And I'd be surprised if it got done in one or two months. I've never seen something like that happen. I do think that there will be something along the lines of comprehensive tax reform. And the biggest challenge will be this. Historically, it's very difficult to have corporate tax reform separated from personal tax reform. And so, here, while the greatest discussion has been about corporate tax reform, I think ultimately it will be one bill that will deal with corporate and personal.

And obviously the incoming Treasury Secretary has said they're going to try to lower rates for middle-income people, and that would be certainly desirable. It's easier said than done and for the reasons I could explain, it's easier said than done. But I suspect that you'll ultimately see a corporate tax bill and a personal tax bill kind of in one bill.

On terms of infrastructure, it's difficult to find anybody in the United States that is against having new infrastructure. I haven't met anybody. Everybody wants more infrastructure. Infrastructure is a wonderful word. It used to be called pork barrel, but now it's called infrastructure. And it's just like you use the word infrastructure, who's against it? Who doesn't want better airports, who doesn't want better roads, who doesn't want better bridges, who doesn't want better cell phone connection?

Very often when I'm in New York City and my cell phone connection doesn't work and I call people back and say I'm sorry, I'm in a Third World country, I'm in New York City, that's why the cell phone connection doesn't work. It's embarrassing that we don't have better infrastructure in the United States. Everybody in Washington wants it. The issue is who's going to pay for it and how you're going to finance it. I think what is most likely to happen is that you will have three elements pulling together.

One, legislation that will involve spending dollars to build more infrastructure and those spending dollars will come out of general revenues. How are you going to pay for that? Well, the conventional wisdom in Washington today is the way you pay for it is you will have a so called pay-for, how do you pay for it. They call it in Washington a pay-for. The pay-for will the repatriation of money from abroad.

So you have roughly $2.2 trillion offshore. So, you bring some of it back or not bring it back. The treasury department and the people in Congress don't care about whether you bring it back or not as much as getting a tax on it. Of course, it'd be better to bring it back, but the thinking now is you'll have an excise tax. And excise tax means you keep the money there or don't keep the money there. We're going to charge you for whatever you have, that the original theory had been you bring it back and we'll give you a discounted rate.

And that could wind up being the bill, but I think right now, it's more likely to say, we don't want to force people to bring it back if they don't want to bring it back. It's too complicated to measure whether you brought it back or not. We'll just take a look at what you have offshore, put an excise tax on it, then you don't bring it back, then you don't bring it back. And excise tax could be anywhere from 8% to 11%. That money would be used for the spending part of the infrastructure.

The other part is probably some kind of infrastructure bank. And that would be a kind of thing where the private sector be more involved where you would have, I'd say, a bank and it would be – money would be borrowed against the credit of this bank, which would have an effect government guarantee. And that money would be available to be partnered up with private sector money to build public-private partnership, various infrastructure kind of things. So, I do think infrastructure for sure will happen. It won't happen as quickly as we would like.

And remember, when President Obama became President and we were in a recession, there was a desire to have an infrastructure improvement, and they called it shovel-ready kinds of deals. Everybody said, give me a shovel-ready deal, which means something that's ready to start right away. But it turns out there aren't that many shovel-ready things. There aren't people sitting there waiting to construct something. It takes a long time to do it. So I think here, I don't think over night the cell phone connections, the bridges, the airports will change. It takes four, five, six years before you're going to see the impact of it. But I do think you will see some infrastructure enhancement for the ways I mentioned.

In terms of deregulation, is there anybody in favor of more regulation that's in this room? Probably not. Most people like fewer regulations. And I suspect the zeitgeist in Washington now is to have less regulation. Getting less regulation is not that easy to do because you have regulations in the books. Sometimes you're going to get lawsuits that challenge you when you try to stop the regulations or repeal them. So I think there will be less of a regulatory feeling that we should regulate everything than there was before, perhaps, but I don't think you'll see overnight the regulations changing dramatically.

Now, the President of the United States can issue executive orders and no doubt this President will issue some to repeal some of the regulations, then you'll have lawsuits challenging that. So I don't think over night you'll see dramatic changes, but it will be more and more of a deregulatory environment than probably we've had. But don't expect over night all the things that you don't like about regulations will completely go away.

Alexander Blostein
Analyst, Goldman Sachs & Co.

Q

Great. So maybe with this as a backdrop, we'll bring it a little bit closer to the investment opportunities you guys see today. Obviously, since the election, we've seen pretty sharp moves, both in equity markets, and interest rates have been on the rise and expected to rise even further. So when you're thinking about ability to finance deals, how does that change your ability to deploy capital? You guys have over $50 billion of dry powder, so maybe spend a couple of minutes as well on what are some of the best opportunities you see now that we've seen a bit of a regime change.

David M. Rubenstein
Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP

A

Well, on interest rates, I think everybody feels that the Fed will likely increase interest rates in December. I can't predict what the Fed will do, but I will be surprised if something like that didn't happen. I think the Fed has signaled as many times as they can, they will probably do that. And I also think the Fed would like to keep increasing interest rates a bit next year, assuming the economy allows to do so. The question is will people like we be able to borrow money at attractive rates if interest rates are going up?

Well, the cost of doing a deal, the incremental increase of 25 basis points or 50 basis points in interest rates is really de minimis. It's not going to affect our ability to borrow money. And to the extent that interest rates go up even higher than 25, 50, 100 basis points, 200 basis points, what it will really do is effectively, meaning the price that the people like we will pay will go down. Because if we want to set a certain rate of return and the cost of borrowing money is higher, then we will presumably pay a lower price a little bit and therefore keep the return about what we want to be. So I'm not that worried about interest rates going up. Remember, it's a de minimis increase relative to the overall the cost of doing a buyout.

The principal challenge is whether there's going to be credit availability. That's a much greater challenge than interest rates going up. Right now, I don't see any decline in credit availability, if anything, because the banks are out of being the central and only player in lending money for buyouts. You're not as dependent on what the banks want to do. We have so many other sources of capital now, from hedge funds to CLOs, to sovereign wealth funds, to so many other groups that now are in the lending business that I don't really fear any type of credit availability problem. So, I'm fairly bullish on our ability to borrow money and to do transactions even if the interest rates were to go up a bit.

Now, in terms of deploying the capital. Again, it's hard to know what is going to be the best sector, but I would say, right now, based on what the new administration seems to be interested in doing, I think there will be very good opportunities, and you'll see growth in healthcare because there's going to be a lot of change and turmoil in that area. And whenever there's change and turmoil, there's always some opportunities.

I think defense spending, you'll probably see some increases in that area. Things related to construction, infrastructure, that would mean steel and cement, and other – and things like that. I think you'll see probably increases in that area. I think consumer goods will probably do reasonably well because I expect that people will feel that the recession has been postponed, and that therefore they can go spend money again. So I think there's a lot of interesting areas that people can make money in. And in our case, as you point out, we have roughly $50 billion or so called dry powder, and therefore, we have the opportunities all over the world to invest this capital. So I'm looking forward very much to the next couple of years as an opportunity to invest.

And one point I would finally make is that prices have been high for buyouts. Right before the Great Recession, the average EBITDA multiple was roughly 9.7 times on a buyout of about $500 million or more in size, 9.7. Today, that equivalent number is probably 10.3. So, theoretically, we're paying more for buyouts than we were paying before the Great Recession. So you should be worried about that.

Well, there are two factors you should take into account? The 10.3 versus the 9.7 is really apples-to-oranges and in fact because interest rates are so much lower than they were then. So it really isn't quite as expensive as it seems. And more importantly, and this is probably the most important point that can be conveyed, the reason private equity is doing so well right now in terms of having people give us money is that expectations of rates of return have gone down across the broad around the world. So people think that their fixed income returns are going to be very low, their public market returns are going to be not much higher. And if private equity can outperform as it has over the last 20 years by about 800 basis points, the public market average during the comparable periods of times, people think that that is worth putting money into.

So, in other words, over last 5, 10, 15, 20, 30 years, private equity on average has outperformed, on the average, public market indexes around the world by roughly 800 basis points to 900 basis points. People think that even if the overall number is coming down, that gap of 800 to 900 basis points is worth chasing. So while returns might be coming down, because we're paying slightly higher prices than we might want, the gap between the public market index and what we can do is still going to be pretty high. That's why I think people are giving us a greater share of money that's now being invested in the world than any we've ever seen before. And I say we, I mean the entire alternate investment world, particularly private equity.

Alexander Blostein
Analyst, Goldman Sachs & Co.

Q

Great. So, the other side of the coin, on the realization front, in addition to have lots of dry powder, you guys always staggered your funds very – in a very efficient way across various vintages, and you still have over $1 billion of net accrued carried interest to realize, which I think given recent share price, almost 20% of your share price. So if you think about the outlook for realizations and the pace we should expect from here, maybe spend a couple of minutes on that. And I guess, part of the question is a lot of your exits were – have – were down via public markets for the last couple of years. Now, the majority, I think, is in private. So how would that mix change...

David M. Rubenstein A
Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP

Okay.

Alexander Blostein Q
Analyst, Goldman Sachs & Co.

...for the next few years?

David M. Rubenstein A
Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP

So, let me try to explain. When we went public in May of 2012, people said, well, you guys are pretty good money machine. You sell a lot of – you buy a lot of companies, you sell a lot of companies, you do it all over the world. You can't keep doing this all the time and keep having a relatively consistent earnings stream, because you have so many different companies. It's too episodic. We can't predict, and we like predictable fee streams. We don't like the episodic nature of your carried interest business.

Well, we can't, overnight, change our business, and we actually like our business, because our investors like our business. So despite what people thought, in conventional wisdom, as I said earlier, is almost always wrong, conventional wisdom about us was wrong. It was that we would have big jumps in our earning streams. Well, it turns out that every year we turned down about – we've sold about and realized about $18 billion of asset sales. And it's companies we sold for our investors, we realized about $18 billion. And that has equated for our unit holders to roughly about $2 per share in distributable earnings.

In other words, we've been paying out roughly $2 a share since we went public. It's been fairly consistent. Maybe it's $1, it might be $1.90. or maybe it's $2.07. But it's roughly $2 a share, pretty consistent. And the reason, it's consistent is we own roughly 210 companies around the world. So in any given period of time, we're likely to be out of sales some of those companies, and therefore, it's not as episodic or unpredictable as people might think. We think going forward we're still going to do roughly what we've been able to do.

Now, our platform is getting bigger, and as it gets bigger, we'll probably even do better over a period of time. But as a platform gets bigger, we have even more companies from which we can pick to choose, to sell at any given time and they'll be ready for sale. And therefore, I think our earnings stream is going to be pretty predictable. It's just is a little different than what some analyst would prefer. They would prefer it to be as predictable as coming from management fees as opposed to incentive compensation. But I think our ability to keep doing this is going to be pretty good. The point you've made is really this.

We have – the way our business works is we don't take carry right away. What we try to do is when you have a fund, you are – you're entitled to take 20% of the profits, but you always want to make sure, you don't have claw back, which means that you've taken money before you really should have, and therefore, at some point, you have to claw it back and give it back to the investors. So to avoid that, we don't take carry when we can. We accrue it to the point where it's carried on our books and we have the cash, but we want to make sure that we don't have to ever pay it back or have a clawback. So we like to have a large reserve, or accrued carry as it's called, I think the number is now $1.2 billion. So that means that when we're paying out money, we're pretty comfortable that that money is deserved to be paid out, and there isn't, for the people in the firm, any kind of clawback.

Now, we have sold over the last year or so a lot of our publicly traded companies into market. And what I mean by that is just when buy a company, we often – despite, we can realize earnings three ways. When we own a company, we can sell it to a strategic buyer or a financial buyer, either one. And about I'd say a third or 40% of all deals these days are one financial buyer selling to another, but you can always sell to a strategic buyer. That's one way. A second way is you take a company public, and a third way is you simply hold on to the company and recapitalize it and take money out through the debt refinancing.

On the IPO method, people often think that is a really good method because when you take a company public, ultimately, the theory is that stocks will rise and eventually you'll get even more money than you did at the IPO price. Sometimes that happens, sometimes it doesn't.

The downside to it is you bleed out over three or four or five years your earnings. While some people like to see this because they say, if you've got a company that's public and it's going to go up higher in value, eventually you'll make more money than if you just sold it right away to a strategic buyer. That happens sometimes but some of the criticism have been of private equity firms, is that you're holding on to publicly traded shares too long because you've made a great increase in value from the time you bought it to the time you actually took it public but the increase isn't going to be as exponential each year as it was in the years before you took it public. So why not just sell your publicly traded portfolio?

Well, I wouldn't say we responded to that concern. We don't completely agree with it, but we have disposed of some of our biggest companies recently, we call them ABC, Axalta, Booz Allen, and CommScope. They were three gigantic successes for us. We made for half of our investors, billions of dollars of profits and we have now sold our shares in that and we have a smaller percentage of our companies now that we own that are publicly traded. So we have a lot more of them that are ready to be sold, but they're not yet publicly traded.

So we've reduced, in other words, our public equity exposure a bit but we still have a fair amount of that and we will over time sell it. Right now, the opportunity for selling companies is very good. There's a lot of money out there and a lot of people who have capital to buy are buying things from us and it's a pretty good time to be a seller. So we are selling a fair number of things and have and we'll continue to do so.

Alexander Blostein
Analyst, Goldman Sachs & Co.
Q

Great. Shifting gears a little bit, maybe we'll spend a couple minutes in the fund-raising environment. So, a quarter or two ago, I guess you guys set out a goal of about $100 billion of net new money that you expect to – gross new money rather you expect to receive over a three- to four-year period as some of the older vintages kind of mature. Maybe spend a couple of minutes on the type of products you guys are looking to raise, the type of clients you're going out to now, and then perhaps we can hit on the fee structures as well with these products.

David M. Rubenstein
Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP
A

Okay. All right. For those who didn't pay attention in our earnings call, and I assume everybody here listened to every part of our earnings call last quarter and heard everything and studied this, but for those one or two who haven't paid attention in our earnings call, what I said there is that over the next three to four years, we expect to raise incremental new dollars of roughly $100 billion.

Now, that's a fair amount of fund-raising for a firm of our size. And the reason we said that is that our biggest funds, the ones that have been the most successful, our U.S. buyout fund, our European buyout fund, our Asian buyout fund are coming up for renewals. And what renewals means is we're going to raise a successor fund. Historically at Carlyle, and it's true of other firms as well, if you're pretty good at this business, your successor fund will be bigger than your prior fund.

And so, in our cases, our funds have done quite well, and I would expect that our successor funds, as our pattern has been, will be bigger. Plus, we have started a lot of new initiatives which seem to be catching hold with people. And as a result, we expect to raise a fair amount of money for new things that we have.

So, good example is an infrastructure fund. I mentioned infrastructure before. Not surprisingly, we have a new infrastructure fund with a very good team. We expect they will be well received in the market. We are doing many different kinds of products now. We have a new product that will be raising money to buy stakes in other people's private equity firms. That's been I think – going to be a growth business.

We have a different type of real estate business beyond the opportunistic one. It's one that's called core-plus, and that's gone pretty well so far as well as we've been in the market. So, we think we'll be able to raise this amount of money. As we raise it, where are we raising it from? Historically, in the United States, private equity firms that are based here, we've raised of our money and our peers have raised most of our money from public pension funds in the United States. They've been the biggest source of capital. Since 1978, public pension funds United States have been allowed to invest in private equity. And so they are roughly anywhere between 32% and 35% o the money that people like we have. And that has been relatively consistent since 1980 or so.

In the recent years, and in the early years, when you had public pension fund money, the other big sources of capital were banks and insurance companies and to some extent, high net-worth families. Now, there's been a big sea-change, and the sea-change is that sovereign wealth funds have come in, and they are dramatically changing the landscape. In roughly the year 2000, there was maybe roughly $1 trillion in sovereign wealth funds. By the year 2020, there's likely to be $9 trillion. So a nine-fold increase in 20 years. That $9 trillion is dramatically going to dwarf U.S. public pension funds in terms of size.

So the sovereign wealth funds have this dilemma. They have staggering amounts of money, and they have so much money in part because they know how to pay it out at a regular basis; pension funds in the United States pay out money regularly to the pensioners. The sovereign wealth funds don't historically have to pay out much money; therefore they can accumulate it and so they have these enormous sums of money.

So what they're doing is they're coming to the larger private equity firms and saying, can you take not $100 million in your fund, but can you take $1 billion, can you take $5 billion, can you take more in a separate managed account. So that's going to be a big source of the capital for us is the sovereign wealth funds.

Another gigantic change in the investor base is this, when private equity first started, the people put up the first money for the first venture funds, the first private equity firms, they were high net-worth families. They were the Rockefellers, the Hillmans, the Whitneys, and so forth. In those days, there weren't that many high net-worth families, relatively speaking.

Today, because of the explosion of wealth, you have enormous amounts of family offices around the world. I'd like to say that it used to be that somebody wanted to raise their child and say, I hope you grow up to be president of the United States. Now, I think people want to say, I hope you grow up to have a family office because everybody wants to have a family office. Everybody wants to have their own money managed in an appropriate way. And so I have enormous amounts of family offices coming to see us as our peers do as well. And so they are going to be a big source of capital.

In terms of the terms, in private equity, when it first started, it was basically three innovations in the terms. You paid a fee on committed capital. Historically, when you're managing money for other people, you've got a fee on invested capital.

Private equity came up with the idea of a fee on committed capital. Two, the money was illiquid for quite a period of time because you had five years to invest and maybe five years to exit. And third, you had a carried interest of 20%. That was relatively novel. Historically, under money management, you just got paid a management fee.

So what has changed over the years is not as much has been publicized. The fee on committed capital is still recognized as generally the way this industry is going to work, and the fee has varied a bit for smaller funds, venture funds and so forth. The fee might be as high as 2.5%. It might be 2.25% for smaller funds. As the funds get big, you get a $10 billion, $20 billion buyout fund. That management fee goes down to probably 1.2% or something like that. But I don't see it going below 1%. I think it probably will be hovering around 1.2%, 1.3% for these larger funds.

The carried interest hasn't really gone away, and people recognize, if you incent people appropriately, that 20% is really almost inviolate. The changes that have occurred and there's been discussion about and there's been – to the extent there's been compression is that preferred returns have stayed relatively high.

A preferred return means that I have to earn roughly 8% before I get my 20%. And preferred returns arose because, initially, it was thought if I'm going to give you money, I want to make sure I'm getting at least as much as I can get in the bank account or in the public market index. And those preferred returns were initially 3%, 4%. They kind of rose as interest rates rose for a while to about 8% or so. And while the interest rates have gone down, the preferred returns haven't come down.

So, I think that to the extent that there is any fee challenge, it's that the preferred returns haven't probably come down as much as some people would like who are GPs. But that's not a big problem if you're going to earn the kind of returns we're earning. And then the deal fees have largely gone away. We used to charge a fee in addition to the management fee for doing a deal or overseeing it or exiting. Those fees have largely gone away. But generally, the construct of a fee on committed capital and a fee of 20% on the returns of profits is still going to be here. So, I think it's still a very profitable business. And if you're pretty good at it, you're probably going to make a fair amount of money.

Alexander Blostein
Analyst, Goldman Sachs & Co.

Q

Fair point. Switching gears a little bit outside of private equity, I wanted to spend a couple of minutes on your GMS business.

David M. Rubenstein
Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP

A

Okay.

Alexander Blostein
Analyst, Goldman Sachs & Co.

Q

Now, this segment faced some challenges over the last couple of years. You recently talked about implementing a couple changes there. So maybe it's worthwhile just spending a few minutes with the group on what you envision this business to look like over the next couple of years and I guess importantly what kind of financial targets you guys are trying to achieve in that segment.

David M. Rubenstein
Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP

A

Okay. So again, for those who haven't obsessed over the way Carlyle was constructed, we have four main parts. We have Corporate Private Equity and we think we have as good a corporate private equity business on its global business as that exists in the private equity world. We have a second segment which we call Solutions which is kind of a fund-of-fund business which largely consist of AlpInvest which we bought, which was the largest private equity fund-of-funds business, and that is our Solutions business. We have a third business which is Natural Resources which is energy, a lot of different energy platforms and real estate.

And then we have a fourth business which we have called GMS. We're kind of shifting the title to Global Credit because that really reflects what it is. GMS, it consisted of a number of hedge funds which we had stakes in and consisted of some other credit businesses. We are focusing going forward on what we call Global Credit.

And so what we have in that now is a gigantic CLO business. I think we're the second largest manager of CLOs in the world. We have a middle market lending business or BDC and we're expanding that. We have an energy credit business. We have a distressed debt business in there and we also have another business that buys CLO stakes in secondary CLOs and other things like that.

We brought in a person named Mark Jenkins to oversee our entire global credit business. We now have roughly $30 billion of AUM in global credit. We brought in Mark Jenkins from the Canadian Pension Plans. He had overseen enormous expansion of Canadian Pension Plans and that's the equivalent of Social Security Fund in Canada. And it's different that in our system that you have a really professional team running it. He had previously been at a firm called Goldman Sachs, so he's obviously well trained, right?

Alexander Blostein
Analyst, Goldman Sachs & Co.

Q

Yes, I guess so.

David M. Rubenstein
Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP

A

Yes? Okay, so he was with historic Goldman. He ultimately, like many people with Goldman who are very talented, he had done some other things and then he came to Canadian Pension Plan and we've recruited him to run our Global Credit business. We expect to see this as the greatest area of growth in Carlyle.

We've already built a global platform in Corporate Private Equity and we have a private equity team almost everywhere you'd want to have a team, and it's one of the largest, if not the largest, private equity teams in the world. What we don't have is as big a credit business as some of our peers and so that's where our greatest focus will be in the next couple of years.

We'll put an enormous amount of capital into this and we'll grow it into a significant credit business. And this is a very good business for people like us. Because of Dodd-Frank and other legislation, the banks can't do quite all the things they could do before in credit and a lot of opportunities are made available to people like us. So we are trying to fill that gap and we're doing this around the world.

So to the extent, you see Carlyle adding a lot of different businesses or see us growing our AUM, the greatest kind of percentage growth will probably be in our credit business. So we're very bullish on our opportunity to do this. Now, it won't happened overnight, but I think three or four years from now, I think you'll see a much larger percentage of our overall earnings coming from global credit.

Alexander Blostein
Analyst, Goldman Sachs & Co.
Q

Okay, fair enough. Well, we got about five minutes left, so I want to make sure we get any questions from the audience so we'll open it up now. It should be – mic is coming around if anybody has questions.

David M. Rubenstein
Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP
A

People are shy.

Alexander Blostein
Analyst, Goldman Sachs & Co.
Q

Okay [indiscernible] (29:29).

Q

Where do you see opportunities now in real estate investment?

David M. Rubenstein
Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP
A

Okay.

Alexander Blostein
Analyst, Goldman Sachs & Co.
Q

So a question about real estate.

David M. Rubenstein
Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP
A

Well, if you want to buy an apartment, I would say, in New York City in Billionaires' Row, you'd probably get a discount because I think there are probably too many of those. But for people like us in real estate, I think that the opportunities are in the United States because I think there is still a reservoir of demand for the kind of returns that we can yield in our real estate business.

Real estate, if you go back over the last 300 to 500 years, the principal source of wealth creation for most people was real estate. Real estate is something that people have historically seen as a great source of wealth and wealth preservation. So people all over the world still have that view, and we see enormous amounts of money coming in from outside the United States to buy real estate in the United States from people who either flight capital or to see the good returns or they think the dollar will be a strong currency. So people are putting a lot of money into real estate in the United States, and people are willing to expect somewhat lower rates of return because of the stability of the product and it's just the predictability of the – relative predictability of the rate of return. So I think United States, real estate, opportunistic, as well as what's called core-plus, Core-plus being, let's say, a 9% to 11% rate of return kind of business.

I think – Europe, we think is pretty attractive as well. I think the prices have been beaten down a little bit in some parts of Europe, so we think there will be opportunities there. And one area I would also mention is this, many people just kind of say, well, there's going to be a collapse in real estate prices in China. We don't really see that. There might be, in some areas of China real estate, there might be over-construction but not in logistics, not in some of the entrepreneurial-driven kind of businesses. So we think there's pretty good opportunities in China given the size of the market and where we see the Chinese economy going.

Alexander Blostein
Analyst, Goldman Sachs & Co. **Q**

Okay. One question up here, please.

David M. Rubenstein
Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP **A**

Yes?

Q

At the risk of it being a bit of a softball, but if you look at your earnings power in the past, and then maybe going forward to the last six years, you've approximately earned about $5 billion in distributable earnings, cash earnings. Your market cap is $5 billion. Your opportunity set going forward approximates at least what you did, plus you're raising another $100 billion. So what do you think investors are missing with your stock price?

David M. Rubenstein
Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP **A**

Bottom line, softball questions. But look, there used to be – in the Ancient Wonders of the World, it used to be said there were Seven Wonders of the Ancient World. Now, one of the wonders of the world is why the private equity firms have such a low market cap, generally speaking. When you think about – and just Carlyle and our peers, we've been churning out enormous distributable earnings, and yet the stocks are depressed relative to what they should be, in my view.

And some of my peers who are perhaps more articulate than me about it have been much more vocal on it. I can't understand. I can explain many things in the world. I cannot really understand, explain why we can earn as much as we're earning and have a stock price that is, in my view, much lower than it should be.

So I'm the biggest single shareholder at Carlyle, and I haven't sold a share since the firm went public because I think the stock price is – I thought it was too cheap when we went public. I think it's even cheaper now. We're earning such a large amount of money.

So, I'm pretty happy because I'm getting a lot of dividends. I can't explain it other than people keep saying, well, they can't keep doing this. They've been saying that now for four years, and for four years, they've been wrong.

We can keep doing this, in our view, and so I think the stock price is ridiculously low. The yield today on the stock is, I don't know, 10% or 11% or 12%, something like that.

So I think eventually the market will catch up with the idea, but I don't know. We should – because we're private equity people, we're not called – we're not seen as a value stock perhaps because of the episodic nature of our earnings in the view of some people. But we are – if there is anything that's a value stock, it should be the private equity firms. Because look at the money they've been churning out. Not just us but Blackstone, Apollo, KKR have been churning our pretty good earnings. And I just – I can't understand it, I can't explain it. To me, it's mystifying. But as the biggest shareholder, I guess I'm happy for the dividends we're getting and I expect we'll be doing it for quite some time.

Alexander Blostein
Analyst, Goldman Sachs & Co.

Q

Okay. Just one more question up here.

Q

How do you expect the risk-retention rules to affect the CLO business [indiscernible] (33:44) in particular?

David M. Rubenstein
Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP

A

For those who aren't obsessed with the risk-retention rules, under Dodd-Frank and other regulatory schemes, if you are a sponsor of a CLO, you have to quote on the 5% of the equity. And it used to be you could just – you didn't have to put any equity in yourself. So I think that is a good thing for people like us. Because if you're one of the two biggest and Blackstone is the other big one, we have the capital to be able to meet with risk-retention requirements. So what's going to happen is all the smaller players in this business are basically going to get out of it, in our view, they're already getting out of it because they can't afford the hold on the 5% of the equity.

So what's you're going to see a kind of a business where you're going to have three or four global players in the CLO business. We would expect to be one of them. So I'm not against those rules. I think they make some sense. And I think we can deal with them quite well.

Alexander Blostein
Analyst, Goldman Sachs & Co.

Okay. Well, I think we're right about out of time. Thank you everybody.

David M. Rubenstein
Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP

Thank you all very much.

Alexander Blostein
Analyst, Goldman Sachs & Co.

Thank you very much.

David M. Rubenstein

Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP

Thank you.