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The Carlyle Group LP (CG)

Morgan Stanley Financials Conference

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CORPORATE PARTICIPANTS

David M. Rubenstein
Founder, Co-Chief Executive Officer & Director

OTHER PARTICIPANTS

Michael J. Cyprys
Morgan Stanley & Co. LLC

MANAGEMENT DISCUSSION SECTION

Michael J. Cyprys
Morgan Stanley & Co. LLC

Good morning, everyone. I'm Mike Cyprys, Morgan Stanley's Asset Management Analyst, and we're pleased to welcome David Rubenstein, Carlyle's co-CEO and co-founder.

Over the past 28 years, Carlyle has grown into one of the largest and most diversified alternative asset managers with over a $192 billion of assets under management today across private equity, real estate, credit, and hedge funds. You have about 1,700 people across 23 countries on six continents. David, welcome. Thanks for joining us.

David M. Rubenstein
Founder, Co-Chief Executive Officer & Director

Thank you. My pleasure to be here.

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QUESTION AND ANSWER SECTION

Michael J. Cyprys
Morgan Stanley & Co. LLC
Q

Great. So before we dive into some questions, let's first ask some questions to the audience, if we can. If you could bring up the first polling question?

What would drive you to add to your position in Carlyle? Is it A, greater earnings contribution from real assets business; B, acceleration in deployment activity; C, fee-related earnings growth; or D, greater visibility on portfolio exits?

And we have the timer countdown here. Two seconds, and the answer is C, fee-related earnings growth [ph] and higher (1:11) margin expansion, followed by D is a sort of close second there, 44% and 35% there. Okay. That surprised you at all?

David M. Rubenstein
Founder, Co-Chief Executive Officer & Director
A

No. I think, we have heard since we went public about three years ago that people who buy our stock would like to see more fee-related earnings and higher margins there. We have made progress in that area. But our firm when it was built was built the way private equity firms were supposed to be built as private companies, which is to say you're focused on carried interest and we have an enormous amount of carried interest. Clearly there is a bit of a schism between what investors and our funds want, which is carried interest and lower fees, and what people who buy our stock want which is more fees and maybe less carried interest, because that's more episodic. So, anybody that goes public has to balance those two and we've made a lot of progress in getting more fee-related earnings and we have good progress there, but I recognize that people like the predictability of the fee-related earnings.

Michael J. Cyprys
Morgan Stanley & Co. LLC
Q

Great. Okay. We can go to the next question, please. Second question; what about Carlyle is most underappreciated by the market that will drive incremental value? Is it, A, the real assets business; B, consistency or performance fee stream; C, fund raising capabilities; or D, the global platform?

David M. Rubenstein
Founder, Co-Chief Executive Officer & Director
A

What about its leadership, you don't have that as E.

Michael J. Cyprys
Morgan Stanley & Co. LLC
Q

And the answer is C, about 43% for fund raising capabilities followed by B, that probably doesn't surprise you?

David M. Rubenstein
Founder, Co-Chief Executive Officer & Director
A

Well, when we set up the firm initially, people should remember, when private equity firms were first started, they were allowed to only have one fund. The partnership agreements forbade you to have more than one business because everybody was supposed to spend all their time on the one business that you had, your one fund on. So

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for example when KKR did the RJR deal in 1989, they had one fund, they were in a one fund business. Carlyle, almost in the beginning, came up with a different business model to have multiple funds, multiple disciplines, and to be global. And to do that, we built a large in-house fund raising operation. And people often said, we were a fund raising machine. But the truth is, we were only able to raise funds, if the track record was good and the product was good, but we did spend a lot of time with investors around the world developing a investor base over many, many years and now we've got about a 100 people in our fund raising operation, and I think, it's worked pretty well and our investors are reasonably happy with the fact that they have many different products from which they can pick with a Carlyle name on it.

Michael J. Cyprys
Morgan Stanley & Co. LLC

Q

Great. So, we'll dive in some questions, then we can open up to the audience.

David M. Rubenstein
Founder, Co-Chief Executive Officer & Director

A

Okay.

Michael J. Cyprys
Morgan Stanley & Co. LLC

Q

We also have some cards in the room, so you can write down your questions now, if you like, and we'll get them passed up, and then we'll also have a mike go around the room too. So, David, I hear you spend about 300 days or so a year on the road, is that about right?

David M. Rubenstein
Founder, Co-Chief Executive Officer & Director

A

It's about right.

Michael J. Cyprys
Morgan Stanley & Co. LLC

Q

Any place exotic lately?

David M. Rubenstein
Founder, Co-Chief Executive Officer & Director

A

New York City. I do travel a lot because I've took on the role, when I started the firm. I didn't have the investment background that my other co-founders did. They had MBAs, they've been in finance. So in any organization, you have to figure out what you're going to do to make yourself useful, and I thought the only thing that I could do to make myself useful at the outset was to try to raise the money, so I made myself into the fund raiser and while there's a lot of people there now doing that, I still spent a lot of time on it and do spend a lot of time on it, but I had to travel a lot and so we have investors from 76 countries and I've been to every single one of them, some of them I wouldn't recommend as places they raise a lot of money, but I've been to them all, and I still pretty – travel pretty frequently like that.

Michael J. Cyprys
Morgan Stanley & Co. LLC

Q

And could share with us what you're hearing on your recent travels just in terms of some of the challenges your clients are facing, some of the products and solutions that they're looking for?

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David M. Rubenstein
Founder, Co-Chief Executive Officer & Director
A

Well, investors have been struggling for return, because with interest rates so low for so long in so many parts of the world, investors really want return and particularly public pension funds in United States because they are struggling with the fact that the demands on the payout money to their pensioners is really high and they're underfunded. So, they're really looking for higher rate of return and the sovereign wealth funds, right, while they don't have quite the demand, they have to payout money, they are struggling to find things that would get them better rates of return than they can get in typical fixed income instruments.

So, what investors today I think want are be certain that they're going to get a better than average rate of return and obviously private equity has done that fairly consistently over 5 years, 10 years, 15 years, 20 years, 30 years. They also want I think more money going with fewer managers. Now I know that might sound self serving, but we've seen in papers recently that a lot of large public pension funds and sovereign wealth funds, you know, they don't have the staff to manage 300 relationships, 400 relationships, 500 relationships, so they're going to have fewer and fewer relationships and therefore they want to depend more and more on those relationships having many different products, but they have one relationship.

We're also seeing that investors now want specialized terms, right before the Great Recession, everything in private equity was more or less one size fits all. It was a commingled fund, you went into it, you took the terms, everybody paid the same fee, everybody paid the same fee whether they were big or large, whether they came in big or small, whether they were – came in early or late. Now people want discounts, so they come in early, and they're getting them; and if they're big in size they want discounts and they're getting them, we're also seeing more special managed accounts.

People want very large special managed accounts. We are also seeing, I think, a differentiation between smaller investors and bigger investors than before and the smaller investors are increasingly important, but they're going to retail platforms. So I think the industry has changed probably more in the last seven years, than it did in the previous 40 years. Because in the 40 years – from the first 40 years of the industry, everything was pretty much the same, terms weren't really negotiated all that much. Now terms are negotiated, but in the end what I think I see is that more and more investors are putting more and more money, and the allocations are increasing, because the rates of return have been very good.

So it's pretty good to be in our position because more and more money is going into the bigger name firms, because they have bigger platforms and they have larger relationships with these investors. So, I think, we're in pretty good shape to take advantage of this and get more than our fair share of the dollars that are going to be invested.

Michael J. Cyprys
Morgan Stanley & Co. LLC
Q

And in terms of your conversations that you're having today versus say a year or two years ago, you know, is there anything noticeable – noticeably different there?

David M. Rubenstein
Founder, Co-Chief Executive Officer & Director
A

Well, investors now want more co-investment, that's a very important thing. Co-investment used to be something that you charged investors for the fee or carry. But in recent years it's for free. So when people hear they might get something for free, they tend to like it. So, co-investment means if we need a certain amount of additional money

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beyond what a fund can really put in, because of asset allocation reasons, we would go to the investors in the fund and they would be able to invest more, if they want to do so, but for free.

So we see more interest in that, we see more interest in large sovereign wealth funds wanting to team up with us as opposed to just being invested with us, but they want to be the co-general partner in some cases or a strategic investor with us. We also see more retail investors coming in.

The biggest changes in the investor base over the last three years or four years are that the sovereign wealth funds are probably going to replace the public pension funds as the biggest source of capital for firms like ours because the sovereign wealth funds are just growing exponentially in the Middle East and in the Far East.

Secondly the individual investors sitting there saying, well, jeez, I'm getting very modest rates of return on my fixed income products. I see people are getting good returns on private equity. The big boys are getting them. I'm not getting that. How can I get into that? So they're going to organizations like yours and others, well-known financial institutions and they get rounded up in so called feeder funds, but that's a vehicle where we have an intermediary, you, and – example sometimes we are creating products just for individual investors and they can go into them directly.

Michael J. Cyprys
Morgan Stanley & Co. LLC

Q

And when you're on the road, what are some of the key points in terms of Carlyle's competitive positioning that you're hearing? What is it that's unique about Carlyle?

David M. Rubenstein
Founder, Co-Chief Executive Officer & Director

A

Well, every private equity firm that's publicly traded will say they're unique, and I guess, every organization says they're unique, and if somebody asks you what's Morgan Stanley, how is it unique from some of your competitors, I'm sure you'll have very good answers, right. Right.

So what we would say would be one, we are probably the most global of the organizations. We've built out an organization around the world on every continent essentially, 40 offices around the world. We have a large investor base that's probably more diverse than virtually any other firm. We also have more products. We've begun the process of having many different products many years ago. We tend not to have global funds. Global funds that say we can do anything [ph] around the world (9:38). Our strategy has been for whatever it's worth to have different funds, so we have more than a 100 private equity funds and a more than 150 fund of funds vehicles, and these give every investor the chance to say I want to be in Asian private equity, I want to be in Asian growth private equity, I want to be in Asian real estate, whatever it might be, and so we have various products. We also tend to have a culture that we think is fairly unique, it's called One Carlyle. It means everybody in the firm is incented to work together and they get appropriately rewarded or penalized, if they don't. So, we try to make it a cohesive organization. So, global many different products, a very large investor base, a very cohesive culture are things, I think, that make us very unique.

Michael J. Cyprys
Morgan Stanley & Co. LLC

Q

Okay. And just taking a step back and thinking about the broader asset management landscape, how do you see that evolving say over the next decade? Do you think there will be fewer firms, more products?

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David M. Rubenstein
Founder, Co-Chief Executive Officer & Director
A

In the alternative space, the industry is maturing a bit. And so when industries mature, you do get a couple giants that are going to be the dominant players. I think, it is likely to be the case that the firms that today are the largest ones will probably be the largest ones in next five years and maybe even 10 years, and this is the reason.

If you have a great product in technology, you can build an Uber or a Facebook in five years or so, because all of a sudden, the world hears about it and they can buy the product, they use the product, so forth. But in private equity, the fund-raising process is still very slow. It's not the case that I can go on a video screen and get people to come and invest in our funds. You have to go and show up. It's the old Woody Allen line, 90% of life is showing up. So if an investor says to me, I want to see you and I show up and I go halfway around the world and they say, I'm sorry, I had a dentist appointment this morning, can you come back tomorrow. Well, they don't think it's that difficult for you to come back tomorrow and maybe you can't come back tomorrow or a week from now, but you will figure out how you go back and see them in person. So, to raise money in private equity, you have to have two meetings, three meetings, four meetings, five meetings and that's [ph] partly (11:34) because you're asking people to make 10-year commitments. So it's not easy for somebody in China, Brazil, the Middle East, or Europe to say tomorrow, I want to build a global private equity firm. I think, I'll do it, I have a better technology, a better mousetrap, and I'll do it in three years or four years. That being the case, I think, the firms that are the biggest ones today are likely to remain the biggest ones for next five years at least, and I think, it's not likely that, that will change that much, maybe within the top five or so, there might be some slight changes. But generally the firms that you know today as the leading ones are likely to be the leading ones, I'd say, five years from now. It's very unlikely somebody can catch up, because it takes so long to raise money.

Another thing that I think you'll see is that more and more of the alternative space firms will go into more asset management. I think, the drifting together is likely to occur, and I think, the large asset management firms no surprise are going into the alternative space as well.

Alternative is growing at a faster clip than regular asset management, it can have higher margins and so it's appealing to the regular asset managers. So, the biggest alternative firms I think will drift increasingly to doing some regular asset management, which is probably attractive to people who want to see – have more fee related income, because you tend to have more predictable fee income from regular asset management, right, that's a trend you'll see.

I do think you'll see some transformational acquisitions done at some times by some of the alternative firms, and perhaps by some of the non-alternative firms, regular asset management firms as they try to buy their way into this space. So I think you'll see bigger firms, I think, you'll see mostly the large firms today will remain the largest ones the next five years or so. You'll probably see some acquisitions of asset managers that fill in this space that many of the alternative firms don't have now.

Michael J. Cyprys
Morgan Stanley & Co. LLC
Q

Okay. And it's been about three years since your IPO. Can you give us a sense in terms of how your business model has changed since then, and also how investors have viewed your stock over that period? We've seen some very impressive AUM growth versus the traditionals, but what do you think now is the multiple gap?

David M. Rubenstein
Founder, Co-Chief Executive Officer & Director
A

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Carlyle, when we went public, we were mostly known as a corporate private equity firm, and that is still where we get most of our earnings. We were very large in corporate private equity, probably have the largest corporate private equity platform of any of these alternative firms. That is where the bulk of our earnings have historically come from.

But over the year since we went public in May of 2012, we have built out our global market strategies business which is credit and hedge funds and other related kinds of things, the CLOs. We have really dramatically built up our real assets business with our energy platform being part of that, and we've also built out our solutions business. So, we have four businesses and none of them, none of them – none of the other three are as profitable yet as corporate private equity, but they're gaining and I think that increasingly they'll contribute significant ways to our firm. So, we've diversified a bit, even though we've still become very significant and remain very significant in corporate private equity, so we have diversified.

Secondly, we brought in some very talented outside individuals, who have headed major parts of our firm, and these are individuals that we work hard to recruit, and I think, they've done a very good job at the firm since then. We've also made it clear to our professionals that their highest priority is to focus on the investors, and they are not really as focused on the public shareholders, because we want them to focus on the investors because if our investors do well, and they're happy ultimately the unit holders will do well. And so, we've been able to raise a fair amount of money from investors, who are happy with the fact that we're public. When firms like ours went public, many people said, well, you'll have a conflict between your unit holders and your investors, maybe we won't invest with you, but we've actually seen the opposite.

Fund raising is better than it's ever been. Since we've gone public, we have raised an incremental just about $65 billion in new funds, and last year we raised about a significant amount, this – about close to $20 billion. This year in the first quarter, we've already raised a net of about $6.5 billion, a gross about $7.5 billion.

Michael J. Cyprys
Morgan Stanley & Co. LLC

Q

Okay. And then, in terms of the cyclicality of your business, we know that markets are cyclical and your funds may be cyclical. But I think, you've said in the past, that your overall business is not cyclical. Why is that the case and how should we think about the durability of your earning stream?

David M. Rubenstein
Founder, Co-Chief Executive Officer & Director

A

Well, we are in two businesses, we buy things when things are cheap or relatively cheap or when we can get a good deal, and we sell things when prices are relatively high and we can get a good deal selling. So, in any part of the world at any given time, there will be good times to buy and good time to sell.

Because we're so global, when Europe is down as a place to buy things because prices might be expensive, we can maybe buy things in other places. So, our business is not that cyclical in the sense that we're always able to buy things or always able to sell things. We're also very global and as a result, no part of the world is – no part of the world is always the same as any other part of the world. And so we're able to adjust. And when some parts of the world are very attractive, they're buying things. We are able to do that, we have a lot of dry powder and as a result in corporate private equity, dry powder of about – more than $25 billion of dry powder. So we are able to move relatively quickly. So we're not that cyclical in the sense that everything in the world always is the same. We really find at given times in our – in these cycle that you can find things that are attractive to buy in let's say China when it might not be attractive in Europe and vice versa [ph] technically (16:34).

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Michael J. Cyprys
Morgan Stanley & Co. LLC

Q

And what about on the exit side, if we were to enter, say an economic downturn? What's your sense then?

David M. Rubenstein
Founder, Co-Chief Executive Officer & Director

A

Well, when the economy goes down, it may not go down everywhere, but it has some appeal. I'm not saying I want a recession, but there's no doubt that very often, when prices go down, when you have a recession, you can buy things very cheaply. Very often, the best times to invest are when prices are down. Now people get nervous when prices are down and they see the economy slowing down. But historically, we and other private equity firms, when we bought things at the bottom and people were nervous about buying things, they tended to be their best deals. So, I don't look at – alarmed, when I realize the economy probably will slow down at some point next one years or two years in the United States and maybe other parts of the world, because we'll be out buying more at probably lower prices and our investors are willing to let us ride this cycle back up and it may take three years or four years, five years to get the exit we want, but we're pretty able to do that with our investors blessing.

Michael J. Cyprys
Morgan Stanley & Co. LLC

Q

Okay. And we'll open it up to questions in just a moment to get your questions ready. So just shifting to the interest rate environment, is it lower rates forever? What's your sense? The low rate environment continues to pressure investor returns. How does this story end, what are the implications here?

David M. Rubenstein
Founder, Co-Chief Executive Officer & Director

A

Well, the Federal Reserve, I think, feels its own creditability will be at stake if it doesn't raise interest rates at some point. The Fed has done a terrific job of telegraphing that it's going to raise interest rates, I don't know what more they could do. Whether it's going to be in September or October or December, I don't know, but I'd be willing to bet that some point this year, they will raise interest rates at some level, just to show that they really do believe that it's important to have interest rates going back to more normalized rate. And so I think they're looking to make sure the economy is reasonably good shape, the dollar won't unduly get too strong if they do that.

And I do think we should recognize, when interest rates go up it's not necessarily bad for people like us, what is bad is when there is no credit. So, if we want to borrow money for a buyout and there is no credit, the interest rate is really not the most important factor. If – when I was young and working at Lighthouse, and we got interest to 18% or 19% that probably wasn't such a great thing for the economy, and as a result I haven't been invited back in the government.

We don't think that if interest rates go up they're going to go up anything like what happened when I was in government. So it's very likely you'll see very modest incremental changes over a period of time, and I don't think it's going to affect credit availability. Remember, in the old days, banks provided most of the credit, today a lot of the credit comes from non-bank or non-federal regulated, non-government regulated instruments.

And so you see a lot of hedge funds, and other money market instruments that are now providing credit, and I don't really think that that will go away. So, there's plenty of credit out there. While the incremental charges might be higher, we will – all in the industry will probably just lower the prices that we'll pay.

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So if we have to pay a little bit more, we will – for something we will in effect adjust it than – and offer lower prices to the people who are trying to buy. So I don't really see there's a big problem, I expect it will happen. My biggest concern is the market overreaction. I don't think there is anybody in the financial service world who doubts that interest rates are going to go up relatively soon.

It's been telegraphed as I've said for a long time, but when it happens, people are going to sometimes run around as if the sky is falling, it's not really going to be all that bad in my view.

Michael J. Cyprys
Morgan Stanley & Co. LLC

Q

So that could potentially create a nice deployment opportunity there?

David M. Rubenstein
Founder, Co-Chief Executive Officer & Director

A

Well, yes, I think so. If interest rates go up, and people get very nervous and prices go down, there will be some opportunities to buy things relatively cheaply. I just don't know whether people will overreact. Remember when Ben Bernanke was Chairman of the Fed, at one point he said, well, I guess interest rates will go up at some point and the market overreacted for a couple weeks. I think, Janet Yellen has done as much as she could do to telegraph that it is going to happen, [ph] the markets get used to it (19:57). But when it actually happens, I think that the market could overreact, I hope it doesn't, but you never know, and if it does overact and it does for a period of time, I suspect people [ph] like me are (20:06) going to buy things more cheaply.

Michael J. Cyprys
Morgan Stanley & Co. LLC

Q

Okay. Maybe we could open up for a Q&A if there are any questions from the audience. We have mics going around and you can also bring up the question card if anyone has. The question card over here.

Okay, great. And David, could you talk about the impact of China making the Chinese yuan convertible perhaps over the next five years, what's your thought there?

David M. Rubenstein
Founder, Co-Chief Executive Officer & Director

A

I think over the next 10 years or so, it is likely that the Chinese government will want to have the RMB be a convertible currency. I think, there's some prestige to having a reserve currency. The United States has dominated the world for a long time of being the only reserve currency. As China becomes the second biggest, it is the second biggest economy, but it comes closer to being the biggest economy in the world, increasing as the gap between us and China narrows, I think China would say, well, why should our currency be a reserve currency. Now, right now, I don't think they're as interested in that, but there are some steps that are being taken by the IMF and others that are likely to lead to this openly happening. So, I do think that, ultimately, there will be a second reserve currency, I don't know when it will happen. And there will of course be a basket of currencies that could be a part of reserve currency as well. But I do think it's likely to happen, but not within the next five years.

Michael J. Cyprys
Morgan Stanley & Co. LLC

Q

Okay. And in terms of the opportunities for Carlyle stemming from...

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David M. Rubenstein
Founder, Co-Chief Executive Officer & Director

A

In China?

Michael J. Cyprys
Morgan Stanley & Co. LLC

Q

...in China stemming from that on fund raising or deployment as that happens?

David M. Rubenstein
Founder, Co-Chief Executive Officer & Director

A

We were an early investor in China. We now have done 88 deals in China, put $5.8 billion of equity in. We've made many billions of dollars there. It's been a place where we have a large percentage of our workforce, all the Carlyle employees maybe 15% or so are in China, or in Hong Kong. And as a result, we have a pretty good feel on the ground for what's going on there. We do think that opportunities are up considerable because only a few cities have really seen the private equity boom, it's still relatively small in terms of private equity penetration.

And the economy is growing at a reasonable rate. Now people obsessed over whether China is going to grow at 7% or 7.5% or so. Remember, China grew at 10% a year for 30 years in a row. In the history of the world no other economy ever did that. Now no economy can do that forever and China is slowing down a bit, it's slowing down to probably I would guess this year the growth rate – the official target is probably 7%, it could well be below that, it maybe 6.5%. But think about that, an economy of $10 trillion or $11 trillion growing at 6% is still pretty significant. We're going to grow this year at maybe 2% on a bigger economy, still the amount of incremental wealth created by the Chinese 6% growth is considerable.

China is doing something that's very difficult, they're trying to go from a export oriented economy to a consumer oriented economy. They're trying to deal with their corruption problems and they're trying to deal with their pollution issues. And trying to do all that and grow at 6% is still pretty considerably impressive feat. I do think that there will be great investment opportunities there in the future as well for those firms that are pretty well known. We spend a lot of time there. I probably go 5 times or 6 times a year and my colleagues are there obviously full time, but I think it's a great investment opportunity, and of all the emerging markets there's nothing close in my view to China as the place one would want to invest.

Michael J. Cyprys
Morgan Stanley & Co. LLC

Q

So, you don't seem too concerned about a slowing Chinese economy?

David M. Rubenstein
Founder, Co-Chief Executive Officer & Director

A

Well, I think actually, there are some advantages to it. Think about this, if you grow at 10% a year all the time, it's not sustainable. And I think 6% is probably sustainable. So, growing at a 6% rate or so, is probably sustainable, and therefore you're not likely to have some of the uncertainties that might come about if you're growing too high, and ultimately you have fixed investments being done at maybe at a rate that can't be sustained. Right now, fixed investment is down a bit in China from last year, and industrial production is down a bit from last year, that's not such a terrible thing, because it's now going to be in a more sustainable path, and therefore the uncertainties that maybe exists sometimes in China when you have very, very high growth rates, will be abated I believe. So, I think it's actually a pretty good situation.

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And one thing that's very important. Chinese government leaders are actually very open to private equity investment from outside. Sometimes emerging markets are nervous that foreign investors are going to come in and do things that are going to hurt your economy. But I think the Chinese really view people like we as people who are in fact helping their economy. We're making some companies more efficient, Chinese will learn some of the techniques we use, ultimately when we sell companies, we're more likely not to sell them to other Chinese buyers. So, I don't really feel that we are seen as a threat, and I think we're probably more welcome in China than many people suspect we would be. But therefore, it's a pretty healthy environment for people like us.

Michael J. Cyprys
Morgan Stanley & Co. LLC

Q

Okay. Any other questions from the audience? Okay, well, we can keep going. Energy opportunity,

David M. Rubenstein
Founder, Co-Chief Executive Officer & Director

A

Right.

Michael J. Cyprys
Morgan Stanley & Co. LLC

Q

When we think about your firm's growth areas, one of the areas you've built out and where you're under earning today is your energy platform. You have almost $10 billion of invested capital there, $11 billion of dry powder or so within your energy franchise. So, how are you thinking about the energy opportunity more broadly, and how does the volatility that we've seen more recently impact how you manage the business?

David M. Rubenstein
Founder, Co-Chief Executive Officer & Director

A

Right. We started in energy a long time ago, we helped to create an organization called Riverstone, we didn't really own it, we had a profit share in it. We ultimately decided we wanted to have greater economics and have more control over energy business, so we built four different platforms. We have an international energy business, a fund of $2.5 billion that's been raised. We have a mezzanine or a debt related business for infrastructure in United States that fund is now being raised, but the first one was $1.4 billion, did very well. We have a power business which invest in power facilities, largely in the United States and we have NGP, Natural Gas Partners as it was previously known where we made a large investment to help buy that organization, have it affiliate with us. That gives us now with about $11 billion as you say of dry powder, we have $10 billion in the ground, $6 billion of that is really Riverstone related where we have lower economics.

The way we see it is that energy is the single greatest sector one could be in, carbon-related energy because as long as we're on the face of the earth – those here on the face of the earth, carbon energy is likely to be the main source of energy on the earth. You can say carbon has some pollution issues, obviously it does but there's nothing as efficient and therefore as cheap in my view as carbon related energy. So everywhere in the world, as the emerging markets grow and as the middle class grows around the world, particularly in emerging markets, you're going to see more and more energy demand.

So there has been a temporary in my view, by temporary I mean one or two year decline in oil prices but I do think oil prices are going to come back and they will get back probably in about two years to the level they probably were before. And as that happens, it's a very attractive thing to do, to invest in energy now because if prices are low relatively speaking it will be an opportunity to benefit when they come back. So we are deploying energy dollars around the world. We hope other people aren't doing it as much as we are and we hope that they will stay away

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because they think it's a trouble sector. The truth is the world needs energy and world is going to use carbon related energy for as long as everybody here on the face of the earth.

Renewables are wonderful. They may be healthy, the global climate change situation, a good deal, but it's not likely to be as economic as carbon related energy, and therefore are not going to be as cheap and therefore not as plentiful in terms of the usage and therefore I think not likely to be as an attractive an investment as carbon related energy.

Michael J. Cyprys
Morgan Stanley & Co. LLC

Q

And any thoughts on the deployment opportunities right now within the energy sector?

David M. Rubenstein
Founder, Co-Chief Executive Officer & Director

A

Yes. There are great opportunities in some of the emerging markets, because prices have gone down disproportionately so in some parts of the emerging market world. But also even in the United States. Right now, I'll give you an example. If you want to build a new terminal, a new storage facility, a new pipeline, it's very difficult in the United States to get financing for people who are not the giants of Exxon Mobil. And so they get financing, very often they go now to funds just like the fund we have [indiscernible] (28:21) Carlyle Energy Mezzanine Partners and we provide funding for the senior and mezzanine debt and also maybe some equity kickers as well or equity participation. That's been a very good business because a lot of the banks have withdrawn from financing those type of energy facilities, and therefore firms like ours can now take advantage of it. So we also think that in Europe, as Europe begins to realize it's very dependent on Russia for energy, they're going to ultimately deploy capital to develop facilities that will not make them as dependent on Russia as they are now. And therefore building those facilities, those pipelines, those transportation facilities I think will provide a very good opportunity for people like us.

Michael J. Cyprys
Morgan Stanley & Co. LLC

Q

Okay. I think we have time for one last question if anyone has in the room. Okay. And then, just in terms of platform expansion, you're certainly very global from a local Brazil fund to a Sub-Saharan Africa Fund diversified across strategies. Are there any pieces that you don't have today that could dovetail nicely with the footprint?

David M. Rubenstein
Founder, Co-Chief Executive Officer & Director

A

Well, there are a lot of things that we're thinking about doing and I don't know that I can telegraph all of them, but I'll give you an example, one thing that I think is very attractive. We are a fairly large real estate investor, and we've been in real estate and opportunistic for quite a while, but we are looking seriously at the core-plus business.

The core-plus is likely to be a very great growth business in real estate, critically in the United States. Core-plus meaning you're trying to get returns in the 9% to 11% range, opportunistic might be 15% to 18% or so. Regular real estate core might be 4% to 6%, but the 9% to 11% range, because interest rates have been so low, is a very attractive range for a lot of investors now. And so I think the core-plus real estate business will be pretty attractive.

Michael J. Cyprys
Morgan Stanley & Co. LLC

Q

Okay. Anyone else? Oh I think we have one question left, 40 seconds.

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Q

Hi, Mr. Rubenstein. My name is [indiscernible] (30:03) from Morgan Stanley. I had a question about Carlyle. You say that your highest priority is to focus on investors, not on stockholders. And I was curious what was the benefit of going public?

David M. Rubenstein
Founder, Co-Chief Executive Officer & Director

A

Okay. Well, I said the – a lot of our investment professionals are focused on investors. Obviously, the people that help run the firm and are running the firm, we are focused on the unitholders, but we try to have our investment professionals day-to-day focus on doing good investments and not worry about the kind of things that the leadership of the firm is focused on, that's the point I was trying to make. The reason we went public were five reasons. One, we wanted to – a lot of our competitors were public and they had stock that could be used to incent employees to come and stay there. They had stock that could be used for acquisitions on a tax free basis. We also felt that if you went public, we could basically get some cash into the firm to be used for acquisitions as well and for other purposes, corporate purposes and it enabled us to do that and we could do that from time-to-time.

We also felt it does provide a transition ultimately. The leadership of these firms have disproportionate amount of equity as the founders of all these organizations have been big shareholders and eventually allows you to with options and other kinds of things, have younger generation come in and ultimately the founders can fade away a bit. The founders at Carlyle are still actively involved and are not fading away any time soon, but eventually, at some point I suspect that you'll probably see new people coming in, in all these firms as the transitions occur.

So, it enabled us to do many different things and it enabled us also to expand our footprint around the world in many ways because people [ph] tend (31:23) to get to know us much better. So, we're very happy with the decision to go public and we're very pleased with the response that our investors have had and our unitholders have had. But I do think that ultimately people should recognize that unitholders are getting a great bargain when they are buying these kind of stocks, they are getting a very high yield, typically 7% or 8% a year, that's fairly predictable, and I think it's probably not completely recognized by the market how predictable these earnings are and how predictable the dividend is, and therefore, I think these stocks are very, very cheap.

Michael J. Cyprys
Morgan Stanley & Co. LLC

I'm afraid we have to leave it there. We're out of time.

David M. Rubenstein
Founder, Co-Chief Executive Officer & Director

All right.

Michael J. Cyprys
Morgan Stanley & Co. LLC

Please join me in thanking David Rubenstein.

David M. Rubenstein
Founder, Co-Chief Executive Officer & Director

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Thank you.

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