

Carlyle Group

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Matt Kelley: Okay, let's get started here. So I have the pleasure of introducing Glenn Youngkin, Chief Operating Officer and Managing Director for The Carlyle Group. Glenn sits on Carlyle's Management Committee and has previously served in the roles of interim Principal Financial Officer, head of the UK Buyout Team, and as a member of the U.S. Buyout Team. He also has experience working with McKinsey & Company and Credit Suisse in investment banking.

As you all know, Carlyle recently completed its IPO. They trade under the ticker CG. They are one of the largest, most diverse alternative asset managers today with over \$159 billion of AUM as of the first quarter.

With that, I'll turn it over to Glenn. Thanks, Glenn.

Glenn Youngkin: Thank you, Matt, appreciate it. Well, I guess, happy lunch. I'm kind of watching everybody with great envy, to be honest because, well, I haven't eaten yet. But I guess if I do an okay job here I might get a sandwich. So thank you all for being here.

Six weeks ago Carlyle went public, and I have to say it was just a tremendous experience for us around the firm to go around the world and get to talk to a whole new set of investors about Carlyle. So on behalf of my 109 partners and our 1,200 employee owners, I just want to say thanks for being here and listening.

So -- what I want to do over the next half an hour or so is cover two topics. First, just a quick overview of Carlyle, and then I'd like to talk about three themes of the day for the sector.

But first just a little table setting. As you know, the ticker is CG. There's 306 million fully diluted units, there's 43 million common units in our public float, our market capitalization as of last night was \$6.5 billion. We have total AUM of \$159 billion and fee earning AUM of \$117 billion.

Now, the firm operates through four key operating segments. The first is our corporate private equity segment. It's \$53 billion of AUM, and we operate through 26 funds. This is the business that many of you may know best at Carlyle. It's our family of buyout and growth funds around the world, but a key thing for you to recognize is that we do have a family of funds -- Europe buyout, U.S. buyout, Asia buyout, Japan buyout, South America buyout, Sub-Saharan Africa buyout, Middle East/North Africa buyout, financial services buyout.

And what we have done over the years is develop this family of funds to provide our investors selection but also to help keep our teams focused on what they are doing.

Our second segment is our global market strategy segment. This has been our fastest-growing segment over the last few years. There's now \$28 billion in assets under management across our hedge funds, our COOs, and our carry funds.

Our third segment is our real assets segment. That's \$32 billion of AUM in infrastructure, real estate, and energy across 17 different funds.

And, finally, our fourth segment is our fund-to-fund solutions business with \$45 billion in assets under management operated through 63 different fund-to-fund vehicles. The aggregate of all of that is 157 different funds and fund vehicles. And this is a really important point in our construct.

Carlyle is like a honeycomb. Each one of these funds or fund vehicles operates as an independent economic engine. What that means is the fees and the carry generally don't suffer if one of the economic engines would happen to sputter. Each one of the economic engines operates on its own. And so there's a tremendous portfolio effect across the firm, which enables us, in our view, to have a much more consistent pattern of distributable earnings coming from performance fees.

Now, the firm has five key attributes. First, this diversified, multi-fund platform; second, our track record of 25 years of investing excellence; third, the exceptional fundraising capabilities that we have; fourth, the fact that our platform is fully scaled and built out and therefore facilitates future growth; and, finally, the operating model does generate a cash-rich earnings stream. So let me hit each one of these attributes in turn.

The first point to make about our platform is that there's a tremendous amount of activity across this fund complex. Lots of numbers on this slide, but the key point here is that we have lots of investment activity across the platform and lots of distribution activity across the platform across a number of funds. Let me just highlight some numbers for you.

In 2011, we invested \$11.3 billion in equity in our carry funds. There were 191 different individual investments that were made in 31 different funds in 19 different countries. So the scale of what we do across our platform is fundamentally different than our peers. We distribute back capital all the time, and as we go through further in our economic engine, you'll understand that distributing capital back to our LPs is a key economic event for us.

In 2011, we distributed back \$18.8 billion to our limited partners. That was from 235 different investments that had distribution events in 45 different funds in 22 different countries. So just, once again, the activity level of our firm is fundamentally different, and it is this portfolio effect that enables us to have very high overall firm level activities even if one piece of the firm isn't all that busy.

Now, the second key point around our platform, to understand, is just the relative size of it to our peers. Over the past three years, we believe that our carry funds have invested more equity, created more gains, and distributed more of those gains back to our investors than our peers.

And just looking at the top of this slide, in 2009, 2010, and 2011, we distributed back to our investors -- that's return of capital plus realized gains of \$29 billion over that three-

year period. We invested new equity into transactions over that same period of \$26.4 billion. There's just a fundamental difference in the activity level of this big broad platform.

Now, while our AUM is second to Blackstone in terms of overall size, we do believe that the higher fund count with 24 of our carry funds in carry and 16 of our billion-plus carry funds in carry combined with the much larger portfolio that we have -- we have 200-plus individual portfolio companies and over 250 real estate investments -- results in an activity level of buying and selling that actually keeps a consistent level of both investing activity and distribution activity. We think that results in more consistent performance fee generation. Let me turn to our investing activities.

So over the past 25 years, we have generated a top-performing and consistent return profile. What you see here is across all four of our asset segments. In corporate private equity real assets, distressed and hedge funds, which are in the global market strategy segment, and our fund-to-fund solutions business.

And what you see in our realized and partially realized transactions, IRR, to date, of 31 percent and a multiple of invested capital of 2.6 times in our corporate private equity business. In our real asset segment of 31 percent IRR again in a multiple of invested capital of 2.2 times, and our distressed in our various hedge fund platforms, 18 percent, 10 percent, and 16 percent returns in our fund-to-fund solutions business, a 10 percent return across an extraordinarily large amount of capital over a very long period of time.

We've also been able to generate these consistent results around the world as well. In our corporate private equity segment, what we show here are a number of our funds around the world. And what you'll see in the U.S., Europe, Japan, and Asia, we've consistently generated very attractive multiples of invested capital for our fund investors. Now, how do we do this?

We apply our very unique capabilities into something we call The Carlyle Edge. And let me just show a real quick video here just to make sure everybody is awake during lunch.

(plays video)

Now, at the end of the day, the scale of Carlyle gives us a fundamental advantage. We have deep local teams on the ground; we have 11 sector-specific groups that provide industry knowledge. We combine that with a deep team of operating executives that bring an average of 40 years of experience to our portfolio companies, and we're informed by deep portfolio intelligence that we collect across our 200-plus portfolio companies all the time.

The combination of all of that enables us to put together value creation plans for each and every portfolio company, which helps us optimize the value we think we can get out of each company.

What that results in is value that is created from growing earnings. What this slide shows is that across our U.S. buyout portfolio, our Europe buyout portfolio, our Asia buyout portfolio -- for every dollar of value that we create, 60 percent to 80 percent of it comes from earnings growth. That's where we're focused. And it's this maniacal focus on earnings growth that translates into consistent returns over a long period of time.

Now, the third key attribute of our firm is our exceptional fundraising capabilities. Over the past 25 years, we've developed deep relationships with 1,400 institutional investors in

73 different countries. We've raised almost \$120 billion of fund commitments from them. Even during the tough times of 2008 to 2011, we were able to raise \$34 billion for our investment funds.

We have a dedicated team of 62 fundraisers around the world. They're product specialists, they're country specialists, and they have deep relationships that help us aggregate this capital.

What you'll see on the top right-hand side is that it is a diverse set of investors. We're not dominated by any single class, and we do touch every available pocket of capital. But, most importantly, in the bottom right-hand side, you will see that 60 percent of our capital commitments come from investors that have commitments to six or more funds. 92% of our capital commitments come from investors that have commitments to two or more funds, and 10% of our capital commitments come from investors that have commitments to 20 or more Carlyle funds.

What we've been able to do over our 25 years is develop these deep relationships that facilitate not only are these investors committing to subsequent funds but also stepping out into new products with us over the years.

The fourth big attribute that I want you to understand is the strength of the platform and how this platform facilitates growth. Now, from the beginning, Carlyle was designed this way. We're not going back and remaking it. From the beginning, we are expanded globally into countries around the world with country-specific funds.

We also simultaneously -- we're expanding into lots of different product categories -- real estate, growth capital, structured credit, energy, distressed investing, infrastructure, financial services -- each one set up in its own fund complex.

And then, most recently, we've actually been acquiring, and we've been able to add some wonderful hedge funds to our platform in the private equity fund-to-funds complex from AlpInvest.

The combination of all of that is a firm that is routinely innovating and growing, and what you'll constantly see from us is new things. Just over the past three years in the bottom left, we've launched a new South America buyout business, a new RMB fund in China, an Energy Mezzanine business, a distressed real estate credit business, a middle market finance business, a Sub-Saharan Africa buyout fund, and a dedicated Peru fund. And it's all supported by that fundraising engine we just talked about.

We have been raising anywhere between eight and 15 funds at any given time for as long as I can remember, and I've been at Carlyle for 17 years. And, as I said, most recently we've actually added some selected acquisitions to the portfolio.

We've acquired nearly \$11 billion of CLO assets in the last two years. We were able to bring Claren Road and ESG, two wonderfully performing hedge funds -- Claren Road, a long/short credit hedge fund, and ESG, an emerging markets hedge fund onto our platform. And then, finally, last year we bought AlpInvest, which is the largest fund of private equity funds investor.

And what did that mean for the future? Well, this footprint, these 32 offices around the world with infrastructure, reporting, risk management already in place provide a catcher's mitt for growth. You'll see in the top left-hand side of this slide that our U.S. fund family is fully built out. You see all our products present across all of our segments.

But if you look at the fastest-growing segments in the world -- South America, Africa, Turkey, and Asia -- we're predominantly present with our corporate private equity business. And what we can do is chase in right behind this existing infrastructure with real estate, credit, infrastructure, energy, launch new products, our fundraisers raised them, and we have something new to talk to our investors about.

Indeed, the emerging markets really are an extraordinarily exciting opportunity for growth for us. On the top left-hand side of this slide, you can see that we have \$14 billion of AUM already present in the emerging markets through both our carry funds and our hedge funds. We have 146 of our roughly 600 investment professionals on the ground in 13 offices in these markets. And it's the combination of the low penetration of private equity in these emerging markets relative to, say, the United States, as you can see on the bottom left-hand of this chart, and the superior growth characteristics of these markets that get us really excited.

We cannot only have second-generation, third-generation, fourth-generation growth in our existing funds that are there, but we get to add all of these new products to take advantage of these growing markets.

All right, so the fifth attribute is our model. We call it "The Carlyle Engine," and it has historically delivered a very cash-rich earnings stream. Our business is big and broad, but at its basis, it's pretty simple. We have to do four things well.

On the top right-hand side, we have to invest well. And what you'll see is we've generally averaged about \$10 billion a year of new equity investments across the platform.

The next thing we have to do is work with the portfolio by applying The Carlyle Edge and grow the value of it as investments, and you can see, over the last number of years, we've done that quite well.

Now, this next step is really important -- exiting. In the private equity business, particularly, which is 47 of our funds that have a private equity construct -- in order to realize performance fees, we have to exit. And it's when we exit, realizing those gains and returning capital to our investors, we actually get paid. And you'll see that the firm has a steady and reliable exit profile over a number of years.

If we do Step 1, Step 2 and Step 3 well, Step 4, raising money, tends to take care of itself. When you perform for your investors, they trust you, and they usually recycle the capital back to you.

Now, all of this results in a model that generates a lot of cash. What you'll hear from us over and over and over again is the focus on distributable earnings. There's a lot of metrics in our industry to evaluate how we do and, candidly, some of them I just can't manage with. I can't manage our firm on E&I. I don't know how to bonus somebody on it, I don't know how to incentivize it, but what we can do is manage undistributable earnings. That's actually a cash metric for our firm. It's how much carry we realize and how much cash operating earnings we have. And that's what you hear from us over and over and over again.

We have just under \$190 million of distributable earnings in the first quarter. If you take a look at our earnings for last year and this year, just to grab those two metrics -- at the

top you'll see pro forma segment revenue. That's the combination of all of our segments for 2011 of just under \$2.2 billion. In the first quarter, it was just under \$1.1 billion.

And at the very bottom of this chart, you'll see that our pro forma distributable earnings were \$882 million last year and again in the first quarter were just under \$190 million. Again, distributable earnings for us is the generation of cash. What cash allows us to do is declare distributions to our unit holders.

We have a stated distribution policy to declare a quarterly distribution of \$0.16 a quarter, and then we'll have a catch-up distribution at year-end to gather up all the accumulated distributable earnings and distribute out a majority of it.

A quick look at our balance sheet. On the right-hand column you'll see we have roughly \$500 million of cash on our balance sheet at the end of the quarter. Moving down a bit, you'll see we have a draw-on term loan of \$500 million. We also have a fully committed but undrawn revolver of \$750 million.

One line on here I want to call your attention to is the accrued performance fees -- the second line down on the right-hand side of \$2.4 billion. That number represents the amount of carry that would be generated if all of our funds liquidated today. That's the cash that would come out of the carry formula. It's an interesting metric just to see whether the kind of reservoir of carry is being built inside these firms.

So -- that's Carlyle. Let me just spend a few minutes on three themes of the day for our segment. First, fundraising; second, the realization of investment environment; and, finally, what's happening, at least in our view, in Europe.

So, first, in fundraising. Let me just be clear -- the fundraising environment continues to be challenging. It has not recovered to the same degree that the investment environment has. And, as a result, some people are going to find it challenging to raise their funds.

With that said, we see two very positive underlying themes that give us confidence on a go-forward basis. First, on the left-hand side of this chart, what you'll see is a basic representation of the out-performance of private equity relative to public equity, and the blue area represents a consistent realized out-performance characteristic of this asset class. And, in fact, in 2011, private equity -- an average private equity portfolio outperformed the public markets by 17%.

The right-hand side is a bit cheeky. It's simply private equity returns relative to the 10-year treasury. Different risk profile -- somebody might actually say the 10-year treasury might be more risky today. But what this all summarizes is that CIOs have a basic dilemma. How do we actually reach our targeted returns with the equity in the credit markets offering so little? And what's happening over and over again is we're seeing increased allocations to the asset class.

Now, you couple that with the second underlying theme, which is the fact that there was an extraordinary amount of equity invested in 2006 and 2007 and into 2008. But just in 2006 and 2007, there was nearly \$700 billion of equity deployed. Now, the reality is it outperformed anybody's expectations. In 2009 I remember standing at a conference and people saying that the whole industry was going to fall apart.

Well, guess what? The asset class fundamentally performed well, and what's happening now is all that capital is being returned to those investors through the distributions I

mentioned earlier. And what happens is those investors need to redeploy that capital, and so they have to recommit the funds in order to get it redeployed.

We view both of these thematic underpinnings as quite positive for the long-term fundraising environment.

So Carlyle finds itself in a reasonably good position right now. We have a number of solid funds in the market, and we've recently launched two of our flagship funds. First, our U.S. buyout fund, number 6. It's a great-performing portfolio. We launched it in January, and you'll see a number of closes over the course of the summer.

The second is our fourth-generation Asia buyout fund. We just recently launched that, and you'll begin to see closes in that fund in the second half of the year.

So, in summary, while the fundraising market continues to be challenging, we have a quiet confidence about what we're doing right now.

The second big theme -- what's happening in the investment market and in the exit market. So, to be clear, our activity levels for the first part of the year were slower than we generally would have liked. But, interestingly, over the course of the last four to six weeks, our activity level has picked up substantially. Our pipelines are as full as they have been for 18 months. The deal quality is high, it's around the world. We have constantly said that this kind of environment, this volatility, this uncertainty, actually presents all kinds of opportunities for a broad-based platform like ours.

Now, of course, activity levels and full pipelines don't translate into closed investments but, once again, we have a confidence that the back half of the year will be a very busy closing time for us as well.

On the distribution side, the market has not been terribly friendly over the course of the last few months, as all of you know. And, therefore, we have had, I would say, a somewhat muted distribution activity. With that said, we've had a number of successful blocks that we have sold most recently, of our public portfolio, and we continue to take advantage of opportunities when they present themselves.

Finally, the Eurozone -- anybody who stands up here or in a conversation and can predict where the Eurozone is going to land with any degree of confidence probably is not only going to be wrong but may not be worth listening to. Who knows where this is going to end up? Every day is a brand-new soap opera.

So what we've done, as a firm, is step back and say, "First, what do we need to do to protect ourselves against a potential longer downturn than we would hope?" And what we've done is gone back to our 33 portfolio companies that we have in Europe, and we've shored up their capital structures. We've undertaken refinancings over the course of the last, actually, six to eight months, some of which have been Herculean in order to get done in order to make sure that the portfolio can withstand an extended downturn.

But the second thing we've done is get ready. And what you'll see in the left-hand side of this chart is in the light blue line is some actual data from periods of downturn in Carlyle's portfolio. The light blue line are investments that were made two years prior to the downturn -- fine returns. But what you see in the dark blue line are investments that were made during the two years of the downturn, and there's been substantial outperformance.

We have a number of funds focused on Europe -- real estate, growth capital, buyout, distressed, financial services not to mention our hedge fund complex. So we have lots of vehicles to take advantage of opportunities when they present themselves. I have to say, they presented themselves much more slowly than anybody anticipated and sometimes being the first mover is never something to be congratulated for in these downturns, but we do remain ready to take advantage of what we think should be a pretty interesting investment opportunity.

So -- with that, let me conclude. Carlyle is on strong footing. Our outlook for the future is positive. Our foundation is strong. We have \$117 billion of fee-earning AUM generating consistent fees to run our operations from. It's more than three times the amount that we had in 2006.

We continue to deliver for our investors. Our investment performance has been solid. We have a 600-plus investment professional team and nearly \$40 billion of dry powder to invest. And our 62-person strong dedicated investor relations team is not only serving those investors but also providing the fuel to drive the Carlyle Engine faster and faster.

And, finally, our near-term and intermediate term earnings are underpinned by our capital that's in the ground. We have \$75 billion of capital at value in the ground; \$66 billion that is in our carry funds; and \$9 billion in our hedge funds. And that is the capital that will drive exit activity, the realization of gains for our investors and their resultant performance fees that we will realize. And the aggregation of those performance fees provides distributable earnings that we will then distribute out to our unit holders, both you and us.

It's the solid nature of this portfolio that gives us great confidence right now, because our portfolio has performed well.

So I've got a few minutes to take some questions, and I appreciate your attention.

Matt Kelley: Is this on? Okay, great. So why don't I kick it off? So, Glenn, you showed pretty strong returns up there historically across the platform. So as you think about -- we hear a lot about private equity's ability to generate outsize returns despite a low-return world, so how do you think about that and how does that fit into what you're trying to do?

Glenn Youngkin: Perfect, thanks. So I've been at Carlyle for 17 years, and for 16 years we've stood up at our annual investor conference in Washington, D.C. and told our investors it's really hard to generate 30-plus percent returns. We're not quite sure how we're going to do it. We've been trying to manage their expectations every year, but we've consistently figured out a way to do it.

But let me tell you the reality -- we run our models for kind of our steady state buyout business looking for a 20 percent gross return. We have upsides built into the cases that we review. We don't include multiple expansion, and therefore we try like the dickens in order to execute the Carlyle Edge to beat that 20 percent. But we do target a 20 percent gross return.

The investment environment is awfully tough with very low interest rates and modest growth around the world, and so we really are guiding our investor base to think about a 20 percent gross return. We hope we do better.

Matt Kelley: Any in the audience, I can keep going. All right, one of the things I know you've talked about, maybe you could touch a little bit upon the global market strategies business; how

you think you're positioned for growth there and how that fits into investor demand at this point.

Glenn Youngkin:

Perfect. So -- the global market strategies business, as I said, is one of our largest segments, but it's also our fastest-growing. And what's happened over the course of the last three years has been a monumental shift in the prospects for that business. First, driven by the recruiting of Mitch Petrick, who runs that business. Mitch joined us about two and a half years ago, and we gave him the mandate to grow a business, to build a business. We had about \$10 billion of AUM at the time. It was primarily credit-focused, and Mitch really did undertake a metamorphosis of this business over the course of the last two and a half years.

As you saw, there was \$28 billion of AUM. Today, over a much broader complex of investment strategies, and let me just give you a few of the details. First, our CLO platform. Our CLO platform is the second-largest in the world, and it provides us tremendous scale to do two things -- one, when prices are right, to consolidate. And you will have seen we've acquired nearly \$11 billion of CLO assets at attractive prices over the course of the last two years at a time when consolidation made a lot of sense.

But it also gives us the horsepower to launch de novo CLOs. And over the course of the last two quarters, we've actually launched two de novo \$500 million-plus CLOs. So the platform is actually working on both cylinders.

Second, on the hedge fund side, and we were just very fortunate to attract to the platform both Claren Road and ESG. They are very unique strategies, great performance, extraordinary leadership in both of those hedge funds.

But bringing them under our platform actually made us better as well, and just a couple of facts -- when we closed on Claren Road, they have \$4.7 billion of assets under management. That was in December 2010. Now, roughly, one and a half years later, they have \$6.7 billion of AUM. We've been able to add, through their hard work and being on the Carlyle platform, \$2 billion of AUM to that fund.

The second thing I would say is the introduction of their investment strategies has given us great things to talk to our investors about that may not result in a commitment to one of our hedge funds but may result in a commitment to something else at the firm. So, once again, having new things to talk to investors about, quality investment platforms, unique strategies only helps us raise money for the rest of our strategies.

The last thing I would say is this business now is large enough in scale that it's beginning to spin off incremental growth opportunities. We launched a year ago an Energy Mezzanine strategy. We hired in a few guys, we've raised a bunch of capital for them, and we've launched a very successful niche strategy that is very appealing not only to the investors but fulfills a real need in the energy sector that was created by a lot of the banks running away from the sector.

So we've now got a segment that's large, growing, and is now throwing off a lot of growth opportunity all by itself.

Any further questions? Okay. Well, thank you all for your attention. I hope your lunch was good, and I'm going to get a sandwich now. Thank you.