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The Carlyle Group LP (CG)

Goldman Sachs US Financial Services Conference

CORPORATE PARTICIPANTS

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

MANAGEMENT DISCUSSION SECTION

Unverified Participant

Okay. Thanks, everyone, for joining us. We'll get started here. And next up, I would like to welcome Kewsong Lee, Co-CEO of The Carlyle Group with over $220 billion in assets under management. Carlyle is one of the leading global asset managers with significant capabilities across private equity, credit, real estate and investment solutions.

Following the firm's recent fundraising cycle, Carlyle has significantly improved its stability of the earnings base [indiscernible] (00:00:27) for the management team growth in FRE has definitely been an important milestone. At the same time, the firm's maturing investment portfolio creates pretty meaningful runway for accelerating earnings from incentive fees over the next 12 to 24 months, which I know was also an important part of the story here.

In addition, Carlyle recently announced conversion to a full C corp from a publicly traded partnership including its single share class structure effective January 1, potentially opening up the stock to even a wider audience relative to some of the other C corp conversions that we've seen in the space so far. So we thank you for being here. Welcome.

Kewsong Lee

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

Thank to you and everyone at Goldman Sachs.

QUESTION AND ANSWER SECTION

Q

Great. So the first question I wanted to kick it off with is really the question around the macro dynamics.

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

A

Sure.

Q

You guys have a really wide set of portfolio companies, you get a unique perspective from what's going on in around the world really from the ground up. So as we sit here today, I was looking out into 2020, maybe you'll be able to get us a flavor of what you're seeing from your portfolio companies. What are some of the opportunities and what are some of the risks.

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

A

Okay. Well, first of all, I think it's fair to say across the world we're seeing fairly consistently growth slowing down. It's not negative but it's slowing down. Everyone is talking about how consumer is strong, industrial is weak. I think that is true. We are seeing in some areas of the world a little bit of a pullback in terms of capital spend. I think the uncertainties that we're seeing in terms of the trade debate are for real. But I think the bigger picture question isn't, are we going to slow down in that recession or not. Personally I don't think so. So for the record 2020, our data would suggest probably not. But I think the bigger issue is, what we're seeing are real secular changes occurring, be it demographics, be it industries being disrupted, being the global trade paradigm shifting, being simply the fact that monetary policy in my opinion is ineffective.

The geopolitics of the day, when you throw all that together, it brings into real – we're staring at a situation where you could see for an extended period of time moderating growth, you could see for an extended period of time low yields, you can see for an extended period time high valuations, because of the accommodation that's occurring and because of all the money that's flowing around the system. And then you mix in with that volatility because of the politics of the day, which are very real in every single country around the world. When you put all of that mix in together, in my mind, the medium to longer term outlook is much more of a period of time where you're going to see moderating growth, you're going to see muddling policy, and you're probably going to see mediocre rates of return on average. And so, that's the overall environment.

Now, having said all that, there's a ton of opportunity. As growth gets harder, companies have to sell non-core assets and so, deal flow could go up, and we're seeing that. As industries get disrupted, companies need partners to finance their growth and/or to figure out ways to fix their businesses, so we're in conversations in that way as well. As volatility goes up, you're seeing opportunities emerge in our credit asset classes, especially in terms of credit opportunities, in distressed special situations. So, it's not – I'm trying to give a very balanced picture which is we don't think that we're by any stretch out of the woods yet, because there are a lot of the structural secular forces. I don't think there's a collapse. I just think there's just a slow steady sideways grind. But that environment is probably not so bad from a deal flow and opportunities perspective as it relates to our industry.

Q

Yeah. It's a definitely helpful perspective, so maybe kind of pivoting from that a little bit. I want to spend a little bit of time with you on Carlyle, is a public company, is an institution, some of the changes you guys have obviously made recently. The first one I wanted to discuss is really the concept of stakeholder value, right?

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

A

Yes.

Q

And in the past, you talked about improving stakeholder value across all of your constituencies that again as a public company, that feels obvious. But I'm curious what you mean by that for Carlyle and what it really means for you as a co-CEO.

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

A

Sure. I'm surprised at all the scrutiny that this topic has brought from the media and other observers, because at Carlyle, we've always thought about doing what's right for the entire ecosystem of our stakeholders. We have to be good corporate citizens while being good to our employees, driving investment performance and doing what's right for our shareholders. I think it's fair to say we've had a real strong focus on driving investment returns ever since our formation as a private company, as a small little investment firm. The world has changed and industry has grown. And I think it's really fair to say that over the past two years ever since the new leadership has taken over, it's not that we've abandoned; in fact, we've pushed even further into driving investment returns for LPs.

But we've also recognized the real importance of driving shareholder value sustainably over the longer term. And it's driven our focus on FRE. It's driven our focus on scaling, our strength into larger and larger funds to improve operating margins. It's driven our focus on building the global credit business where there's enormous white space. It's the fastest growing segment we have. It's driven our focus on making efficient and effective use of our capital, in terms of strategic acquisitions, for instance our extension into insurance solutions through our Fortitude investments that we made recently.

And then, what we've done is, we've wrapped that all up with, what I believe is, best-in-class governance and structure where with our C corp conversion, we kept it really simple, very transparent, incredibly aligned with shareholders. And you can see from everything we're doing, we're not at all diminishing our ability to be the best investors globally because I believe we are from a private equity or global credit perspective. But what we've done is risen to the forefront of our thinking, the importance of shareholder value and creating shareholder value over the longer term. Now we have to do all that while still being great corporate citizens and obviously making sure employees are motivated and aligned. And I think we are doing that.

Q

So to get pivot for my next question, as we think about the stock and the run that Carlyle's had over the last year or so, up 90% something.

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

A

80% to 90%.

Q

Right. I'll take it. Along with a lot of your peers as well, I mean the whole group obviously has done quite well. Can you help particularly what's the bull case for Carlyle from here?

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

A

Sure. Well, first of all, big picture, there's just still incredible secular tailwinds for asset class in general, like [indiscernible] (00:08:01) $6 trillion asset class. I think it's fair to say the role of private markets – and we can go into that further if you want – but the role of private markets is just expanding which means we have tailwinds, and every conversation I'm having with our limited partners and new potential partners at Carlyle suggests that that desire to get more and more exposure to the private market is only continuing. So big picture, I think you have that.

Second, while we have made great progress and obviously, the stock has done nicely over the past year, we still have a lot more work to do. We are just starting to get the benefits of our focus on FRE. So keep in mind, our big funds scaled up 30%, 40% over their predecessor funds. And so you're going to see that pour over into the bottom line because clearly, we're not going to be raising our expenses as fast as we're able to raise our top line. Second, the investments that we've been making in the global credit are going to really pay off in several years, because by definition that's a more scalable business, and we've taken an operating platform type of an approach where the margins once we're at scale, we'll really be accretive to the bottom line.

Third, we have growth initiatives that we put in place, be it Fortitude in insurance, be it the aviation platform we acquired, be it a few of the new product launches and infrastructure, renewables or in credit opportunities which are going to be upscale. When you throw all that together and you combine that with hopefully some disciplined expense management and efficient use of our capital, I think it's a great story to say there's even more upside moving forward. I will point out we trade several multiple point discount to our peers. So we still have more work to do. I think the results will show in the future. And that would probably be the bull case for what's yet to come.

Q

Yeah. That makes sense. And we'll spend some time today obviously unpacking some of these growth initiatives...

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

A

Sure.

Q

...you just mentioned. But as a – another bigger picture question that I have for you, again this term you like to describe Carlyle is like institutionalizing Carlyle.

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

A

Yeah

Q

So what is it exactly? What does that mean for you?

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

A

Yeah. I mean the industry has evolved so rapidly and has grown to a humongous industry. And what we need to do is continue to put the investments into the organization to build out the platform that we have. We have close to 1,800 employees, 33 offices across the world in every single asset class you can imagine. And that platform is even made stronger when we develop human capital functions or capital markets functions, data and the digital specialists, procurement specialists, folks who know how to do carve-outs, so on and so forth. And so all of that investment that we put into the platform starts to help institutionalize the business of investing. And it all goes back to something pretty simple in the way I think about it, which is returns in the future can no longer be generated by thinking about financial leverage or multiple expansion.

The valuations are too high and growth is too hard to come by. You have to drive value creation, the fundamental operating improvements and operating improvements at your companies. You need platforms, you need scale, you need institutionalized processes and capabilities to do that. And so it's a whole process of adding skillset, ensuring that the company is well managed and well run and focusing on how do we bring much more value-add to our teams globally to drive value for our investors.

Q

Yeah. Let's talk about investment performance. Obviously, it all starts and ends with investment performance as we think about the opportunity for the asset class to continue to grow.

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

A

Sure.

Q

One of the bigger concerns that we hear from investors, that's the question that I think all of the firms in this space continue to get is, with so much dry powder on the sideline, with so much money coming into the space, how are returns really sustainable.

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

A

Right.

Q

So curious to get your perspective on this, especially from the angle of being a global player across various vertical, various industries, and how does that help Carlyle generate superior returns or sustained returns that you guys had over the last several decades.

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

A

Right. So you heard a little bit about my answer which is – well, first of all, I've been in the business a long time, close to 30 years. I've never been in a period of time where people are saying, boy, you can buy things cheap. You're always thinking that things are more expensive than you'd like them to be, and the current environment is no different, which is why you need the ability to drive fundamental operating improvements at all your companies to create value. But in terms of your – the issue you posed which is a lot of dry powder. People raised this issue with me all the time, but you can't talk about all the dry powder with the other side of the equation, which is the opportunity set for the industry and how that opportunity set is growing.

So it's not only private equity that keeps growing but new asset classes are emerging within private equity, being long-dated investing. In global credit, it is a fraction of the size of private equity. And despite all the money that's flowed into it, I think just given what you're seeing with banks and given what you're seeing in the financing markets, you're going to continue to see growth in private credit. It's moving to new regions in the world like Japan, third largest economy in the world, incredibly low penetration of private capital. I have a pretty strong view that Japan is going to be a huge market over time, over an extended period of time as private capital flows in, if you go to the Far East, China, India all growing much faster obviously than the United States. So you have to look at the opportunity set.

So when you take a step back – and let's just use Carlyle as a very simple example and it's just – and this is just a very rough math. As you know, we just successfully raised $100 billion of fund raising earlier ahead of schedule across all of our platforms to invest. On average, the investment periods for funds are, let's say, about five years. So that would say you need to be able to be on pace to invest about $20 billion a year to successfully deploy it. For the past two, three years, we've been on or at or above that pace. And so my point being, we feel we're fairly well sized for the opportunity set that has emerged around us, so despite the fact that, yeah, we're all raising a lot of money, I do believe there's also a lot of opportunities that are emerging. Now, in any given year, maybe it's a little bit this, maybe it's a little bit that, maybe our pace is a little bit slower, but overall, over the longer term in terms of the investment cycles that we have, I think the increase in the opportunity set is what's enabling the industry to absorb that dry powder.

Q

Right, along similar lines, the trend that we've seen over the last couple of years, yourself and again a lot of your peers went through the big kind of super cycle fund raising, right, so like larger funds, big flagships. And the question that comes up actually, is there a capacity constraint for some of those kind of global larger funds. So we've seen again $20-plus billion, $25-plus billion private equity funds. Obviously, folks investing globally [indiscernible] (00:15:59). How do you guys think about sizing some of these flagship funds going forward, now that you kind of have done the big race?

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

A

Yeah. We always think about sizing these funds, so that we can responsibly deploy them over a 4, 5, 6-year period of time and maintain and drive the rates of returns that we're shooting for. Right? So if we're looking to drive 2x type of returns, call it high-teens, 20% types of gross rates of return, at any given point in time when we raise the fund in the private equity business, we are thinking about like what are the size of deals, where is the deal flow coming and we'd deploy this responsibly over the investment period of the next five years and, knock on wood, so far we've been able to do that.

Q

Yeah.

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

A

So I'm a little – I'm not as worried about deploying than maybe others would think.

Q

Make sense. Let's talk about some of the other building blocks to the growth story in the management kind of priorities over the next couple of years. You've talked about credit. Carlyle obviously has a very robust CLO platform and it's a considerable amount of your AUM in credit, considerable amount of earnings. What else are you guys working in credit? How do you envision the credit solutions kind of evolving over the next couple of years as you build that out?

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

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It's a great question. We're touching just under $60 billion of AUM now, and I know a lot of people are thinking, well, Carlyle, they're trying to build their credit business. But we had a great business to start and it's an even better business now, and it's going to be even a better business looking forward. The whole concept of how we designed it was to have a platform approach, where we have not only liquid and performing loan type of a strategy capability in the CLO business, but we can – we now also have a very strong direct lending effort on the private side. We have moving next to that a strong opportunistic credit business. And then finally, anchoring the least liquid and the highest rate of return on part of the credit spectrum is our distressed business.

In addition, we've added the ability to do financings in the structured aviation market as well as we have initiatives going in infrastructure credit. But the basic platform of CLOs, direct lending, credit opportunities and special situations distressed is kind of the whole Carlyle platform. And I do think you're going to see continued growth on the opportunity side. I think you're going to see continued growth on the distressed side. Our CLO businesses, as you pointed out, is very strong and this is a scale business. And I believe our position in the market will enable us to keep growing with the market, if not get bigger. The direct lending space, I believe a lot of capital has flowed into the direct lending space recently. I like how we're positioned in it, which is more mid-market to smaller mid-market because I do believe that's where relatively speaking there's better pricing. But as you can see, it's more of a platform type of approach, where I want our limited partners to understand we can provide a whole spectrum of credit strategies, not just one and not just focused on one dimension of credit.

Q

Make sense. One of the more, I think, interesting investments you guys made recently is your venture with Fortitude.

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

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Sure.

Q

So, you announced acquiring a larger stake in the business, obviously helps you build out your insurance capability.

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

A

Sure.

Q

Maybe just for the benefit of the group, talk a little bit about what that structure looks like? What did you guys decide to acquire a larger stake, and what again you think – how are you thinking about the insurance opportunity set for Carlyle for the next couple of years?

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

A

Okay. Yeah. So, it's a great question. I think it's appropriate for me to take a step back and try to explain that strategy from the beginning because I think it might help people understand what we're trying to do. So let me just state upfront, we are not going to become an insurance company. I do not want to be an insurance company. I don't like the dynamics of the insurance industry per se. I know a lot about insurance, and this has nothing to do with Carlyle wanting to be an insurance company but it has everything to do with Carlyle extending our franchise and what is our core business of investment management, and making us – providing that service into the insurance sector which is trillions of dollars of assets that I believe could be managed in the alternative space for the betterment of insurance companies.

So it's an extension of our business and our capabilities into insurance. So taking a step back, what we initially did was we acquired, roughly speaking 20% position in Fortitude, which is a broadly diversified, very large existing business, in the legacy liabilities space within AIG, broad book of business, has been around for a while, and globally diversified. We bought 20% of that. And what we recently did – I'm sorry, let me just back up. So we bought 20% of that, and in conjunction with that we also structured an investment management agreement whereby Fortitude, which has close to $40 billion of reserves, its investment portfolio, which is quite large, a portion of that investment portfolio would be designated to be invested into alternatives that Carlyle would be the preferred investment manager for those assets.

So we made an investment into a platform called Fortitude, and in addition to that, we received an investment management agreement, which enabled Carlyle to invest some of the investment assets of that insurance company that were allocated towards the alternative strategies. So what we recently did was we formed a vehicle and we went to some of our LPs and some of our new LPs, and we raised capital. And we went to AIG and we said we'd like to figure out a way to acquire the lion's share of the remaining shares in Fortitude. And so roughly speaking, Carlyle still keeps at about 20%. This new vehicle will pick up about 70% or so. And in conjunction with a new investor T&D from Japan that vehicle, T&D and Carlyle now own about 90% to 95% of all of this thing called Fortitude. The strategy is to grow Fortitude moving forward.

There are [indiscernible] (00:22:48) of legacy liabilities in the industry that need to be properly managed with a view towards doing what's best for the policyholder. And a lot of insurance companies in the world are looking for solutions to figure out what to do with these legacy liabilities.

And so the plan would be to have Fortitude, which is again one of the largest players in the industry, go and start buying and acquiring these books of businesses. When you do that, by definition its investable assets will grow. And because Carlyle has the investment management agreement in place, where we are the preferred provider on the outside of investment services, we will benefit as Fortitude grows.

Q

All right.

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

A

So that's the theory and that's the concept behind our extension into insurance. And as this platform called Fortitude grows, we would fully expect to see continued rotation of assets from Fortitude's investment portfolio over to Carlyle for us to manage. It is a form of semi-permanent, if not permanent capital for Carlyle because Fortitude is a real company. It ain't going away anytime soon. It's the average duration on liability side is many, many, many years. Some of its policies are in place for 20, 30 years.

Q

Right.

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

A

And so the duration structure of Fortitude's liability side is such that this is in effect quasi if not permanent capital in terms of the assets that get rotated over to Carlyle to manage.

Now, second thing I'd point out is it's not like our expense base goes up materially to manage these assets. I already have all the investment teams in place, all the fun strategies in place, credit segments already exists, private equity business already exists. So all these assets that are coming in without the need for us to invest heavily in terms of an expense build. We're going to add some specialists but it's not going to be overly – it's not going to be crazy. And then finally the investment that Carlyle made itself off our balance sheet to secure that initial 20% position is performing so far great.

Let me just say mid-teens type of ROE, reserves are okay and we are seeing the pickup in fees that we thought we would be seeing when we did this deal on the asset management side. So – so far so good...

Q

Yeah.

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

A

I'll point out that the second part of this transaction has not yet closed. It's subject to regulatory approval.

Q

Right.

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

A

So we need to get that done sometime next year.

Q

Got it. Maybe one follow-up for that. We've seen obviously other players in the alternative space, go after insurance opportunities as well.

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

A

Sure.

Q

So, maybe spend a minute on what differentiates Fortitude's approach to growing the book and acquiring other contracts, and what's their angle because it does feel like this space is getting pretty crowded?

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

A

Yeah. If I had to say one thing it's we are more B2B than B2C. All the other folks what they're trying to do is a focused play on the annuity side, and they need to originate new business and new policies from the consumer through whatever channels in order to grow and then grow their asset management base. Whereas what we are doing is we are working insurance company to insurance company in a controlled fashion to buy books of businesses.

So, I kind of like our approach better because once you have to start thinking about throttling the spigot in terms of how much you're going to drive in terms of originations directly from consumers, it opens up a variable that I'm not so sure I love. There's a regulatory regime that exists when you're dealing with consumers which we do have regulators. We do have to deal with those types of issues. But it's a little bit different when it's like I said more business-to-business than business-to-consumer.

Q

Yeah. Yeah. We talked a lot about fundraising, the opportunity set [ph] you've seen for yourself (00:27:05) FRE, FRE margins obviously an important priority. Let's talk a little bit about the other side of the earnings coin which obviously is a meaningful driver for you guys potentially over the next couple of years...

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

A

Right.

Q

... which is the incentive fee growth and realizations. Given how much capital you have on the ground and how it's been aging pretty nicely over the last couple of years. If you look at Carlyle, and if you look at the industry, the pace of realizations has been pretty moderate, I would say over the last few quarters, few years, maybe help unpack what's going on. Is it a just choppier capital markets backdrop, more difficult opportunities to exit? Is it taking longer to derive returns that you ultimately are trying to target? And more importantly as you look out to next 12 to 24 months, what are your thoughts on the realization opportunity set for Carlyle?

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

A

So I would say yes to everything you're saying. It's a combination of a bunch of different things. But first and foremost, we have in the ground a lot more assets than we've ever had before. Like I pointed out 30% to 40% growth in terms of asset base of our largest funds. It has been invested relatively recently. So we just have a maturation issue with our portfolio. It's not a bad thing. It's a good thing. It just takes time to create value in the private capital formula. So that's point number one.

Point number two. I'd be remiss if I didn't say with all the uncertainty that exists in the environment at least this year it does make getting things sold a little bit harder. So I'm sure that has a little bit of an impact. And third when you have, as I described early on, in an economic environment that is slowing as opposed to picking up, does it add another year or two to the business plan of the cases that we underwrote? In some cases, yes. But when you throw all of that together, I would probably say this was more likely than not the trough year in terms of incentive fees. We expect based on what we're seeing that there will be a pickup starting next year. I can't time it for you in exactly what quarter, [indiscernible] (00:29:11) what the line looks like. But taking a step back, bigger picture, all of our major funds are more or less performing in line with their predecessor funds. These are funds that generated two times on the private equity side.

Q

Yeah.

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

A

So maybe a little bit delayed or in some cases a little bit faster and in some cases, the business plans are exceeding, in some cases maybe a little bit not so great. But when you throw everything together, with respect to our portfolios and how we're – the construct and how we see them playing out, assuming these portfolios stay on track, you're going to see an enormous amount of performance fees coming out over the next several years.

Q

Right.

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

A

I just don't have the crystal ball to tell you exactly in what quarter and when but that's the nature of our business model.

Q

Right.

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

A

And so the math of it is, I just don't see how – unless performance plummets, unless the world just blows up, I just don't see how mathematically you're not going to see an enormous amount of performance fees coming out. It's just hard to predict exactly when.

Q

Yeah. It makes perfect sense. Before I turn it over to the audience, I want to ask one more question around the C-Corp and we touched on that a little bit already.

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

A

Right.

Q

But obviously, you decided to pursue a full C-Corp which is a little bit of a different path than some of the other players in the space have done. How did you arrive to that ultimate decision?

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

A

Right.

Q

And obviously not – the fact that it's coming up on January 1 [ph] at this point in time (00:30:37)

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

A

Yeah. It's a great question. Look we did it very thoughtfully, and I'm really proud of our team. We looked at this very hard, and obviously at the benefit of studying what others had done as well. But we had this work in place for a long time and we arrived at the answer that, is Carlyle, we like to keep things simple. We like transparency. And we really want alignment. And you get that with the full C-Corp conversion. We only have one share of common stock. Each common stock only has one vote. We don't have dual shares. When we pay a dividend, the public shareholder gets the exact same dividend as an employee will get. We don't have to worry about sending different amounts of cash to the private side or the public side.

The governance, the insiders and the board representation is about proportionate, right. So, we just want to keep things simple. We want to keep things very aligned. We want to keep things as transparent as we possibly can. And I think the conversion is just a really good example of who we are as a firm and it's been pretty well-received, and I think it's best-in-class and hopefully it'll serve as the basis for more good things to come.

Q

Great. On that note I'll pause here. If there's any question in the room...

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

A

Yeah.

Q

One in the back.

Q

Thank you. I had a quick question about Europe. I think the kind of consensus and always you guys have big business there, I'm sure you're active and always you're looking for things [ph] when not (00:32:21) but taking a step back, the consensus I think it's been for a while that it's largely on investable or not, just not a fun place to park money right now. What would be the two or three KPIs or signals that would get you excited about deploying more capital in Europe? Like what would need to happen? Is it Brexit goes cleanly, and rates go up? What would be the two or three things that you'd look for to get kind of harder on Europe? Thank you.

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

A

Europe sometimes goes ignored with all the stuff going on with the China trade and domestic politics. Well, let me answer the question this way. At 7:30 a.m. this morning I was in Europe – on a European investment committee call. Europe despite what people think top down macro wise, I think is still a vibrant area for investing and we have to understand that change and disruption creates opportunity for us. So people are talking about Brexit, but guess what that creates dislocation. Our credit side has found lots of interesting opportunities in the UK. You also have to understand that Europe is not Europe.

You have to have people on the ground in France, people on the ground in Spain, people on the ground in Germany and we are seeing real opportunities emerge because of our local presence. And finally, a lot of these global companies in Europe has gotten a hit harder in the trade disputes than not because it's got a greater exposure to global trade.

These are companies that need to divest assets. We're in the middle of a lot of conversations in Europe, where we're trying to do carve-outs, for instance just a couple of years ago, [ph] maybe with that last less (00:34:05) we did the $12.5 billion carve-out of AkzoNobel now renamed Nouryon in the specialty chemicals space. And so while the real economy in Europe maybe economists may talk about some struggles and where's the growth going to come et cetera, and the politics of Europe are certainly for a different topic, the investible economy from a private side in Europe, I think is very real in a place where we found great opportunities over the past several years. And I suspect we'll continue to be attractive moving forward.

Q

Great. Well, I think we're out of time, Kew. Thanks very much for being here.

Kewsong Lee

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

Okay. Yeah. Thank you.

Unverified Participant

And I want to wish everybody happy holidays. Thank you.

Kewsong Lee

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

Thank you.