

11-Jun-2019

The Carlyle Group LP (CG)

Morgan Stanley U.S. Financials Conference

CORPORATE PARTICIPANTS

Glenn A. Youngkin

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

OTHER PARTICIPANTS

Michael Cyprys

Analyst, Morgan Stanley

MANAGEMENT DISCUSSION SECTION

Michael Cyprys

Analyst, Morgan Stanley

All right. So we're going to go ahead and get started this afternoon. I'm Mike Cyprys, Morgan Stanley's Brokers and Asset Managers Analyst and I've been asked to read our discloser statement. Please note that all important disclosures including personal holding disclosures and Morgan Stanley disclosures appear on the Morgan Stanley public website at morganstanley.com/researchdisclosures or at the research registration desk.

So it's my pleasure to introduce our next company The Carlyle Group. And with us today is Glenn Youngkin, Carlyle's Co-CEO. Glenn has been with the company for over 23 years. He is Co-CEO along with Kewsong Lee. Also here is Dan Harris from Investor Relations. Carlyle as you know is a diversified alternative asset manager with over \$220 billion of assets under management today across private equity, real assets, credit and investment solutions.

So Glenn, welcome.

Glenn A. Youngkin

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

Thank you, Mike.

Michael Cyprys

Analyst, Morgan Stanley

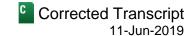
Let me turn it over to you to make a presentation and we're going to sit down and have a fireside chat.

Glenn A. Youngkin

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

Perfect. Then I'm going to do this reasonably quickly Mike, so that we have a good chance to chat. So thank you all for joining us after lunch. I'm going to do everything I can to be like caffeine and keep you rolling after lunch. So

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first, four big themes that I would love for you to take away. First, that Carlyle is a global leader in private capital investing, and what's happening in private capital today, second big point, is the industry is thriving.

There is great secular tailwinds and it's driving growth across the entire asset category of private capital and we are seeing it benefiting all four of our segments, and it's enabling us to not only grow through strong fundraising, but also with some strategic moves. And over the course of the last year, you will have seen us make a strategic move in our credit business to add aviation finance and in the insurance business in our joint venture with AIG which we call Fortitude.

Third is our returns have been consistently strong over a long period of time across the whole platform and that enables everything we do. And finally, we are well-positioned to drive distributable earnings growth. We've got three key contributors to that. One, fee-related earnings has been on a growth path and we expect it to continue to grow. Our realized performance fees are at the front end of a strong growth profile and we've got great underpinning there. And finally, realized investment income, where our balance sheet has grown today and is in a position to contribute materially to our earnings profile.

And so those three elements are now coming together and I think provide good underpinning on a go-forward basis, and I'll dig into each one of those here in a minute. So first of all and as Mike said, we managed \$222 billion today as a firm, four key segments, Corporate Private Equity with \$84 billion; Real Assets, which is real estate, energy, power and infrastructure, with \$46 billion. Global Credit has been one of our fastest growing segments at \$46 billion of assets under management today, and finally, our Solutions business at \$45 billion of assets under management, well balanced from an AUM standpoint.

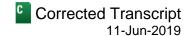
The underpinning of Kew and my real focus over the last year and a half in our new roles has been growing FRE that has been enabled by very strong growth in fee earning AUM. And you'll see just over the last two years, fee earning AUM has grown nearly 40% to \$160 billion of fee earning AUM. Just to remind everybody that these assets are locked up for a very long term. There's no redemption risk in these assets, and therefore, they provide a great underpinning on a long-term basis to our revenue line.

And finally, we have about \$9 billion of pending fee-earning AUM which are assets that we've raised, they're committed into funds, but those funds either haven't been turned on yet or are part of a fund where we get paid on the asset deployment as opposed to uncommitted capital, which is really the vast majority of our business gets paid on committed capital.

The sector continues to thrive and what you see on the left hand side is the last 20 years of private capital, and then far left, you'll see that the industry was running at a little over \$600 billion in assets under management, and 20 years later, we've seen Corporate Private Equity grow at about sevenfold and the other asset categories of real estate, private infrastructure, private debt, private natural resources grow at twentyfold over the last 20 years. And these growth rates on the right have strong underpinning in today's market. We see our investors continue to reallocate towards private capital and that is a great tailwind for our business.

Carlyle's performed well and that performance has enabled us to continue to raise capital and continue to grow the platform. Our average annual carry fund appreciation over the last three years is average 15%, that's compared to a 5% annualized benchmark for most of our competitors. That spread is critically important, the ability to outperform public alternatives that continues to drive reallocations and redistribution of capital from public to private. All the while, we've been returning capital, meaning we have been selling assets at profits, and we've returned on average \$28 billion a year to our investors, that's return of capital plus gain. And while we've been returning that nearly \$140 billion over the last five years, we have still been able to grow the firm.

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One of the big developments over this period has been the growth of our investment capacity. Over the last five years, we've averaged about \$18 billion a year in new investments in our private equity style funds. And the big message here, however, is five years ago, we were averaging about \$13 billion or \$14 billion a year in capital deployment and today, we're averaging well over \$20 billion and that just represents the growth in the platform. Very, very important part of our long-term performance is growing the investment capacity of the firm.

Finally, my fourth point is the underpinning to our earnings growth on a go-forward basis. First element, FRE. Kew and I have had a very, very laser focused attention on FRE. You'll see that over the last three years including our forecast for 2019, we've made good progress. We have a target of \$400 million for this year. We were at \$103 million in the first quarter, and so we think we will generate at least \$400 million of FRE this year.

Our margins have increased as well. We've guided everybody to a 25% margin for 2019, we were at 26% in the first quarter. And we do expect that over a period of several years, we'll move those margins up over 30%. So in addition to our ability to continually grow FRE looking forward, our investment platform is poised to generate a very large amount of realized performance fees.

On the left hand side, you'll see that over the last five years from 2014 to 2018, Carlyle generates more per unit of realized performance fees than any of our peers. And because our market cap is lower than many of our peers, it represents a much higher percentage. And indeed on the right hand side, our accrued performance fee balance of \$1.8 billion on our balance sheet today, which represents the realized performance fees that will come off our portfolio if it were all liquidated today, represents \$5.36 per unit. So we have an enormous amount of earnings horsepower already accumulated on our balance sheet to come out over the next number of years.

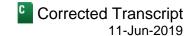
The third component of the earnings growth, of course, is our realized investment income. Just three years ago, our balance sheet had about \$400 million of investments on it. And historically, the Carlyle balance sheet had not invested much in our funds. It all came from the partner group. And over the last number of years, we have in fact systematically focused on building what we think is an appropriately sized balance sheet. Today, we have \$1.3 billion invested in various funds and securities and in Fortitude on our balance sheet, and we think that should start delivering interesting returns and earnings growth for our unitholders as well. As it says here, we have just under \$8 a unit of balance sheet per unit in value.

So we're committed to deliver great results. Kewsong and I have a very clear focus on setting expectations and meeting or beating them. We think that our leadership position and really our scale gives us a big advantage in the marketplace today and that is translating into strong investment performance and that enables us to attract more capital, grow the business and, therefore, continue to improve our firm wide financial metrics. So Mike, that is my quick introduction.

QUESTION AND ANSWER SECTION

Michael Cyprys Analyst, Morgan Stanley	Q
Great. Thank you, Glenn. You're welcome to have a seat over here as well, and we'll get started with the fireside chat. But first, let's take a little poll of the audience here as we've been doing this morning for the peer set. If we could bring up the first polling question to get a sense of some of the views here. Relative to the market or the cycle or the stock itself, do you think Carlyle is, A, undervalued; B, fairly valued or C, overvalued? 10 seconds on the clock.	
Glenn A. Youngkin Co-Chief Executive Officer & Director, The Carlyle Group LP	A
So I get to vote?	
Michael Cyprys Analyst, Morgan Stanley	Q
How about you tell us your answers after.	
Glenn A. Youngkin Co-Chief Executive Officer & Director, The Carlyle Group LP	A
Okay.	
Michael Cyprys Analyst, Morgan Stanley	Q
And the answer is A, undervalued.	
Glenn A. Youngkin Co-Chief Executive Officer & Director, The Carlyle Group LP	A
Right. We agree.	
Michael Cyprys Analyst, Morgan Stanley	Q
All right. There we go. And if we could bring up the second polling question. V drive you to buy Carlyle? Is it, A, growth and assets under management; B, for margin expansion; C, stronger investment performance boosting value of the performance fees [indiscernible] (00:11:26); or E, more positive outlook on ma of the cycle? 10 seconds.	ee-related earnings growth and accrued carry receivable; D, cash
And the answer is B, fee-related earnings growth and margin expansion. That been hearing from some of the peers this morning as well.	t's a similar answer from what we've
Glenn A. Youngkin Co-Chief Executive Officer & Director, The Carlyle Group LP	A
Right. No surprise there.	

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Michael Cyprys

Analyst, Morgan Stanley

Okay, great. And then third question. How much incremental benefit from C corp conversion do you see from current levels? Recall that Carlyle announces they are evaluating whether to convert or not, something we'll talk about. Is it A, less than 0%; B, 0% to 5%; C, 5% to 10%; or D, 10% to 15%; or E, 15%-plus? And the answer is E, 15%-plus. That surprised you there?

Glenn A. Youngkin

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

No.

Michael Cyprys

Analyst, Morgan Stanley

All right. Great. And last final question, what is the primary valuation metric that you expect will be the most commonly used in three years to value Carlyle? Is it A, sum of the parts; B, price to earnings; C, DCF; D, price to fee-related earnings; or E, dividend yield? 10 seconds. Primary valuation metrics that you expect in three years?

And the answer, well, we have a tie here between B, price to earnings and D, price to fee-related earnings. Now, compared to some of the other companies that were presenting this morning, D was a standout in terms of price to fee-related earnings.

Glenn A. Youngkin

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

Yeah.

Michael Cyprys

Analyst, Morgan Stanley

P/E tie here. Interesting. No one had asked me in an earlier fireside chat what I expected in terms of...

Glenn A. Youngkin

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

I was about to do that.

Michael Cyprys

Analyst, Morgan Stanley

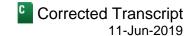
You turned it on me. I think the industry over time would be moving to the P/E, which is what we've been writing about. Does that surprise you?

Glenn A. Youngkin

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

No. I think there is such a balance here. We have a strong fee-related earnings profile to grow and yet we generate significant earnings off of performance-related fees. So I think capturing both in distributable earnings and using that as the key metric is important. And that's why back in January, we were very, very focused on simplifying the way that we report to give the investment community a much more straightforward way to it to

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evaluate us. And we felt like DE which is a combination of FRE and, of course, our fee-related earnings was a very important metric.

Michael Cyprys

Analyst, Morgan Stanley

Now, you were named Co-CEO effective last year with Kew. Can you talk about some of the changes that you have been making to the business, how you're managing that differently? Maybe tell us a little bit about your day-to-day...

Glenn A. Youngkin

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

Yes.

Michael Cyprys

Analyst, Morgan Stanley

[ph] and then your own (00:14:27)?

Glenn A. Youngkin

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

So, we're about one-and-a-half years into this, and Kew and I have a very clear view of what we need to do, and what we're focused on. Number one, we're focused on continuing to drive the investment performance and to invest in the investment capabilities of the firm. And at the end of the day, we're an investment firm and we must continue to see growth or continue to see performance in the way, we handle – manage capital. The spread over the public benchmarks and the ability to generate real alpha across each one of the investment areas is the key.

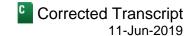
And so we continue to focus on driving investment performance and investing in our investment capabilities. And in fact, we've talked about that the most in credit, and people have seen us adding capabilities across our credit platform, as our credit platform has been the fastest growing area of Carlyle. So that's big focus, number one. Big focus, number two, is growing the firm.

And what we have seen time in and time out is that with the tailwinds behind the sector that I showed earlier and the strong performance, our investors are shifting, truly shifting allocations away from lesser performing areas into private capital and, therefore, we see growth coming from both raising bigger and larger funds. And that's been our \$100 billion fund raising target that we've been driving against. And we're in year four and that was the fourth year of the target. We've effectively met the target as of the first quarter and we would expect to end the year at about \$110 billion against the \$100 billion target.

The second area that we are seeing growth is inorganic growth and making some selective strategic moves. And in our credit business which again we see as a great opportunity to grow, we acquired Carlyle Aviation last year, it came with \$5 billion of AUM and gave us a very strong presence in aviation finance, which is part of an overall effort to grow our Real Assets-related credit business. We also bought a 20% stake in Fortitude last year which was a subsidiary of AIG and now it's a joint venture with us and it provides basically permanent capital for us.

Our arrangement is that our \$500 million – roughly \$500 million will go in, roughly \$400 million upfront and then \$100 million earn-out. We'll earn a very attractive return as an equity holder, but we also have an investment management agreement that enables us to rotate over approximately \$6 billion of assets over a 30-month period and we are now the preferred provider of all private capital investing activity with Fortitude Re, and we would hope

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to be able to grow Fortitude Re over the years and garner additional assets. That was – the second big focus has been growth.

The third big focus has been to drive fee-related earnings. And I hope it's not lost on anyone that the fee-related earnings is important. Carlyle historically has not had a big focus on fee-related earnings, and Kew and I put it square in the middle of our agenda. And so we have been not just driving fee-related earnings up but we've been doing it systematically and letting you all know where we think we're going to go. And we think that establishing that rhythm of setting targets, telling you all what our targets are and then meeting or exceeding them is incredibly important.

And then finally, we have been finding ways to be more unitholder friendly. And I think the first step of that was in fact transparency and what we're trying to get done, setting targets and then helping everybody understand how we're going to get there over time particularly around fee-related earnings. Second of all, our simplification of our earnings reporting into distributable earnings and dropping ENI. I don't know about all of you, but I found ENI to be hard to explain. And so it's the way we run the firm with distributable earnings with fee-related earnings and realized performance fees and realized investment income. And so we felt that it was another way for us to keep marching along our stated objective to run Carlyle in a way that is more unitholder friendly. So those have been our big four objectives we've been up to.

Michael Cyprys

Analyst, Morgan Stanley

Right. You've made some impressive progress on the fee earning AUM up about 30% or so over the past year mostly driven by private equity. I guess as you look forward from here, what strategies do you think will be the most meaningful in terms of incremental growth from here?

Glenn A. Youngkin

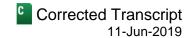
Co-Chief Executive Officer & Director, The Carlyle Group LP

So one of the great things about our private equity business is it's an industry leader, a true industry leader. And out of the \$97 billion in capital that we have raised as of the close of the first quarter, over \$30 billion of it came from our big three private equity funds. And so the growth in fee-earning AUM and private equity is quite visible.

Meanwhile, we have been systematically building Real Assets credit and the Solutions business has been a little slower because they have a one-off that they're still managing from a legacy AUM position with some of the original owners. And we see growth opportunities across each one of those businesses. The earlier slide I put up, Mike, which shows 9% and 12% and 14% tailwinds of compounded AUM opportunity we see is a real opportunity. Now credit for us has been such a focus and we're now starting to see the scaling of the business. We are now running at an annualized rate of about \$300 million a year in management fees. We're starting to see our margins come up a bit because we have been investing in operating expenses in order to provide the investment capacity to handle the growth.

We will continue to invest in the expense base. [indiscernible] (00:21:08) recently we have seen that we added a head of infrastructure credit, again, focused on this area of credit investing in areas related to Real Assets. And so we're going to continue to invest in the expense base there, but we're starting to hit that point where the revenue growth is going to begin to outpace the expense growth. We won't see a big pop in margins yet, but we will see a gradual expansion.

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Michael Cyprys

Analyst, Morgan Stanley

Okay. And the credit platform, that sounds like is a big priority at Carlyle right now. Can you just give us an update on the progress there and how you're building out the credit platform?

Glenn A. Youngkin

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

Yeah. So, just pick up, our credit platform today is basically two times the size it was three years ago from an AUM standpoint. And that kind of growth has been I think built on the great performance of the credit strategies, but also the addition of some very important select strategies. We talked about aviation credit and how that brought with it \$5 billion of AUM, but it also gives us another anchor along our energy credit business and now with infrastructure credit to get built in Real Assets. Our opportunistic credit business, which was started really from scratch two years ago under the leadership of Mark Jenkins who runs the entire credit platform, is now becoming a real mover for the business and we expect to finish that fundraising this year. And then our direct lending business or what people might call real private credit, has really scaled over the last three or four years as well. So we've seen in a lot of our new initiatives the step-up in AUM and as a result the scaling.

And then finally, our distressed business, which is very quiet, continues to be a really strong performer even in a market where there's not that much distressed. They've had top quartile funds and continue to see opportunity for incremental capital raise when they come back to market. So we'll continue to add strategies that are scalable. We'll continue to scale the newer ones that we've got and we'll continue to build on top of some of the older strategies. And that's why as the investor universe continues to shift allocations to private credit in this market, we expect to gather a little bit more than our respective share.

Michael Cyprys

Analyst, Morgan Stanley

And given that we're late cycle, how do you navigate building out and growing our credit business in this broader macro environment and think about balancing the growth versus the risk?

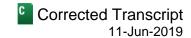
Glenn A. Youngkin

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

Yeah. And I think the key here is the fact that growing a credit business today is funded by the desire to form capital entities, to take advantage of credit investing over time. And so the great thing about our business is somebody gives us a capital commitment today, we don't have to invest it all today. We have a number of years to get it invested and that allows us to be quite selective. And so the key to growing the credit business today is the appetite from investors to increase their exposure to private capital. The tricky part is to make sure that you are investing it well today. And I think there's been a few developments over the course of the last couple years, which have really reinforced the fact that while we may be in the latter part of this growth cycle, this growth cycle seems to be going for a lot longer than anybody anticipated and, in our senses, it can continue to go for a while, although we need to be prepared in case it doesn't and that's the challenge of being an investor today.

So, in the credit business, we've done things like in our direct lending businesses predominantly move to senior positions, 80% of our direct lending business has been moved into senior positions. We just think that is a much stronger place to be and while the returns are slightly lower than taking more risk, I think that risk/reward is certainly worth the rotation. The second thing that we've historically been very, very, very strong and distinctive with is our profile of defaults and we have a very strong record of low defaults and therefore we tend to have a portfolio that is a little safer and therefore lower defaults and therefore through cycle better performance.

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Michael Cyprys

Analyst, Morgan Stanley

Okay. Maybe shifting gears a little bit. On your most recent conference call, you laid out the reason why 2019 performance fees are going to be a bit lower versus 2018, but just hoping you can give us a little bit of update on that, how you're thinking about that particularly in the context of where markets have rallied year-to-date?

Glenn A. Youngkin

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

Yes. Well, the great thing, Mike, is that that conference call was six weeks ago. And so, in our world, not a lot changes in six weeks. And as a result, our expectations for the year are the same that realized net performance fees will be below where we were last year. It has everything to do with timing. The funds are performing well. We told everybody in the last call that when we take our largest funds and we compare them to the previous vintage that they are performing at or better than our previous vintage and our previous vintage of funds have turned out to be a wonderful vintage of funds. And so we have a high degree of confidence in where the funds are performing, but the average age of the investments in the funds is just a little bit younger today.

I think an important measure of that is that today while we have about \$80 billion in our carry funds in the ground, only about 24% of it is in investments that we've had for more than four years. And just a few years ago, three years ago, that would have been over 40%. And so this young portfolio needs time to develop. I tried to get Kew to say this in the last call and I couldn't talk him into it, but the idea we will sell no wine before it's time. You just don't want to rush in and sell these companies too quickly. The average mark in our big buyout funds today for the most recent vintage that's been fully invested is 1.4x and the previous vintage of funds has averaged 2x and that half a turn is a wildly important half a turn or performance. And based on where things stand today, we see no reason why those funds won't perform at least as well.

So what that means is that during 2019 we're going to continue to let the portfolio perform. We won't be selling things. We will be selling things, but not at the same level that we might have in previous years. And when we do sell things, we'll be at a point where we may not take care yet. Now, again, all of that is timing and we do feel a very high degree of confidence that the funds will perform, that the performance fees will be realized and the aggregated [indiscernible] (00:28:47) or the \$5.30-odd that's on our balance sheet just in performance fees today will be realized over time and by the way should grow [ph] in amount (00:28:58).

Michael Cyprys

Analyst, Morgan Stanley

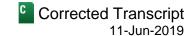
Great. And just given that lens that you have in your portfolio of companies, just hoping you talk a little about the growth that you're seeing out there more broadly, economic growth, any potential for a recession. It sounds like the portfolio is performing well. Any sort of color you can share around revenue or EBITDA growth too?

Glenn A. Youngkin

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

Yeah. Mike, we do see growth slowing in the portfolio. A couple quarters last year, the portfolio was growing revenue wise and EBITDA wise 10% or higher and we've seen that come down but it's still growing at a solid clip and that underpins our view around the world that the economy around the world while growth is slowing is installing and couple that with very low interest rates and an enormous amount of liquidity in the world today and we conclude that this low growth, low interest rate, high valuation environment has a prospect of continuing for quite a while.

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What that means is that it's very good for the current portfolio and what it also means is it's – you got to work really hard to find good places to deploy capital where you can see the kinds of returns that we demand. Now the one caveat I would make is that, listen, the current trade environment and the fact that the presidential election next year will be exciting to as an understatement. It will cause, I think, increased volatility and we'll see the public markets swing more than even we have seen swing I think, that just creates opportunities for us.

So we think that long-term environment is good, there will be moments that could suggest that there is an economic reset coming. But the fundamentals continue to appear pretty good.

Michael Cyprys

Analyst, Morgan Stanley

So against that backdrop you have \$75 billion in dry powder I guess, can you talk about where you're finding opportunities, the most compelling opportunities to deploy capital.

Glenn A. Youngkin

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

Yeah. So the good thing about having \$75 billion of dry powder is that in our – in the grand scheme of Carlyle where we're investing \$20 billion, \$22 billion a year it's three years to four years of investing activity. And so from a sizing standpoint it gives us enough horsepower to do our business well. Now with that said its \$75 billion that we have to go find a good home for. And we do see opportunities around the world that are offering the kinds of returns that we expect. Healthcare continues to be an extraordinarily good theme, healthcare investing through our credit portfolio, through our real estate portfolio, and through our Private Equity portfolio around the world.

We continue to see opportunities in carve outs and with M&A activity picking up a bit, large conglomerates are reshuffling their portfolio and we have seen really attractive opportunities to buy existing companies and carve them out of a much larger owner. That's a very distinct skillset. It requires a lot of patience and capability that we have embedded in our investment teams, IT carve-outs, management team construction, change management. And we've demonstrated a rather unique capability to do that. Third big area is companies that are displaying disruptive tendencies or capabilities but we're not talking about venture. But in the healthcare world, we bought a business called one medical, which is truly changing the way that patients manage their data and their interaction with their healthcare networks and their physicians. The company generates a lot of revenue and a lot of EBITDA, so it's not – nowhere near a venture deal, and yet it is really showing very strong disruptive tendencies for the industry.

So we find growth sometimes its top line growth, sometimes its earnings growth, by operational improvement, but the key for us is to look for areas to invest where we are not relying on data, where we're seeing real growth that we can – then value and unfortunately have to pay up for.

Michael Cyprys

Analyst, Morgan Stanley

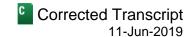
But there's a general view that Private Equity returns are coming down...

Glenn A. Youngkin

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

Yes.

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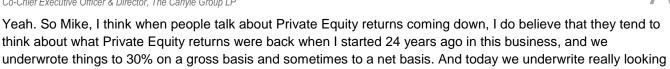
Michael Cyprys

Analyst, Morgan Stanley

...as we look forward from here I guess, what do your clients expect in terms of returns in Private Equity? And what levers do you need to pull today relative to what you've done in the past?

Glenn A. Youngkin

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



for high-teens on a gross basis, which translates to a mid-teens on a net basis. And oh, by the way that's the way the industry has been for three years, four years, five years, six years now. And so that's not a fundamental shift over the last few years in valuation expectations and return expectations, but it is over a 20 year or 25 year period.

What investors are looking for is the premium. It's the premium, and it's averaged in Private Equity 400 basis points or 500 basis points over public market comparables, in private credit, its averaged 200 basis points to 250 basis points, over comparable private or public comparables. In real estate, it's averaged 200 basis points to 250 basis points over three years or five years, that's what investors are looking for. They're going to give up their liquidity in order to get the higher performance. And therefore our job is to continue to generate that spread. How do we do it? It's a little bit in my earlier comment where 25 years ago our business was really based on finding a good company, negotiating a good entry price, putting some leverage on it and off we go, and I always tell the story that the very first investment I worked on it was me and one of our founders, just the two of us who did it together, we did everything. And he did some of it and I did a lot of it, I was the associate.

Today the industry has changed substantially where a transaction like the carve-out of the Specialty Chemicals business of AkzoNobel will have 100 people on the transaction team, half of which are internal, half of which are external. We'll build a business plan that has an extensive value creation plan with it much of which will be supported by internal Carlyle resources, IT carve-out, management team construction, expansion around the globe; we support our companies to an extensive degree with internal resources. Just recently, we were named the lead developer of the redevelopment at JFK Terminal One, the international terminals of JFK. That execution team has 550 people on it. That will do everything from design, build, own; operate a brand new Terminal One at JFK. So our business has just transformed materially from a financial game, to much more of a value add earnings driving game and the firms that can do that well. The firms with scale have a real advantage. And firms that are thin and show up with two people are not going to perform well over time.

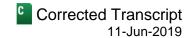
Michael Cyprys

Analyst, Morgan Stanley

Why don't we see if there's any questions in the audience here. Yes, right up here in front row. You just wait for the microphone.

[indiscernible] (00:37:22 - 00:37:28) by you are going into the aviation purchases. I feel that there is way, way, way, way too much money chasing those deals. What made you think your deal was different and smarter?

Morgan Stanley U.S. Financials Conference



Glenn A. Youngkin

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



Yes, thank you. So the question is around the rationale behind Carlyle Aviation. So the aviation business today, the airline business is underpinned by one basic theme, which is airlines don't want to own anything. They don't want to own aircraft. They don't want to own airports. They don't – they literally want to run an asset-light business. And as a result, the aviation finance business has grown materially over the last number of years. We see it taking another step function change because of the technology change that is happening in the airline business where far more fuel efficient aircraft are going to wholesale replace the existing fleet over a period of time.

And so, the demand for capital in order to support this rotation, we think will be very large. And then, the firm that we were fortunate enough to be able to acquire and we bought 100% of the Carlyle Aviation. Mark Jenkins, our Head of Credit chairs the investment committee, they're all employees of Carlyle, has a very unique position in the market and their position is unique because they're more than just a financial player. They actually have extensive operating capacity to in fact manage the aircraft. They can take them off lease, they can in fact refurb them, they can put them back on lease. They can-they have a spare parts capability. They can manage the engines. And so the combination of the macro effect in the market of a much – of significantly increase in demand for aircraft financing and the ability to manage these aircraft through cycle and through life is really important. We also finally felt that this group could really support new aircraft and mid-life aircraft and they're very interesting finance opportunities for both. They have a great track record and as a result we think we can grow them.

Michael Cyprys

Analyst, Morgan Stanley

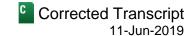
Great. I'm afraid we're going to have to leave it there. We're out of time. Please join me in thanking Glenn Youngkin. Thank you.

Glenn A. Youngkin

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

Thank you.

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