PARTICIPANTS

Corporate Participants

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

MANAGEMENT DISCUSSION SECTION

Unverified Participant

Thanks so much, everyone. I hope you're enjoying lunch. For our lunch keynote speaker on day two of the forum, we're really pleased to welcome back Carlyle Group Co-Founder and Co-CEO, David Rubenstein, as our keynote speaker. Along with his Co-Founders, Bill Conway and Daniel D'Aniello, David founded Carlyle in 1987. And over the past 27 years, Carlyle has amassed into a fully-diversified and global alternative asset manager.

Those who don't know David often find it surprising that private equity is actually David's third career after practicing law and serving within the Carter administration. In my view, any introduction of David's career is incomplete without acknowledging his wide and deep philanthropic efforts. David is a member of the Giving Pledge and amongst others, notable items, he is Chairman of the Board of Trustees of the JFK Center and Duke University. David is a Regent of the Smithsonian and President of the Economic Club of Washington, D.C., where David conducts, what I believe are some of the best contemporary interviews, if you've never seen them, of financial, political and overall society leaders – maybe a fourth career in the making, David.

So everyone, please join me in welcoming David Rubenstein.

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

Thank you very much. Before I start, I'm just curious to get a sense of the audience. How many people are here from the East Coast of the United States? How many from another part of the United States? Anybody from outside the country? Okay. How many people are worried about getting out of here? Okay. How many people think Credit Suisse is going to get a plane, arrange for you a private jet to take you back to your home? Anybody? Nobody. Okay, so..

Unverified Participant

[indiscernible] (0:01:54).

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

What?

Unverified Participant

[indiscernible] (0:01:55).

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

Right. I have – in some other lives, I do some interviews of people and I found that it's just fun because you can ask people questions and it's enjoyable. And it's just to remind myself about one that was fun. Recently, some of you may have read about it, when Harvard was going to kick off their capital campaign, they asked if I could get a dropout from there to come back and let me interview him.

So I called Bill Gates and said, would you come back and do an interview and they won't ask you for money in this part of the capital campaign, just do the interview. So we did and it worked out reasonably well. But I asked him one question and it got a lot of attention around the world. And maybe if some of you saw this, I said, "Explain this to me. You were an inventor of one of the software we all use. Why do I need three fingers to turn on my computer?"

Have any of you ever had control alt delete? And he started explaining that they wanted to have a system, where you couldn't accidentally [indiscernible] (0:02:59) battery would die. So they thought what would be something that you intentionally would do? So three fingers, obviously, is not an unintentional thing. But then he started explaining, said, you know what, we made a mistake. We shouldn't have done it. And all of a sudden, it kind of went viral because people are saying for 25 years, I've been turning on my computer with these three fingers and now he is telling me it's a mistake. But I don't think they're going to change it, anyway.

I do like to be here and I appreciate you inviting me. I was here to speak not too long ago at this hotel and I landed not too far from here. And I had to quickly make it here, but I had to change. So I was looking [indiscernible] (0:03:37) I looked for a motel, somewhere I could change quickly, so I could just change and come here and look presentable. This was about a couple of weeks ago.

And so, I got the driver, [indiscernible] (0:03:46) get me a place that's a motel or something. I just wanted to change for a few minutes and I couldn't find anything. Finally, we get into a motel and I rushed up there and say, I want to come in and can you give me room for 10 minutes or so, maybe 15 minutes and they say, jeez, I don't know. They said, do you have a credit card? I said no, I left in the plane and I don't have a credit card, I'll just give you cash.

They said were you here by yourself? I said I got this guy in the car with me and so, finally they said, what kind of hotel do you think we are? And I said, well I just needed for 15 minutes. I'll pay for it fully. That brings the manager out. The manager comes out and says okay, you got cash, you want this for 15 minutes, you got that guy in the car. Okay, so, I get in there and thinking, if I have a heart attack in the – while taking a shower, the headline is going to be Carlyle Founder dies in a heart attack in his shower. He rented to the room for 15 minutes with some guy in the car. Anyway, it didn't work, it didn't happen.

My firm has earnings on February the 19th and when you're a publically traded company, as y'all probably know, the lawyers come to you all the time, and say, you can't say anything you're not supposed to say prematurely. So, I have here the earnings script and I was going to read it. But a few minutes ago, Dan Harris said, just don't read the script.

So, what I'm going to do is talk a little bit about the industry and just a little bit of about Carlyle, but nothing that will get me in legal trouble. So, I hope all of you will listen to the earnings call on February 19. But let me just give you some perspectives on the private equity world and let me see – let me start with the first one here.

So, the peak year, there are three and there are many different ways to measure private equity success in ongoing activity. These are three, but not the only three, but three major indicia that people use. And these are – this is private equity, not all alternatives, just private equity.

Interestingly, in the peak year, which was 2007 for fund raising, it was $667 billion that was raised. And although there's a lot of fund raising going on and we raised a fair amount of money last year. Other firm did as well. Despite all of that, $437 billion is what we – what was raised last year. So it's still about 34% below what it was in the peak, so think about it. And why is that?

Well, one of the reasons is there's more competition. It's slower – the decisions to make an investment is much slower than it used be, used to be the average fund raising period was nine months, and now it's about 18 months. And there has been a denominator effect for a while and it's taken a while. But interestingly in Carlyle's case, we have many more fund raisers than we had before, but we still haven't really raised as much money as we did in 2007. I think in 2007, we raised about $30 billion with fewer fund raisers than we have today, and we raised a fair amount of money, but still not as much as we did in 2007 and that reflects the industry. So, interestingly, the point is that money is being raised and people are committing money, but it's still well below this enormous year of 2007.

Deal volume, you can see deal volume, which is the total dollar volume of deals, which includes equity and debt. For 2007, it was $777 billion, not surprisingly as you probably all know, it wasn't anywhere close to that $368 billion or 53% below or 53% off the what it was at the peak. So, it's not a secret that wasn't – there weren't a lot of deals done last year relative to other years. It did pick up towards the end, but it's surprising how much lower it was than it was the peak. The interesting number though is distributions.

In 2012, $115 billion was given back and probably around in the 2007, 2008 period of time, the number was probably closer to $85 billion or $90 billion. Last year, it was $120 billion. So, well above what it was even in the peak years of 2007, 2008, and even above 2012. And why is that?

Well, private equity firms have a fair amount of money that they've invested over the years. They're now liquefying it. The markets have been really robust and that produced $120 billion back to investors. So obviously that money will get recycled. But anyway, I just thought it was interesting to see that in two areas, fund raising deal volume were way below with the peaks. But in distributions, we're actually above and that probably indicates that investors are going to be reasonably happy and probably will reinvest a fair bit of that money.

So what I'd like to do is talk about 10 trends or things that I think you're going to see in the alternatives world in 2014. I wish I could tell you all these were brilliant ideas that I came up with in the last couple of weeks and none of you ever heard of before. I can't tell you they're bad, unique or brilliant, but I did think that some of the facts might be interesting to some of you and let me go through them.

Obviously, individual investors will be increasingly importantly, all right? That's probably not a surprise to you. But let me describe what I mean. In the early days of private equity, the people who put up the money, the early, early days were the wealthiest families in United States, the Rockefellers, the Hillmans, the Whitneys and so forth.

And then in 1978, when the ERISA funds were allowed by the Carter administration's Labor Department to come into private equity, the public pension funds dominated the capital for private equity. And they became between 25% and 30% of the private equity funds. Individual investors, more or less went down there. The wealthiest people did go in, but individual investors were not a major part of the private equity world, that has changed.

Look at this. If you think and look at the capital committed by high-net-worth individuals and family offices, in 2008 to 2010, roughly 10% of the capital committed to private equity funds was coming from high-net-worth individuals or family offices. In 2011-2013, that number is 19%. Now, why is that? Well, there are two reasons for one [indiscernible] (0:09:42) that I will mention. One is after the recession, the last four or five years of low interest rates, people who are individuals are saying, I don't really get any money from my cash. I'm getting no returns [ph] net (0:09:53). Fixed income isn't as attractive, even public equities, except for maybe last year, hasn't been all attractive. So I want higher rate of return kind of things and private equity has been very consistently above everything else. So, I want to put some money into that.

In addition, another phenomena that has risen is aside from this demand and recognition by individual investors is firms like Credit Suisse and comparable firms have recognized that they have these large private wealth management operations. And many of their clients are saying, "Well, jeez, I'd like to be in private equity. I'd like to be in the better-known funds. How can I get into them? I don't have the normal amount to put in a minimum of $5 million or $10 million, but I can put in $1 million or $0.5 million."

And so, Credit Suisse and comparable organizations are rounding up these individuals and saying, well, we can offer you Blackstone fund A or Apollo fund B, or Carlyle fund C, and it's a very profitable business for everybody because Credit Suisse in its case will charge a fee to us. And so they're making money by making this available to their clients and the clients are happy because they're getting a higher return kind of things [ph] than before (0:11:02) and we are happy because we have a new source of investment capital.

And I think this trend will continue, but it's not just the Credit Suisses and the Goldman Sachs and JPMorgans that are doing this, it's the regional brokerage firms, Raymond James and smaller firms and that are now rounding up these individuals in feeder funds. And the feeder funds do charge some fees that the regular investors might not pay, but people are very happy with it, nonetheless, and this is the reason.

If private equity today can yield 16%, 17%, 18% in good funds and something like that is what people expect, even with the overlays that somebody's feeder funds might charge, if you're getting 14% or 15% net, 13% net, for most people in the world, that's a pretty good return.

And so think about it, on your own cash accounts, your own IRAs, or 401Ks [indiscernible] (0:11:49) your money, if you knew you were going to get or fairly certainly you were going to get a 13% or 14% rate of return from being in a top quartile or very good private funds organization, you might do it. And so, that's why a lot of individuals are signing up. This trend will continue.

And one other trend that will continue is the trend of having smaller and smaller investors come in, in this sense. Right now, we're dealing with accredited investors. They have a $250,000 of net income, $1 million of net worth and that's the people that can come into these funds. You will be seeing people coming in, who are not accredited investors through different vehicles that are being developed.

In shortly, I think 401ks and IRAs will make available on their platform the opportunity to go into Blackstone or Carlyle or TPG through a certain percentage of the amount of money that somebody might have in a 401k. And it makes sense when the government recognizes that this makes sense, and let me explain the reason.

If you're in a – if you inherit $10 million, [ph] but if you weren't an idiot (0:12:50), you can take that $10 million and put in anything you want to, do whatever you want. The SEC says you're smart because you have $10 million.

If you went to the best college in United States, you graduated first in your class, you were a major in economies and a minor in financing and [indiscernible] (0:13:04), you're not accredited investor, probably. And even thought you make a low amount of money, you need higher rate of returns [indiscernible] (0:13:11) not able to go into the Carlyle or Blackstone funds. Well, the government is beginning to recognize that's not fair. And so increasingly, you will see opportunities for smaller investors, not accredited investors to go into private equity and other kinds of top – illiquid kind of assets, and I think that will be a major trend that you'll see beginning this year and next year and continue.

Global alternative asset managers will continue to grow their market share. Okay. So, this may sound self-serving, but I suspect every speaker that comes here is somewhat self-serving, so you probably wouldn't be surprised for me to say that organizations like mine are ones which are getting market share increasingly from money that's coming in. What this chart shows is that of the money coming in to private equity in the year 2006, alternative manager, not the private – all alternatives in 2006, 6.8% of that was going to the well-known firms, the big private equity firms that are now publically traded, the ones you know, Apollo, KKR, Blackstone, and so forth.

Now, in 2013, that number went to 10.9%. Now, why is that accreting? Well, it's accreting for the reasons on the right. A lot of people are saying okay, there are so many private equity funds out there. There are 5,000 private equity organizations. I don't know which ones are going to have all the things I want. But increasingly these large organizations have these factors, stability, brand, size, transparency, and so forth. And that is driving people more and more to say, when I put my alternative dollars out, I want to be in one of these brand name organizations. And that's why this number I think will continue to accrete up that way.

Emerging markets are continuing to increase as both a source and a destination for capital. And let me make it clear what I mean by emerging markets. That term was invented in 1981. It was only supposed to apply to 20 countries. Now, everybody wants to be an emerging market because it sounds good.

There are officially about 90 emerging market countries. And interestingly, think about this. The emerging markets are today 85% of the world's population, 85%, and they are 55% of the world's GDP. Yet, today, 2013, only 13% of deal volume – these are private equity numbers – of 13% of the deal volume is invested in the emerging market, so 85% of the population, 55% of the GDP, but only 13%. Probably that's going to continue.

You can see in 2002, obviously the beginning of the century, only 5% of all the money invested in private equity was going to emerging markets. And that's because these markets were relatively immature. They didn't have the opportunities to do the kind of buyouts that we often talk about in the United States and Western Europe. But that trend is continuing and I think will continue fairly dramatically.

The chart on the right is interesting as well. It shows a different point of the money being raised by people like us, what percentage is coming from the emerging markets. Well, in 2006, 11% was coming from the emerging markets. Now, in 2012, the last year for which we have numbers, it was 20%. So, one-fifth of all the money that firms like mine are raising are now coming from the emerging markets.

Now, you might say, well, how come they have so much money, if they're emerging? Well, Abu Dhabi Investment Authority, Kuwait Investment Authority, the Government of Singapore Investment Corporation, the China Investment Company, all these emerging markets have these sovereign wealth funds that are very, very large and significant. The National Pension Service of Korea is like roughly now $400 billion. The Norwegian sovereign wealth fund is, I think, roughly $800 billion.

And one of the things that these sovereign wealth funds have in these emerging markets as an advantage over the public pension funds in the United States is this. The public pension funds in the United States, which have been the biggest source of capital, they are – they have to payout money every year to the pensioners.

These sovereign wealth funds, by and large, they don't really payout much money. They have to – they can aggregate it, and so they're growing at a much faster rate than any public pension fund in the United States. So, there will be increasingly a big source of capital and a lot of those funds are in emerging markets. So, I think these trends will likely continue.

Returns will be likely lower than they have been historically. Okay. So, if you take a look here, over the last – from 1986 when Carlyle was more or less formed, 1986-1987, to today, the overall private equity fund IRR net is roughly 15%. For the first 10 years of Carlyle's existence, just to use that as 10 year numbers, it was roughly 21% and now it's roughly 12%. So the first 10 years, 1986 to 1997, more or less it was 21%. It's now roughly 12%. The last 10 years, a median 15%. So, that's the net internal rate of return, all right?

Now, the more relevant figure – though, the net overall number is important – I think is the returns on the – compared to the public market indexes. So you can see that overall public market indexes were not as good as buyout funds overall, but the more important number is the top-quartile numbers. Take the top-quartile buyout funds, this color here, you can see that over a 5-year, 10-year, and 20-year period of time, these numbers dramatically outperformed the public market indexes. And that's really what's fueled the growth of private equity.

Private equity had $3 billion – $3 billion committed to it in 1980, invested in the ground and committed, total $3 billion. Now, it's $3.3 trillion. So it's gone up by a thousand times. No other area of money management has accreted that much in that period of time. That's because the rates of return are very good.

The thing that's interesting though is rates of return are coming down. They're still going to be attractive. The top-quartile funds will be attractive. But the rates of return are coming down. And despite the fact they're coming down, because they're – relatively speaking – so attractive, more and more money is coming in. In other words, you would think that if returns are coming down, people would allocate less money to private equity, but actually they're increasing their allocations.

So, here's what I mean. Again, returns are coming down overall. They're probably better than public market returns. But overall, all returns probably are coming down. Yet, investors are increasing their allocations.

So right now, you see – private equity allocations as a percentage of total assets, you can see family offices and so forth, they all have higher allocations with the exception of insurance companies than it did four years ago. And I suspect these allocations will increase as you'll see. Right now, the survey of investors by Preqin show that 39% of investors are below their target allocation for private equity. In other words, sometime, you might have an allocation, but you can't get there. It takes a lot to get there, 39% or below. And on the other chart, on the right hand side, it shows that 36% of investors want to increase their allocation.

So, why do people want to increase their allocation, if returns are coming down? Because there is nothing better that they can really find. So I think the industry is going to see more and more money coming in even though the return – the pressure is to get higher rates of return won't be quite as high as they were before, because people don't expect this higher rate of return and they probably won't be disappointed because the returns won't be as high.

Global alternative asset managers will continue to diversify, okay. So if you take a look at the large private equity firms that went public – the ones that I've mentioned before, Apollo, Carlyle, KKR, Blackstone and others – when they went public, roughly 47% of their assets were in non-corporate private equity, roughly 47% were in non-corporate private equity.

Now, in the third quarter of 2013, that number is 62%. In other words, these firms, on average, now have more money in non-corporate private equity. They have become famous by doing private equity – corporate private equity. But now they have began to diversify as we have done. And now a larger percentage of their assets are actually not in the area that's corporate private equity, which is what kind of enable them to go grow to begin with, and I suspect that trend will continue.

Managed accounts will continue to proliferate. Let me explain what this is. When private equity is first setup through venture capital funds and private equity funds, what you had was a business model that was invented by the early guys. And basically, it was very unique. You were going to commit capital to something. You weren't necessarily going to put the money in it. Traditionally, in money management, you wanted to have your money managed, you gave somebody to manage the money and you paid a fee on the money that was being managed.

Private equity came up with this brilliant concept of, we will have the money committed, but you don't have to give it to us until we need it and we'll charge a fee on the committed capital. That was good for the general partners, I guess. And they got 20% of the profits and so forth.

Now, the terms have changed, but more or less, they're the same. For the last 40 years or so, private equity has more or less been a model where you have – you're into funds that have 10-year durations, more or less, five years to invest, five years to exit, and fee is paid on committed capital and more or less you get 20% of the profits above a certain preferred return. Okay. And that's what everybody has been in.

And interestingly, up until the Great Recession, everybody was the same. So Abu Dhabi Investment Authority, CalPERS, if they would come into one of our funds and they're putting $1 billion in, they would pay the same fee as the $5 million investor.

Well, now, after the Great Recession, bigger investors recognized it was harder for people like us to raise money. They wanted better terms. So now, it's really traditional or common now in big funds for the bigger investors to get a discount. The law of size works now in private equity fundraising fees and the bigger investors get a smaller, or get a lower fee.

But another thing – phenomena has occurred. Some investors are saying, I don't want to be in commingled fund. Those 10-year funds, I don't really want that. I will give you x dollars, $100 million or $500 million or $1 billion or $3 billion, you manage it just the way I want it managed. You do certain things that I tell you about. And in return for my giving you this managed account which can stay for a long-time, I want a lower fee and so forth and maybe a different fee structure and so forth. And that's getting done and increasingly we have more of these.

So managed accounts, by definition, let's say, they are – on average, they're about $300 million of the managed accounts. In 2013 for private equity firms, 73 managed accounts were more or less done and they were on average $300 million. You can see in 2003, there were only eight. So this is a trend that is continuing. The trend is big investors are getting more attractive fees and they are, in many cases, saying I want a managed account. And that business is actually pretty good for people like us, because these are people or the investors sometimes who might be coming into your funds for some amount. But for some, they just want a managed account that's invested just the way they want it. And you'll see that trend continue.

Asset price remain relatively high favoring GPs with track record of operational improvement, may be self serving as well, but here's what I'm trying to explain here. Interestingly – take a look at this, in the beginning of this century, the average EBITDA multiple for a buyout was more or less, let's say, 6.7, 6.4, all right? Then right before the bubble burst, that number went to 9.7. Today, the number is not that far below. It's accreted back up and multiples are coming back up.

So people are paying reasonably high attractive prices. The median, as you can see, is 7.8 times, but it's accreting back up to what it was in 2007. It's come back just well above what it was at the beginning of the century.

Now, if you're buying things at these higher prices than before, you have to figure out some way to make money. In the old days of private equity, when you were buying things with 1% to 5% equity, 95% to 99% debt, the U.S. GDP is growing at 4% or 5% a year, you're buying things from unsophisticated sellers in some cases who are selling things at four to five times cash flow, you could sit at the beach and make a fair amount of money because the macroeconomic factors of leverage will make it – you look very smart.

That was called financial engineering. We don't like that term anymore. It's not a favored term. But today, our private equity firms are recognizing you can't have those favorable kind of terms. You've got to put in more equity. The average equity component is now about 37%. You're paying these higher prices. U.S. GDP isn't growing at quite the rate that was before. And as a result, if you're going to get these returns that people want, even if they're not going to be quite as high as before, you've got to get – you've got to work pretty hard to get 16%, 17%, 18%. What you should do is you have to bring in operational talent and really make these companies operationally more efficient.

So, in the early part of the – in the 1980s, if you take a look at this, what percentage of your return was coming from various things? In 1980s, you could see the largest percentage was coming from the leverage, because you were – the famous RJR deal of 1989 was 5% equity, 95% debt. These deals were highly levered. Then multiple expansion took over in 1990s and you were getting a large part of your return from the expansion of the multiple. And earnings growth was important in the earlier part of the century. But now we believe, it's operational improvement. And then you can see that a larger – the larger percentage of value creation is now coming from operational improvement, as we measured in the industry.

And so, it's the idea that firms want to have Lou Gerstner or Jack Welch or their junior equivalents in their firm. We now have about 30 people whose full-time job is to work with our companies, roll up your sleeves, serve on the Boards. In some cases, they serve as CEOs and other firms like ours have comparable kinds of skill set. So, operational talent is really going to be increasingly important as we differentiate ourselves from each other, and as we actually make these companies that we buy more valuable.

This is an interesting phenomenon that I think will also continue. Maybe it's the benefit of firms like mine. In the survey, Preqin showed that investors who were surveyed want to decrease the number of the GP relationships. Now, a private equity is so wonderful, why they want to decrease the number of their relationships, because they can't manage all the relationships.

CalPERS – this is a quote from an article in Pensions & Investments, but CalPERS at one point has I think about 500 GP relationships. They have about 11 or 12 people on their staff. It's just physically impossible to oversee and manage all these things. And so, what people are increasingly doing is saying, I want to have fewer and fewer relationships. I hear this all the time from investors. I like your organization and I will do you and two or three others, but I can't do everybody's organization. I just can't monitor them. I can't go to all the investor meetings. And so, you're going to see this continue and you can see now that the number of investors who want to decrease their GP relationships is now almost double what it was just three years ago.

Secondary sales will continue. Secondary sales was a small business 20 years ago, maybe 15 years ago. Now it's become a very big business and you can see global secondaries volume was, in 2013, $27 billion. Now what does that really mean? Well, of course, secondary volume, the fact that it's high means two things. One, it means that a lot of investors still like private equity, but they may not want the J curve effect of putting money in, waiting for the capital to be called in and getting the returns. With secondaries, you're tending to get the return much more rapidly because the money is mostly invested. You're going to – you're paying an effective discount to get a certain rate of return over the next two or three years. You don't have to worry about the J curve as much.

But what it also illustrates is that as much secondary volume as there is now, private equity is not such an illiquid business. Private equity has always been criticized as being illiquid. But in truth, because there's such a big secondary market now, anybody that's in private equity can sell very quickly at very modest discounts because of the competition. So, it's beginning to show that private equity is not as illiquid a business as it once was. So anyway, this trend will continue, in my view.

So, on Carlyle itself, I can't say that much. But just to give you an overview of where we are, these are the numbers that we have made public to date. And you can see, we've grown our AUM a fair bit. And, we've got a large number of different funds. A large number of investment professionals – I'm not sure anybody has as many investment professionals as we have or as many offices around the world. And the track record I think is speaks for itself. We've now invested $92 billion of equity over the years and given back $98 billion. It's a fair amount to give back in cash. Obviously, we still have lot of investments in the ground. The gross IRR is roughly 30% in corporate private equity, and 26% in real estate.

So, that is a global look at us. We have diversified as well as, I've mentioned, other firms have. We have $62 billion in our largest business, Corporate Private Equity. But we now have $35 billion in our Global Market Strategies business, which is – includes our hedge funds and our fixed income businesses, our CLOs and so forth, distressed debt. Real Assets are real estate and energy business, about $39 billion. And Solutions, which is our fund of funds business, real estate fund of fund, hedge fund of funds, private equity fund of funds, secondaries and so forth, is now $48 billion. So we are more diversified a bit than we were before, and I suspect that trend will continue.

At Carlyle, we have a number of funds that are the ones that are for the next couple of years are likely to produce most of our distributable earnings. These are the funds that are large funds. They have a fair amount of accrued carry that we've already – we're now accruing or in some cases, we're taking carry.

So if you take a look at these 11 carry funds, we have – we're now talking – accruing carry in two – four – six – eight – eight of them, that's right, and in five of them, we're taking carry. So these are the engines for our economic success. I think over the next couple of years, we will be adding new things to the firm. We'll start new funds. We'll make some acquisitions, no doubt. But the things that we're likely to produce distributable earnings that many people want to see us yield are likely to come from these funds. And you can see they're in pretty good shape right now in terms of accruing carry and taking carry. And I expect we'll be taking carry for more of them in the not too distant future.

Carlyle has grown a fair bit in the last couple of years by doing different things. So, we grow by creating new things out of whole cloth, South American buyout. We might buy something like Claren Road and we continue to do that. And then, our goal is to really have a full set of products that investors like.

So, right now at Carlyle, of all the capital we have, roughly 60% of our capital comes from investors who are in six or more of our funds. 10% of our capital comes from investors who are in 20 or more of our funds. And 10% of our capital comes from investors who are or 90% of our capital comes from investors who are in two funds or more.

So, many people like our products and like the family of funds, and we will continue to operate in many different funds and generally get people to like the way we do things. And probably if we have one fund and they like it, they may go into another fund and that's how we really built the business by convincing people that we were good in area A. We might good in area B and give us a chance. And since we did well for them in the area A, they have tended to do so and it's generally worked out.

So, that's an overview of the private equity world, some trends I see, an overview of Carlyle a bit as long as much I can say. I'm happy to take any questions.

QUESTION AND ANSWER SECTION

<Q>: Great. Thanks so much, David. I was thinking maybe we could start at a higher level. Before we begin, you mentioned to me, it's February 12 and you've been in Europe already three times this year.

<A – David Rubenstein – The Carlyle Group LP>: Right.

<Q>: The Middle East once and Asia once. So, maybe we can just start at a high-level in terms of the macroeconomic environment. When you spoke last year, we were going through the U.S. debt ceiling discussion that was causing a lot of angst with respect to kind of CEO and Board confidence. So, as you travel today and you see both corporate and economic leaders, what's on their minds and how would you say the state of play is?

<A – David Rubenstein – The Carlyle Group LP>: Well, I live in Washington. So, let me talk first about Washington. What you see in Washington is what you're going to get. There is not going to be a lot of changes. There is – it's very unlikely that Congress is going to do anything that's going to be dramatically affecting the economy one way or the other. Now, the debt limit bill, that will go through as we know and once that's done, I don't think you're going to see anything else of any consequence in this Congress. If the Senate goes Republican as it's possible in the 2014 elections, I think you'll see even less, if possible.

And so, we have a situation where you don't expect any great help for the economy out of the Congress. On the other hand, I think the Federal Reserve, which has been the only game in town really, has pretty much made it clear that they're going to taper, but they're going to be very careful to not taper prematurely and Janet Yellen made those points yesterday.

I think the economy is growing at a reasonable clip in the United States. I don't think we're going to grow at the 3% that people once thought a couple months ago we were going to do. I think closer to a 2.5% is maybe realistic. U.S. economy is still the best place in the world in which for people like us to invest, the rule of law, the transparency, the efficiencies of getting in and out of markets, the deal professionals, all the other things you want are here.

And the integrity of the rule of law is pretty good. Apt to that, I would say the most attractive place we find in the world is China, because it's four times our size in terms of population. It's growing at a rate that people make fun of from time-to-time, but it's 7%. At 7% with an economy of their size, they're actually adding more to the world's GDP every year than we're adding it, growing at 2% or 2.5%, even though our economy is roughly twice the size of theirs. So, we are still really bullish on China.

Obviously, if you're over levered or you're worried about some bubbles in some narrow areas and you're trader, it might be more complicated. But for longer-term investing, we still are really big believers in China.

We have thought that Europe was undervalued that the market prices there were cheaper. And therefore, we have made a lot of investments there and we'll continue to buy things in the midsize range. We think they're pretty attractive. Particularly the assets may not be necessarily all operating in Europe. You can buy something in Europe that might be operating outside of Europe, but you can get it at a attractive price. We think that's a pretty attractive thing to do.

So, generally we are – I've been talking to policy leaders and government people around the world. I think nobody is expecting any gigantic recessions anytime soon or anything like the Great Recession we've been through. I think we expect relatively steady growth, or modest growth, I would say. In Europe, probably 0.5% or so maybe or maybe 1%, Japan maybe 1%, 1.5%, China maybe 6.5% to 7%, maybe slightly higher, the United States roughly 2%, 2.5%.

<Q>: Great. And David, you – before we open it up to the crowd, you were asked recently about Carlyle as – the likelihood or the ability to kind of get to $500 billion of assets under management. So, I'm just curious, when you think about a firm that you started at $0.5 trillion of assets, what does that firm look like that's different than today, and what would you and the partnership love to preserve as you get potentially bigger?

<A – David Rubenstein – The Carlyle Group LP>: Well. Remember, when the deal I've referred to earlier, that KKR did, the infamous RJR deal in – done 1989, they at that time where a firm of seven investment professionals, had one fund. Our business model which we pursued many years ago, and many others were pursuing the same model, was to have multiple funds for different things and take advantage of our brand name and our strength and our fundraising capabilities and hopefully our expertise in investing money.

I suspect that the private equity world will go in a direction not unlike the investment banking world, which is to say or the mutual fund world, where there will be four or five global players, whose brand names are so recognized around the world that people will either give them money, or do business with them because people think they're solid, they're going to be around, they know what they're doing.

So, today, there are 5,000 private equity firms in the world – firms in the world. There're seven of them that I call global. They are ones that have $75 billion or more under management and are operating in the strategy of multiple funds, and operating everywhere in the world within reason. So, it's Blackstone, Carlyle, TPG, KKR, Apollo, Bain, Oaktree.

There are some other organizations that are very good, not quite at that size of managing $75 billion, but they're good. I suspect that those seven that I named, probably five years from today, will probably be among the seven biggest still, because it's very difficult to build a large private equity organization like this overnight. If you're a great technology investor and you can come up with Twitter or Facebook or some idea like that, in five or seven years, you can build a company that's gigantic as Mark Zuckerberg did seven years ago or a Twitter just a few years ago.

In private equity fund raising, it's extremely difficult to aggregate assets over short period of time. It takes a long time. So, it's unlikely that somebody has $10 billion under management today is all of a sudden going to be getting to $200 billion in two or three or four years. So, over the next five years or so, those firms are likely to be the ones. And I suspect there will be some narrowing out. Some of them may not be as interested in being a global player. Some of them may not be interested in being quite as diversified.

And then all of these firms will have to face, at some point, the inevitable transition issue. It's not as difficult for a founder who might be good at something [indiscernible] (0:38:43) organization that happens all the time, how many of them can actually transition to the second generation and make their firm even better or at least as good.

Private equity people who are founders are not famous for walking off the stage early in their career, some have done so. Mitt Romney turned that way from Bain. But remember, when he left Bain, Bain had $3 billion of assets under management. It now has about $70 billion. So, it was a much different firm, not quite as having a gigantic firm and walking away from it. Two of the founders of Warburg Pincus walked away when it was a much smaller firm than it is today, but they didn't walk away until they were 70.

So, the success of any business enterprise anywhere is having a good culture that can perpetuate itself and keep the business going for a quite a period of time. Whether these large organizations that are now being built can do that, time will tell. We focus on this all the time. I wouldn't be surprised if we had $500 billion of assets under management and a few others like us did not too long from now, some of that will come from acquisitions and some will come from internal growth. Yes, sir.

<Q>: David, interested in your commentary around the offerings, private equity funds to the retail investor class. And I'm wondering how do you think about restrictions on redemptions due to kind of the timing difference, how do you think about performance fee generation?

<A – David Rubenstein – The Carlyle Group LP>: Right.

<Q>: Do you think this product exists in a [indiscernible] (0:40:07) structure or outside of a [indiscernible] (0:40:09) structure?

<A – David Rubenstein – The Carlyle Group LP>: Right. First, when you think of [indiscernible] (0:40:12) structure, you think of immediate redemption and so forth. But it's not a 100% clear that everybody that invest in private equity vehicles that want higher rate of return feel they have to be able to redeem on any hour they want to redeem. So I think that structures can be set up and have, where if you give a couple of days notice, somebody will make a market and buy you out at maybe some discount to NAV or maybe something close to NAV. These structures can be put in place. Remember, a lot of the non-accredited investors who are the ones who often go into these vehicles are people who are investing in these things often through 401Ks and IRAs, which are not suppose to be day trading kind of thing.

So I suspect that people who go in through these vehicles will think and know that they're in for relatively longer periods of time. If they want to get out, there'll be some penalty for getting out. But they will be able to do so and I think that can work.

And remember, there was more money in these retirement accounts than probably any part of the United States. And one of the things we should all focus on not probably from my generation, probably the next generation that succeeds me, is to define benefit plans that have been the biggest source of capital for firms like mine, they're going to be going away.

We're going to go to define contribution plans and as everybody manages their own money more or less through other vehicles, but manages it, there's going to be a need to figure out how to capture some of that money, because 10 years or 20 years from now, these large firms like – organizations like CalPERS or CalSTRS are not going to be as large relatively speaking, because they will probably have transitioned at some point away from defined benefits to defined contribution.

Anyway, to answer your question, I think people won't need instant liquidity. They'll probably able to get some liquidity within couple of days or so and maybe some discount, but I think it will be tolerable to the people go in because the rates return are going to be somewhat higher.

<Q>: Perhaps the final one before we let you get back to meetings, David. But I think after the big run-up in the markets in 2013 and the portfolio appreciation that you saw across the firm, many would think that you and your peers would be better sellers than buyers and what we've seen kind of in the New Year, in the first few weeks is a few deployment activities and new acquisitions. So curious – I know timing is never perfect and some of these take a long time to come together, but what are you seeing in terms of when you're putting money to work today and why are we seeing kind of some spate of acquisitions?

<A – David Rubenstein – The Carlyle Group LP>: We recently won a few deals that we could have just easily have lost them because these deals have a gestation period of nine months or so and sometimes, you lose by 1% or 2% and so, it's hard to say that there is a trend because we won a few deals recently that got some attention. There is no doubt that last year based on the numbers

I showed, people did sell a lot of things and I suspect there's a lot of things in the ground now that will be sold as long as the markets are reasonably good.

Investing has proven to be harder for all the large firms in the last couple of years. They deployed less capital than they thought they were going to or than they wanted to. We clearly did. We think we will invest more money this year than we did last year, but we don't know for sure, it's early in the year. I'd say, people get come up to me all the time and say, are you worried that the stock markets going down? I don't worry, because I'm – if the market goes down, I can buy things more cheaply. So a correction is not a bad thing. I don't probably would worry if the market went up 10% every month for six months in a row and then I'd say, well jeez, we really – we're really at a bubble.

So, we're in two businesses. We're in the business of buying and selling, and we have to be seen as smarter to know when to buy and when to sell. And we make some mistakes, maybe we sell some things prematurely and sometimes we buy things at slightly higher price than we probably shouldn't have. But generally, the people who are running these larger firms today have a lot of experience investing in down markets and buying thing at up markets and generally. What we're offering to investors is, the experience and the reputation of investing through good and bad times.

Increasingly, what I think investors want and what I try to show in these charts, is that people feel more comfortable with these brand names and these large organizations than you might think would be the case. Because in the larger firms, you can't probably give the personal attention to the investor that they might like to get. On the other hand, they are comforted by the rates of return and the fact that, they think if we make a mistake or do something, we have the resource to fix it.

So increasingly, we find investors saying, we don't think you're going to be perfect in everything. But if we make a mistake, we know you probably can fix it, because you got the resource and the history of doing it. And so I think those firms that are in that, seven firms that I mentioned out of 5,000 are pretty – in a pretty enviable position.

And I do think though that the trend that I didn't mention that will happen is this. Over the next five years as I mentioned, those seven firms and maybe one other will be the dominant firms in this space. However, 10 years from today, I suspect there will be alternative global managers that are based in China or Brazil or may be the Middle East or maybe Europe. It is surprising that Europe is developed as it has been in private equity over the years, the second biggest place to invest and a source of capital over the years has not built a global private equity firm, why is that? Why have the largest firms in Europe not become global?

A lots of answers to that, but generally I don't think it's going to happen any time soon. But eventually, there might be one in Europe, one in China. And it is amazing to me if people in Congress – when I go to members of Congress and talk about private equity, they don't realize how we dominate the private equity business and dominate the venture capital business the way we dominated almost no other business in that country. And in other countries, they're envious of what we've built and I suspect at some point they will build something like it, but not probably next five years as it takes too long to do that.

Unverified Participant

Fantastic. Well, with that, let's end it there and please join me in thanking David Rubenstein and the Carlyle team for keynoting lunch.