05-Nov-2019

The Carlyle Group LP (CG)
Bank of America Merrill Lynch Future of Financials Conference
CORPORATE PARTICIPANTS

Glenn A. Youngkin  
Co-Chief Executive Officer & Director, The Carlyle Group LP

OTHER PARTICIPANTS

Michael Carrier  
Analyst, Bank of America Merrill Lynch

MANAGEMENT DISCUSSION SECTION

Michael Carrier  
Analyst, Bank of America Merrill Lynch

Next company, The Carlyle Group, which is a leading alternative asset manager. With us today from Carlyle is Glenn Youngkin, Co-CEO. Glenn has been at Carlyle for over 20 years serving in a variety of roles including being the President and Chief Operating Officer, the Interim Principal Financial Officer, the Global Head of The Industrial Sector Investment Team, the Head of the UK Buyout Team and a Member of the US team among others. Glenn was instrumental in taking Carlyle public and has been working with the team more recently to grow the business across segments, increase the level of fee-related earnings and make the shift from a partnership to a C-Corp in 2020.

Glenn, thanks for being here today. He's going to give a short presentation and then we'll do some Q&A.

Glenn A. Youngkin  
Co-Chief Executive Officer & Director, The Carlyle Group LP

Thank you Mike, appreciate it. Thank you everybody for being here. This is always a great conference and I appreciate the opportunity to talk about Carlyle, it's one of my favorite things to do. So, I want to cover three things in these preliminary remarks. First, a bit of a backdrop on the real momentum in the industry today and the fact that what we do is no longer alternative, it's very mainstream. Second, there is real strong operating momentum across Carlyle's platform and I'd like to illuminate that a bit more. And then finally, we expect that our conversion to a full C-Corporation should really provide an opportunity to unlock more shareholder value. So, those are the three things I want to cover and then Mike and I are going to do a little Q&A.

So, first, many years ago anybody who was managing a portfolio had pretty standard allocations and then had this very small amount usually less than 5% that was called alternatives, and it was stuck off to the bottom of any kind of allocation registered. And today private equity, private credit, private real estate, private energy, private infrastructure is no longer alternative. I mean it is a mainstream component of allocations across almost every portfolio. And in fact if it's not 10% on average, we see it as much as 30% and 40% of many, many, many portfolios today. And so, I do think that we are no longer alternative very, very much mainstream. As a result what we've seen during this period is private capital has grown to over $6 trillion in Assets Under Management. That...
includes the lion’s share today in private equity which is well over $3 trillion, but also very, very rapid growth in private real estate, private infrastructure, private credit, private energy. And you see basically a continuous 10% compounded growth rate in this industry for a very long time.

Now we expect this to continue. And the reason why we expect this to continue is that performance continues to be strong in the private asset classes relative to public benchmarks, and that really is the comparative. The performance of the private asset classes continues to be very strong relative to the public benchmarks. In every publicly reporting portfolio from pension plans to universities, we continue to see the long-term importance of private capital to achieving their investment objectives. And consistently what we see is that private capital tends to be the leading performing category over a reasonable period of time, quarter-to-quarter, maybe not, but one year, three year, five year periods, longer periods of time, absolutely.

And in fact when surveyed, the vast majority of institutional investors say that they not only expect to maintain about a big number, expect to expand their allocations to all categories of private capital and that is underpinning the need that we see time in and time out from public retirement systems, from corporate retirement systems, from universities and schools who are all trying to reach a benchmark. And in fact what they need is more of this investment asset class as opposed to less. In fact, recently the CIO of one of the largest retirement systems in the country said we need private equity. We need more private equity and we need it now.

And I think that really highlights the pressure that a lot of these very, very large plans are feeling in a world of low growth, low interest rates and challenged return profile versus the tremendous obligation they have to provide performance in order to meet their beneficiaries obligations. Now how is this happening?

Well, at Carlyle, in the left hand side of this chart is Carlyle’s data. We in fact fundamentally focus on creating value. How do we take a good company and make it great, a good real estate project and make it great, a good infrastructure project and make it great, and in our private equity portfolio what we see is relative to a broad based S&P Index, sales grow faster, margins grow faster and as a result earnings grow faster and we see roughly a 700 basis point premium in our portfolio relative to a very standard S&P Index. What that translates to again is taking good companies and helping them be great, providing growth capital into companies that have opportunities to expand, developing buildings, office complexes, medical office, multifamily homes all over the country and in Europe, doing critical infrastructure projects. And most importantly, providing a very, very, very large class of investors access to the most dynamic parts of the economy, and this I think is oftentimes [indiscernible] (00:07:00).

So, many of you’ve seen this chart before, but over the last 20 years, what we have seen is the number in the United States, the number of public companies declined materially to roughly half the number that's the purple line and the number of private equity backed companies increased roughly threefold. What we've also seen is that those public companies tend to be more mature when they go public and bigger. And therefore, the dynamic fast growing part of the economy is more and more and more being accessed through private capital, as private capital more often than not is providing that next round of funding that capital source in order to fulfill a business plan. And, so it's this combination of events, it's performance, it's a very unique approach particularly by Carlyle and the way we think about growing value in our portfolio and it's the selectivity of how do I get at the dynamic part of the economy that continues to drive this increase in allocations and flow of capital into the sector.

I'll point out that private equity is really only about a tenth the size of the public market, and so there is a lot more room to go. So, the private equity industry, the private capital industry continues to be in very good shape. Let me spend a few minutes talking about Carlyle. Our platform has really reached a very, very strong consistent level of operating momentum. To remind all of you, we operate our business through four segments: Corporate Private
Equity, which is about $84 billion. Real Assets which is energy, infrastructure, power, including renewables and infrastructure which is about $45 billion. Global Credit which has now reached $48 billion, and our Investment Solutions business which is at $45 billion. Four fully scaled platforms which on their own would be industry leaders, when brought together very – provide us with a very, very differentiated strength at our platform level.

Quick comment about Global Credit. Global Credit today at $48 billion has been our fastest growing segment. Just three years ago, that segment was just below $29 billion in Assets Under Management and now it’s just below $50 billion and we see continued growth in that segment.

Now this operating momentum presents itself in many ways. Let me highlight three. So the first is growth in our Fee-earning AUM. And our core Fee-earning AUM, which is in the dark blue section of the chart, has consistently been growing in about 10%. We have reached a level just below $160 billion. Of course, it's been aided by the success of our recent multi-year fundraising objective, which was to raise $100 billion, and in fact, we've disclosed that we'll finish this year on time but ahead of schedule and – or ahead of target, and we'll end up with about $110 billion against that $100 billion fundraising goal.

We've seen this fundraising momentum across all four segments. And as a result, we expect that our Fee-earning AUM is in extraordinarily good spot today, but we think we can continue to grow it. And you'll also see that we have just under $8 billion of pending Fee-earning AUM that will kick in as funds are initiated or capital is deployed and it's more capital-deployed today, and so we'll continue to see that capital move into Fee-earning AUM.

The second element of operating momentum is around fee-related earnings growth. And if I back up just three – just really three years ago, our margins ran at about 10% and we generated about $125 million of fee-related earnings. In this past earnings call last week, Kewsong and I set expectations for the year at $450 million of fee-related earnings versus our target at the beginning of the year of $400 million. So we're moving ahead of where we expected. We expected margins to be at about 25% and they're running at 27% or 28%. And then finally, we clearly communicated to everyone that our goal over the next couple of years was to, in fact, get to $500 million of fee-related earnings, and over the next several years to move margins north of 30%.

And the key points that I want to reemphasize here is that can be achieved without us moving into another major fundraising cycle. We will continue to raise capital at a reasonable clip over the next couple of years, but reaching these numbers does not require us to bring back all of our big funds and have another huge fundraising moment.

The third area of operating momentum is in our net realized performance fees. And I think it's helpful to just scale Carlyle's historic performance and look-forward opportunity relative to our peers. Our model is very unique. We have a multi-fund strategy, and we have many, many, many funds that can generate performance fees. And as a result if we look back over the last five years, we've had just under $9 per unit of realized performance fees. Put that in context, that's a third of our current stock price. And those realized performance fees for Carlyle at a per unit basis are everywhere from 33% greater to 2 times greater than most of our peers.

As we look forward, we have $1.8 billion of accrued performance fees on our balance sheet and that level of accrued performance fees, again relative to our peers, is anywhere from 50% larger to 2 and 2.5 times larger. And those realized performance fees on a per unit basis will also add to FRE growth to drive overall distributable earnings growth.

Finally, the C-Corp conversion, we think, will truly facilitate unlocking additional shareholder value. Now let me just summarize for everybody, we will convert on January 1 of 2020, so in a little less than two months. We are converting to one class of common stock, one-share/one vote. We've set our dividend at $1 so all shareholders
will receive the same economic benefit. There are a number of particular benefits we think from this strategy of converting, one of which is and we think a very important one, is it provides, we think, the best opportunity to fully embrace index inclusion. So you can see on the left-hand side of this chart that we expect in the first quarter to gain access to the CRSP Index and the S&P Total Market Index, then the MSCI indices in the first and second quarter, Russell in the tail end of the second quarter, and then we believe, while it is not certain, that we are a good candidate for inclusion in the S&P 500.

Why? Well, first, we're the only one of our peers with a one-share/one vote structure. And therefore, we're the only ones eligible. Our sector is not another bank or another insurance company or another market index or – to actually get access or gain access to the S&P 500, so we're going to be unique. And finally, we're not a traditional asset manager and so we do represent a whole different side of the asset management industry. So again, while inclusion in the S&P 500 is certainly not guaranteed under any circumstances, we think that we have a good case for being admitted.

So we have good momentum on our platform, and I think there's an expectation in the bottom middle part of this chart that our earnings should grow at a rapid pace and rapid relative to our peers and we continue to trade at the lowest multiple. And therefore, we think that this conversion with greater index inclusion, access to a much deeper group of shareholders, remember when you have a K-1, there's many people who won't meet with you, when you don't have a K-1, they'll meet with you. And that's a fundamental difference, and we think gaining access to a much deeper pool of investors will help unlock a fair amount of value.

With that, hope everybody recognizes that we are a global leader in what we do. We're committed to delivering solid results. Kewsong and I are very committed to performing. We think our margin expansion and our growth initiatives will continue to drive FRE. We think that our strong reserve of realized performance fees sets us up to grow realized performance fees and as a result, DE is in a good position to show strong growth, and we think that conversion to a full C-Corp is not only unique but really does provide a great opportunity to unlock future shareholder value.

So, Mike, with that, happy to answer most and every one of your questions.
QUESTION AND ANSWER SECTION

Michael Carrier  
Analyst, Bank of America Merrill Lynch

Q

All right. Sounds good. Maybe, first, just on strategy. So if I look over the past year or so with Kew and yourself becoming co-CEOs and some of the focus on FRE, the C-Corp conversion, a lot of that's driven a lot of value for shareholders. When you think about maybe the next three years...

Glenn A. Youngkin  
Co-Chief Executive Officer & Director, The Carlyle Group LP

A

Yes.

Michael Carrier  
Analyst, Bank of America Merrill Lynch

Q

...what are the main priorities for yourself in terms of kind of continuing that driver value?

Glenn A. Youngkin  
Co-Chief Executive Officer & Director, The Carlyle Group LP

A

So what I love about these conversations, Mike, is it's always, thanks for the good work, what's next. And so we're just – Kew and I fully get it. So in very simplistic terms, we are focused on four things. One, we have to continue to drive investment performance in our funds, and so you'll see us announcing some really particular hires. And we've announced a number of hires under our platform to help drive our portfolio support. And that performance is critical to our long-term success.

Second, how do we continue to grow earnings? So you're going to see us focus on FRE and margin expansion. I just talked about it. We're focused. And we think that there will be a solid period of uplift. And then as we get into another big fundraising cycle, there'll be an opportunity for a larger uplift. You'll also see us making select acquisitions, and growth is really important. And we have had a successful period of acquiring and integrating and growing some pretty interesting acquisitions. Fortitude Re which we announced last year in the insurance space, and of course, Carlyle aviation finance in the aviation finance space on our credit platform. So you are going to continue to see us focus on growing.

And then finally, you're going to continue to see us focus on building teams across Carlyle that are uniquely capable of delivering outcomes. And I think in an industry that is really competitive and an industry that is getting blessed with more and more capital, you have to have distinctive teams. And so, we started to march a couple of years ago on driving ESG principles and particularly diversity and inclusion through the organization. And this is not about numbers. This is about having the most diverse capable teams. And what we're seeing over and over and over again is that outcomes are directly related to the robustness of ideas, the diversity of ideas in the teams, and so you'll continue to see us do that.

So the net, focused on value creation, meaning there's lots of elements to it and we are focused on all of them.

Michael Carrier  
Analyst, Bank of America Merrill Lynch

Q
Okay. One of the things you pointed out in the presentation was just the net accrued balance, and if we look across the industry you guys are definitely at kind of the extreme in terms of the amount of value like potential that the challenge always is on the performance fee side it's just tougher to predict...

Glenn A. Youngkin
Co-Chief Executive Officer & Director, The Carlyle Group LP
Yes.

Michael Carrier
Analyst, Bank of America Merrill Lynch
...if you guys were investors. But when you look at sort of the level that is embedded in the funds and then you look at the seasoning across the portfolio and having like the historical perspective of the fund cycles. What should people like expect over time in terms of that realization like cycle and actually again predicated on different market environments but.

Glenn A. Youngkin
Co-Chief Executive Officer & Director, The Carlyle Group LP
Yes. Yes. So, Mike, let me just back up and do a little bit of table setting. So we clearly communicated to everyone about six quarters ago that we expected this year to be a low point in realized performance fees. And it is a low point. We could see it coming. And why could we see it coming? We have picked up our investment pace over the last three or four years. So just in context, we, five, six years ago, would invest $12 billion, $13 billion, $14 billion a year into our various carry funds that excludes our credit business almost entirely. And today, it's 2021, $22 billion.

And so, that uplift in investment activity, that's really because the platform has grown in size not because people are doing 50% more themselves but the platform has grown. But what that has resulted in is that the average age of our funds is reasonably young and because it's reasonably young we want to let those funds mature. And, in fact, just due to the investment activity this year and the exit activity this year which was actually reasonably robust, just lower than it has been, the average age of our portfolio has actually shrunk by a year. So you end up with this dynamic where in our most recent funds that are moving into carry, the age of the portfolio and the future value creation suggests that we should hold those portfolios.

And for example, I think the average of the multiple of invested capital of our big flagship funds is like $1.4 billion and we would tend to see our funds average about $2 billion, maybe $1.95 billion or maybe $1 billion to $2 billion, but there is still a whole half turn of value creation to be had in those funds. And so, while there is a big pool, $1.8 billion, of realized performance fees on our balance sheet or unrealized performance in our balance sheet, going and getting those right now from a portfolio management standpoint really doesn't make huge amount of sense.

So what we would expect to happen is that, as I said, this year is a low watermark. We would expect it to be higher next year. If we had to [ph] wait (00:22:55) that, we would expect the back half of the year to be more than the front half of the year, and then picking up from there into 2021. Hence, we're just doing everything we can to help everybody manage that ramp as we see it, which is no hurry to sell out the portfolios because we have good portfolios that are performing and we will exit over time, and we would expect that to begin to pick up in the back half of next year and into the following year.

Michael Carrier
Analyst, Bank of America Merrill Lynch
Okay. And then one of the other topics that you pointed out is just given the allocation trends into the private space, and then also from a company standpoint, less publics, more privates. So when you think about that like exit process, has the dynamics changed much, I mean, versus like history in terms of the different avenues, whether it's IPO, whether it's a strategic sale, given some of those dynamics that you're seeing in terms of fewer public companies, more private companies?

Glenn A. Youngkin  
Co-Chief Executive Officer & Director, The Carlyle Group LP

Yeah. Well, I think there's a very robust, of course, M&A market and that is being populated with, of course, strategics and funds and sometimes sovereign wealth funds coming in and buying [ph] things on their own. And the public markets are still readily accessible. The key is you have to bring a good company to sale, and I think one of the things that sometimes people forget is that the public markets are discriminating appropriately, and therefore it goes back to something I said earlier, we do everything we can to take a good company and make it great.

And if we take a good company and make it great, then we'll have a really good prospect for a public company exit. It just so happens that oftentimes the private markets are pretty darn robust and the public market gets preempted by the private market which is what we see frequently, so all avenues are still open. And I think that, particularly in today's age, we're just being very discerning as to what companies we're putting up for sale and which ones we're keeping.

Michael Carrier  
Analyst, Bank of America Merrill Lynch

Okay. Maybe shifting over to the credit business. That first slide just in terms of the growth of alternative assets, and private equity still being the largest, private credit still relatively small. When you look at the areas that like Carlyle has been growing in, the opportunity set in front of you, where are the big like steps of growth that you see in credit, particularly if you think about where Carlyle is in private equity from a scale standpoint relative to the industry and where you can be in credit?

Glenn A. Youngkin  
Co-Chief Executive Officer & Director, The Carlyle Group LP

Right. So the interesting dynamic about private credit over the course of the last few years is the pace at which it's been growing, and yet the relatively small scale of private credit relative to public credit. So, round number, private credit's kind of $1 trillion today and that is just a fraction of what public credit is.

And so, we see private credit looking an awful lot like what private equity looked like 10 years ago from a penetration in our investors' overall portfolios, and a real active embracing of how to use it in portfolio construction [ph] for 2 seconds. What we see in private equity more and more is our investors are trying to get equity exposure. And they're making a decision about whether that's going to be in a liquid form or in illiquid form but it's still equity exposure.

What they found is they need less liquidity in their portfolios than they might have thought, and therefore they can actually take more liquidity risk, get more liquidity premium or illiquidity premium, and as a result, we've seen this shift that is starting to happen in private credit. And that's coupled with the fact that following the Great Financial Crisis, of course, many, many, many of the banks from a regulatory standpoint and from a business standpoint, really did exit out of small business lending and medium-sized business lending and a lot of that
landed in funds. And we think that we have – we are really well-positioned to embrace both of those trends. And in fact, what happens when you run a fund is you actually hold the risk, right?

So this isn’t a underwrite and distribute business, this is a underwrite whole that assess a company and then, again, bring to bear all of the sector skill sets and support functions in order to help that company be better. So we expect that the growth in our credit business can continue and will continue. It's a tough market right now. Listen, I think you have to [ph] have your head about you (00:27:53) in all markets today, and particularly credit. But with that said, we have deep, deep, deep teams and what we're seeing from a growth standpoint is continued appetite, and I'll put them in buckets, opportunistic and opportunistic related kinds of portfolios. Please just do what you think is a good idea. Direct lending, where we are filling a very large, as an industry, a very important role in financing small- and medium-sized companies, asset base lending and so we see our aviation finance business is having some really good tailwinds right now. We've just recruited and announced someone to run an infrastructure credit business for us, and so you'll see us grow that over time.

And then, of course, our distressed business is there and has actually performed really, really well despite the fact there really hasn't been that much distress. And we would expect that during ups and downs in the market, a distressed business has a chance to really flourish. And so having the aggregation of that size of $48 billion of capital in a business where we really can see that growing substantially, we think we'll see growth in all aspects, and we're now tooled with solid people that we've hired over the course of the last three or four years added to the deep team we already had, and we think we have pretty good prospects.

Michael Carrier
Analyst, Bank of America Merrill Lynch

Okay. You mentioned two of the newer areas was the aviation business and then you did something in the insurance business a little while ago with AIG...

Glenn A. Youngkin
Co-Chief Executive Officer & Director, The Carlyle Group LP

Yes.

Michael Carrier
Analyst, Bank of America Merrill Lynch

...just those two areas because it's not maybe as big as your CLO business or like where are the opportunities or why like those transactions like what did you see in the market you mean to create like an opportunity for growth?

Glenn A. Youngkin
Co-Chief Executive Officer & Director, The Carlyle Group LP

So, look, different examples. So easy one first and actually that one is both easy and good. But aviation credit on the one hand really was building through this theme of asset-based lending. And we've – we saw a fabulous team on our platform, we thought we could really help drive their business.

We bought 100%, and we're already seeing them operate at a level ahead of where we expected them to be. And that really is in this theme of asset-oriented lending and financing. Great team. Super, super, super results and very, very well-regarded in the in the LP community. Fortitude Re, which is the venture that we have with AIG was slightly different and it's not, I wouldn't particularly put it solely in the global credit bucket, and the primary reason is this.
The arrangement that we struck with Fortitude Re was two-fold. One, we invested in this very large business, and so we invested $500 million in this very large business that we would participate in as off our balance sheet, and we're very happy with that performance. And then second of all, Fortitude Re did not add up its $40 billion of assets have an alternative asset portfolio at all. Going back, they were worse than the folks that had [ph] five (00:31:14), they had none. And so, the arrangement that we've struck with them was an asset management agreement that over a period of time they would begin to rotate assets into all of our segments, Global Credit, Private Equity, Real Assets, not so much in Investment Solutions but, and so that has been a transaction that has benefited the entire platform as we have seen them move capital into really all of our strategies and we would expect that to continue.

Michael Carrier  
Analyst, Bank of America Merrill Lynch

Okay. And then one of the, I think, concerns that investors have, and not just with you guys it's I think for the whole industry, is as it gets later cycle credit you mentioned you got to be mindful of where you are in terms of the investing. We've seen recently like some dislocation like in the leverage loan market. Just anything from the investment team standpoint that's alarming or just given where like credit is in the cycle, it's not too surprising that you're going to get like periods of this.

Glenn A. Youngkin  
Co-Chief Executive Officer & Director, The Carlyle Group LP

Yes. I think we will continue to see moments like fourth quarter last year, where we have moments of disruption in credit markets and in equity markets as the market digests the slowing growth and where valuations are and the performance of underlying companies. And so, our team's job, of course, is to build a portfolio that performs in that environment and I think we've done a good job. Our broadly based our performance continues to be really strong. I always – at the core, I always point to our underwriting in our CLO business which is our biggest business just continues to be industry leading.

But, with that being said. I mean this is the time as I said to be careful. And that's why when you're part of a firm like the Carlyle Group where we have deep, deep, deep sector teams. So, is there a theme in a particular industry where we can really rely on our Global platform. Is there a way to help companies in fact do slightly better by helping them with better operations, better purchasing, better advice, better counsel, whether there – we have an equity investment or credit investment. And I think this is the key. So, I guess the short answer to your question is, we're managing our portfolios in tune with a market that's got some risk to it and we're bringing to bear a lot of the capabilities of the firm in order to make sure that we outperform.

Michael Carrier  
Analyst, Bank of America Merrill Lynch

Okay. One of the charts that you had is like how Carlyle's funds outperform relative to – I think it was one of the benchmark, I think it was the MSCI. But you had like the sales growth and then you had the margin expansion. I think recently you made some announcements with a Chief Digital Officer, a Chief Procurement Officer. What was you know maybe the rationale like behind thosehirings and how does that play in to some of the – the stats that you showed?

Glenn A. Youngkin  
Co-Chief Executive Officer & Director, The Carlyle Group LP

So, every single investment we make today seems to have some tie to a technology deal. And I think we've worn out the saying that every deal is a technology deal, but they kind of are. I mean ranging from the redevelopment
at JFK’s international terminals where there is just a huge uplift that technology expected in that process for our infrastructure team, all the way through to investing in a manufacturing business or a retail company with new digital outlets, et cetera.

So, we have always had a dedicated technology team in our portfolio support group to help businesses with technology transformation. But we wanted to take it up a level, and we wanted to actually hire a dedicated Chief Digital Officer and then staff around it so that every single company that we invest in gets a digital offense and a digital defense analysis because what we're finding is there are some companies that have greater inherent risk from digital disruption and that should absolutely be part of the investment function. So, we have always – we have done this, but we haven't done it on a on a Carlyle-owned capability.

So we're building out this team and we are already through our diligence process and with the companies we own kind of taking a new perspective that leads to other additions to the team because we do think that companies can be acquired where if you bring a digital transformation strategy, you can fundamentally change the growth prospects. And in a world today where there is a greater challenge in finding growth everywhere, you've got to – sometimes you've got to make it and therefore tooling up inside the firm is what I talked about investing in our platform capabilities to support companies in unique and different ways.

You know this is not the day of buy a business, put capital, put leverage on the capital structure, have a board meeting every quarter and wake up in five years and sell it and get good returns. It just doesn't work that way anymore. And so, Carlyle has to bring capabilities that are uniquely attuned to creating value. And so, we're just constantly adding to the toolset, bringing in new resources and this is just a selection of them.

Okay. Maybe shifting just on the private equity side, you mentioned the returns over time. Some around like two times which from an industry standpoint as you know on the higher side, you've raised a ton of capital. Valuations are where they're at. And so, you know one of the challenges tends to be at the point that how do you guys you know think about what types of transactions you do today you know versus maybe 2012...
Glenn A. Youngkin  
Co-Chief Executive Officer & Director, The Carlyle Group LP

Just about everything we do today is done in the expectation that there may be economic disruption. I think our general view is that the economy is slowing from a growth standpoint, but not stalling and that we don't see a recession in the very near future and we think it can stay with slow growth and high valuations and low interest rate environment for a long period of time. So, call that the base case, but the idea of having a base case is that you also run scenarios and the first scenario we run is a recession case because we might be wrong.

And in fact, I think -- the reality that there could be an economic disruption in the next couple of years is something that you have to include in your investment case. If you don't -- I think you're being responsible. So, for us that translates into two things; one interrupted growth and two, lower terminal multiples. And so, to find investments that work in an environment where you expect there is a reasonable probability of interrupted growth and there's a reasonable probability that your terminal multiples are going to come down, what do you do?

Well, you got to find earnings growth and we are finding earnings growth in three buckets. We're finding it first in corporate carve-outs, then a lot of these around the world where there is a division of a large conglomerate, it hasn't been really loved and in a private equity backed Carlyle deal, we can bring expertise and resources and a value creation plan that creates value, that grows value in that business. And so we've had a tremendous track record over the years of being really astute in this strategy and in a world where you really can't count on top line growth if you are driving a lot of the outcome by things you're doing with a business that really matters.

Second basket is where there is a disruption going on. And we have found that in certain sectors in with certain brands and retail particularly or in healthcare that our capital when it's brought to bear with oftentimes in partnership with an entrepreneur really can make a difference in a company's growth rate. I mean big time changes in growth rate 20%, 30%, 40% growth. And then finally, there are some sectors that we think provide some pretty interesting opportunities, healthcare, healthcare, healthcare continues to be one that shows great growth. We think energy is really beaten down and there are some interesting opportunities in energy. But the flip side is we think renewables with great tailwinds provide some interesting opportunities as well. So, the key is to recognize that if you're -- if it's business as usual where you're going to sit on the sidelines and not help a company go from good to great you're probably not going to get great outcomes.

Michael Carrier  
Analyst, Bank of America Merrill Lynch

Yeah. We have a few minutes left. I'll open it up to the audience to see if there's any questions? There's one at the back.

Hi, just a quick question, as you think about your private equity portfolio and how you mentioned you're building out sort of the digital function. Have you also thought about adding to the portfolio and sort of going towards FinTech or InsurTech sort of ancillary to what you do. And how do you think about that because it's obviously that's a big umbrella of companies. But they are certainly using technology to sort of supercharge their businesses. I mean there are some good ones and some not so great ones. But has -- have you sort of thought about that in the form of what you're thinking about on the digital side?
Glenn A. Youngkin  
Co-Chief Executive Officer & Director, The Carlyle Group LP

Yeah. So, first of all, there's just an investment opportunity there. I mean aside from how an advanced payment system or particularly can impact a consumer-related business. So there's just – there's just an interesting investment opportunity around FinTech that we have found places to invest in, and I think really are quite optimistic about those particular investments. And then of course one of the things we do, do as part of what we call One Carlyle is in fact incorporate businesses that we own and see if there's a way that they can in fact help each other. And it manifests itself in lots of ways are there in fact very unique B2C systems through FinTech or other – or payment systems that in fact can enhance one of our portfolio companies. But it's also as simple as at one point we owned one of the largest auto repair companies, and we also owned one of the largest specialty paint companies, they've never did business together. So, sometimes creating an internal marketplace can really enhance people's knowledge of what's available, but 100% agree. I think there's a great opportunity to invest particularly in FinTech-related companies, but also how we incorporate that transformational interaction between customers and payments and so many of the businesses that have end customers, is we're absolutely on it.

Michael Carrier  
Analyst, Bank of America Merrill Lynch

Okay. Any others, we're about out of time but just one more.

I thought your comments about the digital SWAT team that you've added to your investment process were very interesting. Maybe go a little bit deeper into types of people that you're populating that group with, are they investors, are they scientists, are they somewhere in between?

Glenn A. Youngkin  
Co-Chief Executive Officer & Director, The Carlyle Group LP

Somewhere in between. Folks that have spent their career in the world of digital business not investing, and then what, because you – because we invest in many, many, many different industries, we can't have a team that's good at all of them. And so, what this team does is actually almost provide a diagnostic and then we have sleeves of specialists in particular sectors that we can then go to and rent. But, the key is in fact having a great triage unit upfront that has a broad base understanding of both digital threats and digital opportunities as it stretches across sectors, and then can translate that into okay specifically we need a consumer insurance team to help us here or a retail team to help us in FinTech here, and that is a – it's interesting many, many years ago something that happened across our industry was we centralized financing. So, there's one team that kind of handles all the capital markets and financing opportunities and all of a sudden the sophistication and level of outcomes increased materially and we're seeing the exact same thing happen on the digital front where you could have a consultant come in and tell you about a company, but when you have resident capabilities that sit in the diligence process and then come out and say there's six opportunities here and three threats and this is how we got to go take it to the next level. And but it is – it's not a traditional investment person, it is somebody who has spent there, is a team people have spent their careers doing digital related business initiatives.

Michael Carrier  
Analyst, Bank of America Merrill Lynch

Great. One more [indiscernible] (00:45:13).
[indiscernible] (00:45:14-00:45:19) what is your understanding as to why that is?

Glenn A. Youngkin  
Co-Chief Executive Officer & Director, The Carlyle Group LP

I think it has – I'm going to be very transparent. I think there's three factors, one, historically, we were not very good at FRE, and our firm generated lots of realized performance fees, and we had very low FRE, and the market gave us a low multiple on realized performance fees and because we didn't have a lot of FRE which is what the market wanted, we traded at a lower multiple. And so, we just kind of got established there for a while. So what you've heard from Kew and [ph] Glenn (00:45:55) is we are on FRE, and we're managing it and it's growing. And so, we think over time we'll see a much more representative balance between the two big earnings streams at the firm.

Second big issue I think has been in fact the form that we exist in, a publicly traded partnership, and in fact we have had low daily trading volume, we've had a limited group of people who can own our stock and in all candor our market cap being smaller than some of our peers has meant that people who might want to buy into the sector, they felt a little more comfortable with more liquid peers and now that we have announced, but haven't even converted yet, we've seen this big uptick in our daily trading volume. And so, second issue is just making it easier to own, so that people can buy it.

And I think the third issue has been a real focus from leadership now on actually creating value for all of our stakeholders. And I think it's been very well-received as Kew and I have been very clear. We want to do a great job for our private fund investors, but we want to do a great job for our public investors as well. And I think the combination of those three things has been undercurrent towards driving a lot of our upward momentum over the course of this year, but we're still behind and I think that's one of the great opportunities is that we're behind and we can close that gap and that's why we get pretty excited about the future.

Michael Carrier  
Analyst, Bank of America Merrill Lynch

All right we'll wrap it up there. Thanks again, Glenn.

Glenn A. Youngkin  
Co-Chief Executive Officer & Director, The Carlyle Group LP

Thank you. Appreciate it. Thanks.