

Initiating Coverage of the Alternative Asset Managers; BX is top pick  
We initiate coverage of 5 alternative asset managers (the "Alts") with Buys on  
Blackstone (BX), Carlyle Group (CG), & Oaktree Capital (OAK) & Hold ratings on

Apollo Global Mgmt (APO) & KKR & Co (KKR). Overall, these Alts are wellpositioned amid favorable cyclical tailwinds & strong secular dynamics, while valuations remain attractive. We favor the more-diversified Alts possessing less earnings variability & good distributable earnings (DE) growth profiles for 2014-2015; this dynamic favors BX & CG over APO & KKR for now, in our view, & we see 4Q earnings as a positive catalyst upon a better DE outlook for next 1-2 years. We also like OAK's more-traditional asset manager business profile.

Valuations still attractive as debate on valuing the Alts continues with volatile and less predictable earnings, the market has been reluctant to assign a comparable traditional asset manager P/E on the Alts' carried interest income stream, which accounted for over half of Alt's pretax income over the past 2 years. However, we see limitations in this legacy sum-of-parts valuation approach (valuing fee-earnings at much higher multiples than carried interest) primarily because of the longer-term reliability of carried interest converting into cash distributions for public unit holders. Thus, we prefer to value the Alts on longer-term 'distributable earnings' (DE), which is a proxy for cash flow and the basis for cash distributions to unit holders. On this approach, we think these 5 Alt managers can trade at a median 12-13x P/E on our 2015 DE forecasts, a year from now, which implies about 2 points of multiple expansion and over 15% price appreciation, and about 22% total return inclusive of median 6-7% distribution yields at current price levels.

Both cyclical and secular themes are very positive  
In the current economic/capital markets cycle, the Alts are likely to increasingly benefit from realizing the value of their long-term investments (from sales via M&A, IPOs, etc.) and distributing more cash to unit holders over 2014-15. Thus, we see a greater convergence of DE and the more volatile mark-to-market-driven economic net income (ENI), as the realization cycle gains momentum in 2014. Asset organic growth rates should remain healthy as strong investment performance track records enable fundraising to outpace outflows from realized distribution to LPs. Key secular trends favoring Alts are  
1) rising allocations globally to alternative assets by institutions, and increasingly, individuals, 2) a major competitive advantage in ability to generate patient capital and invest long-term and influence investment outcomes, 3) a greater role for Alts in financing, creating more capital deployment opportunities globally, & 4) increasing concentration of asset flows to the largest Alts, which favors these 5 stocks.

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