



Earnings profiles in 2014 should also remain supportive, with increasing realizations generating good sequential distributable earnings growth for at least the next several quarters. However, longer-term as the economic cycle matures, fears of a slowdown or recession may percolate and this could become negative for the stocks if realizations begin to wane, especially if the Alts' valuations have improved significantly. This does not appear to be on the horizon for at least 2014 given current expectations for continued growth in the economy and a relatively benign interest rate backdrop.

Longer-term however (~2017-19), we think it will become difficult to grow from potentially peak distributable earnings in 2015-16 for much of the group, given the firms will have likely exhausted a large portion of embedded gains through realizations. To combat this, the firms will need to maintain the current healthy pace of fundraising for at least the next 1-2 years and be able to deploy capital in attractive opportunities, which could become scarcer if capital markets remain robust. Growing fee-based assets and shifting the business mix toward traditional asset management will also help to reduce the negative cyclical impact to DE post the realization cycle.

Other considerations and possible pushback on our generally bullish thesis (and discussed in more detail in the report) are: 1) higher interest rates will impede returns given higher financing costs for portfolio companies, 2) earnings are very difficult to model both in the short- and long-term, hence reducing conviction in stocks with low forecasting ability, 3) the corporate/partnership organizational and financial structure is complex & difficult to become comfortable with, 4) the units and their distribution structure are prohibitive for some investment portfolios, and 5) the public floats are low and there is long-term overhang as partners monetize stakes.

Differentiating the companies

As common as the industry trends are for these 5 Alts, the companies are each quite different in terms of business mix, heritage, management philosophies and earnings dynamics. Figure 3 shows a brief snapshot of key business mix differences – we provide a more detailed overview starting on the next page

Figure 3: Alternative Manager Business Mix by Reported Segment and Revenue Type

	APO	BX	CG	KKR	OAK	Average
Pretax Economic Income Mix (2012-14E)						
Business Line						
Private Equity	72%	27%	62%	42%	0%	41%
Credit	27%	14%	0%	0%	93%	19%
Real Estate	0%	46%	0%	0%	0%	16%
Capital Markets	0%	0%	0%	51%	0%	12%
Public Market Strategies	0%	0%	18%	7%	7%	5%
Alternatives Advisory	0%	12%	11%	0%	0%	5%
Real Assets	0%	0%	9%	0%	0%	1%
Business Advisory	0%	2%	0%	0%	0%	1%
Revenue Mix by Type (2012-14E)						
Revenue Type						Average
Fees	34%	42%	46%	31%	48%	40%
Carried Interest & Incentives	61%	48%	52%	41%	43%	49%
Principal & other income	5%	9%	2%	28%	9%	11%

Note: Business mix is by reported segment; thus companies may have business in segments that are not reported separately. Public markets estimated for OAK
Source: Company reports and Deutsche Bank