



Fee-based revenue, mostly as a portion of fee-based assets under management (FPAuM) but also from a variety of transaction fees, accounts for 40% of the revenue while principal investing (proprietary investments on balance sheet, mostly alongside limited partners (LPs) in the funds), makes up over 10%. Over the past several years (and to some extent over past couple decades), the Alts have increasingly attempted to diversify their businesses into other tangential areas to private equity, usually leveraging capabilities in private equity but also to tap into new growth areas, most of which have a greater fee-based nature. We expect this trend to continue, and to help bolster valuations over time, although the cyclical nature of mark-to-market based carry revenue may dwarf the growth in fee revenue over prolonged periods.

AuM organic growth likely to remain good despite oncoming realization cycle
 In figure 8, we show a variety of metrics around assets under management (AuM) and fee-paying assets under mgmt (FPAuM). Given the revenue model of private equity is oriented toward the more lucrative carried interest (i.e. the 20% of total net investment return the general partner receives, usually after passing about an 8% annual return hurdle), the AuM metrics are less meaningful vs. traditional asset managers, particularly as the FPAuM is usually based on committed capital (before investment returns). Hence vs. a traditional asset manager, the Alts get a better revenue participation of their investment returns vs. just fees on AuM. Still, the Alts' AuM growth profiles are important, and we see relatively good organic growth and fundraising trends as essential in commanding better P/Es over the long-term.

Overall, Figure 8 shows a fairly choppy organic growth profile across the group, which can be more influenced by the pace of realizations and shifts between AuM and FPAuM. Still, the table shows BX, followed by CG as the largest by AuM and also most diversified across businesses, with BX and CG being leaders in private equity from AuM perspective, OAK the largest in credit, followed closely by BX and APO, and BX by far the largest in real estate – an asset class that is a differentiating aspect for BX vs. peers in terms of business mix.

Figure 8: Assets under Mgmt Metrics for the Alts, in \$bn

AuM Metrics	APO	BX	CG	KKR	OAK
AuM 3Q13	\$111.5	\$248.1	\$185.0	\$90.2	\$79.8
AuM Net Flow s 2013E	-\$1.4	\$12.8	-\$1.4	\$10.8	-\$4.9
Organic Gth Rate	-1.3%	6.1%	-0.8%	14.3%	-6.3%
FPAuM 3Q13	\$79.3	\$188.6	\$137.9	\$73.6	\$66.9
FPAuM Net Flow s 2013E	\$10.5	-\$0.9	\$14.0	\$14.6	\$5.0
Organic Gth Rate	12.8%	-0.6%	11.4%	24.0%	7.5%
Fee rate 2013E	0.81%	0.95%	0.74%	0.99%	1.07%
AuM by Business 3Q13:					
Private Equity	\$42.8	\$62.6	\$62.2	\$59.7	\$4.0
Credit	\$59.4	\$63.3	N/A	N/A	\$71.8
Real Estate	\$9.3	\$69.0	N/A	N/A	\$4.0
Public Market Strategies	N/A	N/A	\$35.4	\$30.5	N/A
Alternatives Advisory	N/A	\$53.2	\$48.4	N/A	N/A
Real Assets	N/A	N/A	\$39.0	N/A	N/A
Total AuM	\$111.5	\$248.1	\$185.0	\$90.2	\$79.8

Source: Company reports and Deutsche Bank