



While the pace will differ between firms, we expect a strong pace of realizations over 2014-15 to generate strong sequential growth in distributable earnings for the Alts, a substantial positive catalyst for the stocks as this builds in 2014. As a refresher, the steps highlighted below outline the different parts of the private equity cycle as it relates to the GPs (the Alt firms).

1. Fund assets raised from limited partners (LPs);
2. Dry powder is built up (capital committed by LPs but yet to be called from LPs and invested);
3. Capital gets called and deployed (invested by the GP);
4. As investments appreciate in value, funds make their way into a position to accrue and earn carried interest incentives;
5. Carried interest revenue gets accrued via mark-to-market gains, but is not yet harvested, thus a non-cash gain for the GP, as the value of the investment has yet to be realized (i.e. sold via IPO or M&A, etc);
6. Investments are sold (realized) and the gains plus original cost are distributed back to the LPs, with GP taking 20% of the gain; and
7. The 20% take by the GP becomes cash revenue, and after about 40% of this is paid to partners/staff, the remainder flows to the bottom line into distributable earnings (after certain other costs and allocated taxes), and forms the basis for the quarterly distribution to unit holders.

While all aspects of this cycle are currently occurring (e.g. fund raising remaining healthy and dry powder building up), we expect the latter part of this cycle (steps 6-7) to remain especially strong through 2015 and begin to wane in 2016. Figure 34 shows our forecasts for gross realizations by these five Alts over our forecasting horizon.

Figure 34: DB Forecast for Gross Realizations by Alts

|              | Gross Realization Forecast (\$bn) |               |               |               |               |
|--------------|-----------------------------------|---------------|---------------|---------------|---------------|
|              | 2012                              | 2013          | 2014          | 2015          | 2016          |
| APO          | \$10.9                            | \$21.7        | \$17.0        | \$10.5        | \$5.8         |
| BX           | \$12.6                            | \$26.1        | \$31.8        | \$42.5        | \$12.6        |
| CG           | \$23.5                            | \$21.7        | \$16.3        | \$20.4        | \$23.5        |
| KKR          | \$9.6                             | \$9.8         | \$13.7        | \$16.5        | \$9.6         |
| OAK          | \$12.7                            | \$11.3        | \$8.0         | \$8.0         | \$12.7        |
| <b>Total</b> | <b>\$69.2</b>                     | <b>\$90.6</b> | <b>\$86.7</b> | <b>\$97.9</b> | <b>\$64.2</b> |

Source: Company reports and Deutsche Bank

This said, there are cases where the funds are in different stages of the cycle, such as with APO, where its relatively large Funds VI and VII are moving more quickly through the distribution phase and will likely become more fully harvested over the next 1-2 years, while the new Fund VIII (just raised last year at \$18bn) is early in its investment cycle (steps 2-3 above) and is unlikely to begin realizing investment gains for several years. Another positive factor in this current cycle is the pace of fundraising – which remains strong and for firms with relatively extended realization timelines, such as CG, the current heavy pace of fundraising may help bridge the valley between realization cycles, depending of course how supportive the markets are over the long-term.