Company summary

The Carlyle Group (CG) is a global alternative asset management firm. The company conducts operations through 4 segments: Corporate Private Equity, Global Market Strategies, Real Assets, and Solutions. Its Private Equity and Real Assets segment invests institutional capital in buyout strategies and real estate/infrastructure/energy assets, respectively. Its Global Market Strategies segment advises funds that pursue investment opportunities across various types of credit, equities, currencies, commodities, and other alternative assets. Its Solutions segment provides advisory to institutional investors on alternative asset holdings.

Founded by Chairman Dan D'Aniello and Co-CEOs William Conway & David Rubinstein in 1987, CG is firmly rooted in private equity with a style most similar to BX' (among at least these 5 firms) but with a greater importance in the business mix (over half of ENI vs. less than 1/3 for BX). The product strategy is also more diversified with more funds and less concentrated bets, and we view CG's investment strategy (and business overall) as the most conservative within this group. Like its peers, the firm has leveraged its capabilities into tangential areas, both by product range and by business type (including investment advisory to institutional investors), Unlike BX, however, CG is willing to launch a wider array of smaller strategies in the effort to leverage the franchise without making concentrated strategic business bets.

With greater diversification and conservative posture, we expect CG will generate a more stable long-term DE profile that we think will garner a higher P/E over time. Of these five Alts (aside from OAK) we see CG eventually becoming the most comparable to traditional asset managers, though will likely firmly maintain its place as alternative manager. Despite our 'steadier' characterization however, we see a better DE inflection in 2014 vs. peers, which should be a positive catalyst and helps support our Buy thesis, along with our long-term view of P/E expansion.