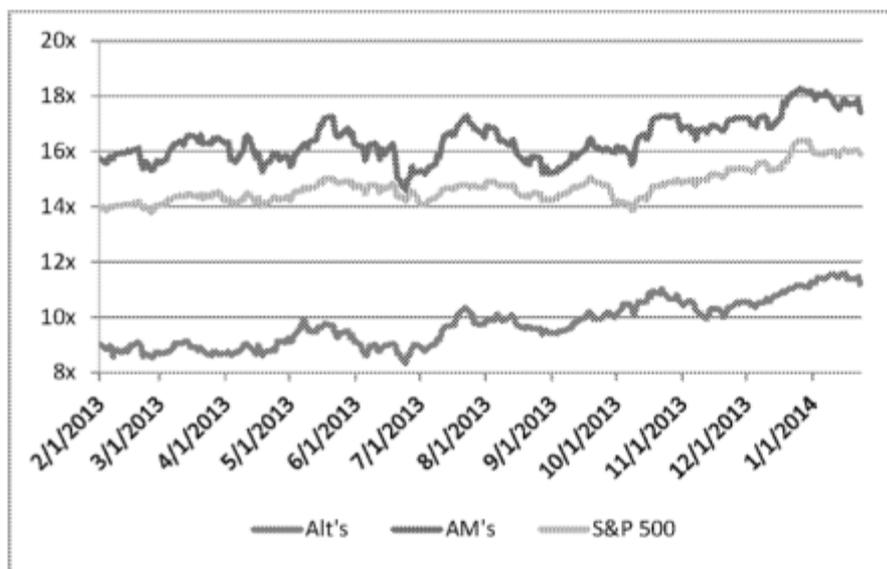




Figure 2: Average Forward P/Es (NTM) for Alts vs. Asset Managers



Source: Thomson Reuters and Deutsche Bank

## Five key themes to drive the stocks this year

Within the industry section of this report, we attempt to answer what we view as the five most important questions/themes for the outcome of these stocks over the next 12 months – summarized below.

Theme I: How should the alternative asset managers be valued & does it portend multiple expansion?

**Our answer: we think the Alts will be increasingly valued on total DE (distributable earnings—a proxy for cash flow) which should improve P/Es as the current realization cycle provides a catalyst for stronger growth in DE vs. lower-valued ENI (economic net income) that forms Consensus estimates.** With relatively short public histories for these stocks (not even a full economic cycle), combined with complex modeling and volatile earnings, we think the market continues to struggle with valuing these companies, albeit has come a long way over the past 1-2 years. Although the modeling will remain complex and earnings results volatile, we think investors will increasingly shift from a sum-of-the parts approach that values the more-stable fee-earnings on a P/E basis, and the more-volatile carried interest earnings on a hybrid P/E and P/B basis (the valuation on this latter part has increased significantly over the last 1-2 years, a function of becoming a 'plug' in response to higher stock prices). In contrast, we attempt to assign more comparable P/Es (still at a substantial discount to asset managers) to the longer-term distributable earnings (from which cash distributions to unit holders are made), of which unrealized carried interest can be a leading indicator. The thrust of our view is that the Alts should be valued on a longer-term basis consistent with their investing mandates that fundamentally drive their earnings profiles. We think investors will increasingly embrace this, and it augers well for PE expansion this year, a key component of our investment thesis.