



Earnings variability greater than peers: However, with fewer, but larger, funds than peers, and more concentrated portfolio positions (and also more flexible investing mandates), we expect the long-term earnings profile to have more peaks and valleys than peers. Over the long-term, we think the firm is likely to continue to generate outstanding IRRs, which should enable fund raising to remain healthy (e.g. the recently oversubscribed \$17.5bn Fund VIII). However, we see the firm entering a materially lower DE period over 2014-16 (Figure 4), as the capacity to harvest investments from legacy funds begins to wane over the next 12-18 months, while the giant Fund VIII will be early in its investment period. This dynamic is a key pillar of our Hold rating for now.

The Blackstone Group (BX)—Well diversified and with a leadership flair
Founded by Chairman & CEO Steve Schwarzman and Pete Peterson in 1985, the firm's roots are in business advisory and buyout investing, which quickly grew much more substantially into private equity. In contrast to APO (and also KKR) the investing style tends to be more conservative with less concentrated bets (though plenty of caveats), and BX' advisory foundation has generated a more 'partnership'-oriented style with its portfolio companies. Historically, the firm has been more equity focused and this expertise was leveraged into other businesses, including the now larger real estate segment. However, BX' credit expertise improved substantially with its well-timed acquisition of a credit fund manager (GSO) in 2008 with BX successfully leveraging its capabilities and growing the unit to \$63bn in AuM from less than \$10bn in 2008.

A good balance of risk and growth: In our view, BX is in a very good position to continue leveraging its capabilities and leading positions in private equity, real estate, credit, and alternative investment advisory, to generate a 'growthier' and more consistent balance of fee and incentive-based earnings. Combined with its strengthening portfolio realization cycle (still in relatively early stages and to be potentially bolstered with latent currently non-carry \$20bn BCP V fund), we see BX generating superior growth in DE among these five Alts over at least the 2014-15 timeframe (Figure 4). This helps drive our Buy thesis for BX and places it as our top pick in this group.

The Carlyle Group (CG)—Conservative and consistent long-term grower
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.

A slow and steady profile will be rewarded: 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.