FundFire Alts: Weekly Features

Carlyle Product Surge Puts Focus on Alts Manager Shift

By Tom Stabile December 16, 2015

Carlyle Group's aggressive drive to add new products – alongside most of its publicly traded alts manager peers – highlights the need for a broader transformation of branding, marketing, and client service functions at these firms, market watchers say. But it's unclear whether the big private equity managers can keep up the fund development pace they have set in recent years.

While the big publicly traded shops – among them Blackstone Group, Apollo Global Management, KKR, Oaktree Capital Management, and Ares Management – all are pumping out new funds, Carlyle has been at the forefront, with nearly two dozen new teams or products formed through acquisitions, new hires, or internal efforts since 2010. Its next big ones – a new core-plus real estate fund and a unit planning long-dated private equity strategies going beyond the standard 10-year investment frame – are already being launched, company officials have said in recent weeks.

Many of those efforts have resulted in new fund sets hitting the market in recent years, including Carlyle's power generation product, which it launched in 2012 and as of August had collected $840 million for its second fund. It also raised $400 million this year for a collateralized loan obligation fund from its business development company unit launched in 2012 and $1.2 billion for its second energy mezzanine fund from a team formed in 2010.

Some of the forays have not fared well, including its quantitative mutual fund series, which it launched in 2013 but scrapped earlier this year, and its investment in **Claren Road**, a hedge fund that has stumbled with losses and redemptions, as reported. Others have become potential future anchors, such as its **AlpInvest Partners** fund of funds unit acquired in 2011, with a strong focus on the growing private equity secondaries business, and its international energy arm formed in 2013, which this year raised $2.5 billion for its inaugural product, the largest first-time fund in Carlyle's history.

The new product bustle aims to underpin Carlyle's strategy to create a wide menu of options for clients, said **Glenn Youngkin**, the company's president and COO, during comments at a Merrill Lynch analyst conference last month.

"So it is this kind of honeycomb of fund constructs that creates multiple economic engines that all run independently of each other," he said. "It's a really important foundational element in the way the firm has been constructed."

New Product Machine

New fund team origination at Carlyle Group

Organic | Acquired

2010	2011	2012	2013	2014
Claren Road	AlpInvest	NGP Energy Capital Management	International energy	DGAM hedge fund of funds
Energy mezzanine	ESG	Middle market finance/ BDC	Metropolitan real estate fund of funds	Asia structured credit
RMB fund	Sub-Saharan Africa	Power	CPG Carlyle Global regulated investment company fund	Metals fund
	Peru buyout	Commodities	Quantitative mutual funds (shut down in 2015)	Energy and infrastructure secondaries
		Ireland growth		Carlyle Global Partners

Source: Carlyle Group

Carlyle's alts peers have also been busy with acquisitions and fund launches, though few have matched its pace. But keeping their new product arms functioning over the longer term will force these firms to shift away from their historic stance as transactional players that deliver stand-alone products within limited sales windows, says **Rodger Smith**, strategic advisory team leader at Greenwich Associates.

"Alts firms are in the early stage of learning about the transition from being transaction sellers to relationship sellers," he says. "There are not a lot of examples for how that has worked successfully yet, but they're clearly working on it and putting resources into it. The internal culture [and mindset] needs to change. It can take three years to build a relationship, and to a transactional firm, that's a long time."

These firms face potential strains on their branding, marketing, and client service functions, and may end up taking cues from traditional asset managers to manage the process, Smith says.

For firms with fast-growing product bases, the branding approach has to be one of expansive expertise rooted under an umbrella of corporate stability, says **Larry Manson**, CEO of **NexTier Capital Solutions**, a marketing consultant.

"They have to project a brand of 'We can be everything to anybody,'" he says. "And then say, 'By the way, we're subject matter experts, we're thought leaders.'"

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Carlyle and its peers can argue they have an overarching global investment perspective that ties together all of their experts on the ground in each sector in order to get the "unfair advantage" needed to outflank smaller, specialist rivals, says **Henry Hakewill**, managing director and chief marketing officer for NexTier.

But managing a very wide product menu is easier in a transactional mode – where a sale can just focus on the opportunity at hand – than a relationship format, where the client handler has to weave each fund into a larger narrative, Smith says. "You have to show how it comes together as a holistic product, rather than [depicting the firm] as a parts provider," he says.

The relationship mode also transforms the marketing and client service function, because it requires deeper involvement with investors, Smith says. "It becomes, 'Let me understand what your needs are and how we can organize our investment platform to meet those needs,'" he says. "That's instead of 'Do you want to buy this? It closes at the end of the year.'"

Having a big volume of products hitting the market may not in itself be a disadvantage to firms like Carlyle, because they can make it part of a pitch that positions them as innovators, Manson says.

"They're not worried about damage to the brand because they're telling you about their creativity," he says.

Managing all of these changes should guide the big alts shops to hire new people on the sales and marketing front, Smith says. While the typical private equity sales professional might nail down an investor's commitment relatively quickly, in a matter of months, the relationship approach is a much different format, he says.

"You have to go to the client more often," he says. "You have to explain what you are doing. You have to bring along the investment people to the meetings, and not just at the road show or annual meetings. It's a time sink."

A bigger question is whether a super-sized pace of product development is sustainable. It may be difficult for the big alts firms as a group to continue, Smith says, simply because capital markets may not have the capacity for new investments from multiple firms in each new specialty.

But bigger shifts in asset allocation trends for both institutional and high-net-worth investors may actually force the product development wave to keep on rolling, Manson says. Predictions that alts could rise to 15% of all investable assets globally in the coming decade from the single digits today will require a huge increase in product capacity at these firms, he says.

"This major reallocation of assets to alts is an explosive opportunity," he says. "Firms like Carlyle will have open field running."