THE CARLYLE GROUP
GLOBAL ALTERNATIVE ASSET MANAGEMENT

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In Alternatives, Investors Continue to Drive the Bus

By Michael Arpey

The investor landscape in alternatives has seen broad shifts in recent years, most notably as sovereign wealth funds and high net worth investors have become deeper participants. Pension plans, for many years the largest investors in alternatives, also remain important players, dealing with the need to accommodate the bulge in retirements by their Baby Boomer beneficiaries.

All three investor categories are seeking diversification, as well as the historically higher returns provided by private equity and other alternative strategies as compared with traditional assets such as equities and fixed income. For their part, the largest alternatives firms like Carlyle have organized themselves around these investors' needs.

Each investor group has particular characteristics.

- Sovereign wealth funds have capital to invest—in Asia from sizeable export reserves, and in the Middle East, from excess "carbon dollars." The decline in oil prices and lagging returns on traditional assets have led these funds to seek other ways to meet their long-term return objectives
- Pension plans seek to do more with fewer managers in an effort to ease the strain on limited staff and reduce their monitoring costs. They are also seeking volume discounts as well as more guidance in making choices from their menu of investment options. Finally, they too have long-term return objectives as they work to meet their retirees' needs.
- High net worth individuals and family offices are taking an increasingly sophisticated, institutional approach. Many wealthy individuals are, in a sense, private equity pros—they made their money buying and improving businesses and selling them for a profit, so they have a unique understanding of what firms like Carlyle aim to do. And they are seeking greater access to alternatives, which started out as an asset class aimed largely at institutions. This "democratization" of alternatives has only begun to scratch the surface.

In common, each of these different types of investors is seeking competitive returns at a time when fixed income yields are at historic lows. They also like the opportunity for co-investment, or buying direct stakes in businesses alongside private equity funds. And they are interested in secondaries (buying seasoned limited partner interests in funds) as a means of deploying their capital quickly rather than waiting, for example, the four to six years that an investment fund can take to fully deploy.

Above all, they seek access to the fullest menu of investment choices.

Our job, then, as alternatives firms is to decide what strategies to offer—what I call the "content"—and provide a variety of ways for our clients to consume this content. And going forward, we must continue to listen to our investors, and evolve as their needs evolve.


Michael Arpey (left) and his team of Investor Relations Professionals maintain a continuous dialogue with Carlyle's investors to understand their changing needs in alternatives. Those investors, which include sovereign wealth funds, high net worth investors and pension plans, seek access to the fullest menu of choices as they work to meet their own investment goals.

Michael W. Arpey is a Managing Director and the Head of Investor Relations at The Carlyle Group. He is based in Washington, DC.

Mr. Arpey joined Carlyle in November of 2010 and is a member of the Firm's Management Committee.

From 2000 through 2010, Mr. Arpey was a Managing Director of Credit Suisse where he was a Co-Head of the Customized Fund Investment Group ("CFIG"). CFIG was Credit Suisse's private equity fund of fund group that focused on primary fund commitments, co-investments and seasoned primary fund commitments.

Previously Mr. Arpey was a Managing Director and Head of DLJ Merchant Banking's Customized Fund Investment Group and The Global Head of Private Equity at Prudential Insurance. Mr. Arpey began his career with the State Treasury Department of Pennsylvania where he was a Trustee designee to the Pennsylvania Public School Employee Retirement System and the New York State Common Retirement Fund where he was Head of Alternative Investments.

He earned his B.A. from St. Lawrence University and his J.D. from the Dickinson School of Law. He is a Trustee of St. Lawrence University.