

Can you see the
mailstream?

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Value Creation



I am from Washington DC. I am probably the only person who's started a business from scratch that became a global business. I started Carlyle, a private equity firm I started in 1987, now largest in the world, we manage about \$90B, and we've invested \$50B over 10 years with an average rate of return of 30%. We manage 60 funds around the world, and the firm has taken a leadership role in private equity, that is privately held. It was not a company I was destined to build.

Something lucky happened to me, I came up with the idea of buying a buy-out firm in Wash DC, and I recruited 3 people in finance, and we raised the money. We focused on keeping investors very happy, and worried more about their money than ours. We took an extremely conservative approach, our theory was never lose money. When you have money, don't lose what you have. Never mind heroic returns. People thought they were so smart and thought they could understand anything in 2 weeks. Our idea was to invest in companies that were heavily affected by the government, and we convinced people that we understood what was going on in Washington because we were there. Maybe we did and maybe we didn't. We also spent a lot of time on a one-Carlyle atmosphere, if you weren't building the firm as a firm, you were out. We also came up with brand extension of 2 ideas. Historically private equity was buy outs, venture capital and real estate. We took the track record we had in buy outs in the U.S. and got money for them in Europe, and built a family of funds. We revolutionized the business by globalizing, we recognized this years ago. We now invest more money outside the U.S. and have more people outside it than inside. Everyone is a local of the country we are investing in.

We built a family of funds using the brand extension model. And also operated under the radar screen, and didn't try to get a lot of publicity. We were able to build the firm before people said these guys don't know what they are doing. Also, we have avoided internal splits, the leaders get along well, so then the people get along well. We also believe in investing our own money. We stuck to our knitting, understood what we knew, and avoided what we didn't know. We recruited people from the gov't., like Frank Carlucci, Jim Baker, others, and after a while we were seen as a government in exile, and I didn't recognize that this was hurting us, but later I had to ask them to retire. I was not focusing on the image. Occasionally, we did stray from what we knew and didn't retain expertise in what we knew.

My personal lessons: if you don't love what you are doing do something else. I didn't love practicing law, I hated it, and I wasn't very good at it. I love what I do now, every morning I want to go to work. If you don't love what you are doing, find something else. Second, ignore conventional wisdom, it is almost always wrong. Do not take no for an answer. I got turned down by an investor 9 times, and eventually he felt sorry for me and gave me some money. Another lesson: share the wealth and the credit. Reagan once said: there's no limit to what you can accomplish in life if you are willing to give credit for it." We split the wealth throughout the firm, everyone shares in the profits and the credit. We say we did this, not I did this.

We also try hard to make ourselves indispensable. People have to come through you to get something done. People being recruited ask what are my responsibilities. If I give you one sentence and you learn how to build on that and make yourself indispensable, people will come to you, then you can build on that.

- Focus on the service or product that you are selling. If you focus on how much money you are making, you won't be successful. The money will come along. Believe in it passionately, not how much money you are making, if you focus on how much you will spend you won't be successful.
- Think global, go outside the U.S.
- Get out of the office, there is no money to be made inside the office, no deals to be made, no money, get out and see people, the inspiration and stimulation outside the office is staggering. I get most ideas from people outside out in the world. Everybody is a salesman, when you are in business you are selling all the time. Don't regard the salesman as the only salesman. If you are not a good salesman, you should get another job.
- Seize opportunities whenever they come along. You'll never be able to plan in advanced the opportunities to come. Not one sentence of my business plan is true. ????
- Despite how wonderful we are, the truth is it's important to not show arrogance. When I see people bragging and are arrogant, I turn away from it. Without humility you won't go very far.

A couple of opportunities I now see, and why:

The U.S. is going through 4 painful transitions now, which will create the greatest single opportunity in our lifetime.

#1 Transition of a president in power for 8 years, we don't know who it will be, there's uncertainty, we don't know who the next president will be.

#2: we are going into a recession and it will spread around the world, we're going from a strong economic period to a weak one.

#3: deleveraging through our economy, we have tremendous debt, we borrowed money for things we wanted, for home loans, auto loans, and as this occurs it will be painful for people who can't borrow money any more.

#4: the most serious transition will be long standing and effect your children and grandchildren, we are going from the dominant economy to one that won't be dominant in 25 years, we've been the dominant one in the world, we will be one of several significant ones, but our lifestyle will change, the dollar will not be valued the same as in the past. We have to be creative and come up with new ways to do well. Example: alternative energy area is an area for growth.

These transitions create an opportunity: Congress will pass legislation that will be the most massive wealth transfer in American history, enormous new businesses will be created as a result of this. When the federal gov't. does anything, it creates opportunity, and new industries come along. Now they will spend more money and try to create more wealth. Assets will have different value, think about how it will affect your business. More opportunities to buy things or change your wealth will come about. Not since 1933 when they passed the Social Security Act has anything so affected our economy.

Despite the value of a business, why it's good, and what I've done, it's very important to give back to your community. You can't take your wealth with you. I bought the Magna Carta, and I gave it to the National Archives to put on display so everybody can see it, and I got more pleasure out of that than making the money it took to do that. Don't forget to give back to your community. Nobody has ever said I wish I had made more money, everyone says I wish I had given more back to the community.