

GOLDMAN SACHS

"TALKS@GS"

INTERVIEW WITH KEWSONG LEE

INTERVIEWER: ALISON MASS

ALISON MASS:

Welcome to our continuing series of special episodes of "Talks@GS," where we will be speaking with some of the world's greatest investors.

My guest today is Kewsong Lee, who's the CEO of Carlyle. And Kew, I'm so thrilled to have you with us to hear some of your investment perspectives in what is clearly an unprecedented time in the global markets. So thank you so much for being here.

KEWSONG LEE:

Hey, Alison. It's great to be here and thanks for having me.

ALISON MASS:

So can you take us back to the beginning of the year? How did you approach opportunities early in the pandemic? January in Asia, March in the US and Europe?

So the number one priority for us was really to focus in on the health and safety of -- of our people

But after our people was focus on our portfolio companies. Let's make sure they've got the right liquidity. Let's develop a sense of urgency. And let's start sharing information with each other from all other parts of the world so that we can prepare our portfolio companies well to navigate through the -- through -- you know, through the crisis.

So that -- that was, you know, the first thing we did from an investment perspective. Then -- then we quickly pivoted to how do we take our global platform, which is in so many regions and

all -- across all asset classes, all types of investing strategies, huge sector knowledge throughout the firm, and what are we seeing? And how do we start picking out areas that we can lean into and areas that we should be more circumspect and be a little bit more cautious about?

ALISON MASS:

So where are you focused now? And what do you think think long-term implications are for investing?

KEWSONG LEE:

This crisis is affecting different regions, different asset classes, different industry sectors in very uneven ways.

It's an uneven recovery from our perspective. Clearly, Asia and -- and other parts of Asia were areas that were, regionally speaking, we've been much more aggressive and -- and leaning in on. We've already deployed over \$1 billion in India. China is very active.

I would say in terms of industries, health care and tech for sure are areas that we've been exploring pretty heavily around the world. And from a style perspective or strategy perspective, growth investing has become more important from a private equity perspective as opposed to the late stage or very large traditional buyouts.

Those types of deals I think have kind of, you know, there's a bit of a lull in light of what's happening right now. But my expectation is that soon will start to pick up as well, as we start to understand what a normalized level of -- of earnings are going to be and what the recovery is going to start to look like, etc.

I'd also say asset classes like credit afford a lot more opportunity because they tend to be more liquidity, and the velocity of deal flow tends to be faster than private equity. And as a result, our credit teams, particularly the opportunistic

credit side of -- of strategies, has been exceptionally vibrant and -- and have been quite active during this period of time.

Alison Mass:

as you move forward in making investment decisions, are there new risk factors post pandemic that you're going to take into account when looking at new opportunities?

KEWSONG LEE:

Okay, so I'll -- I'll start by saying I think the biggest risk a firm can take right now is not taking any risk at all.

I know at Carlyle, our mentality has been we're going to coexist and adapt in this new world as opposed to wait it out and then return. I would point out while everybody's looking for the recovery, etc., I kind of view it as it's not the new normal but it's the new-new.

I would say, a lot of folks are trying to think about what's changed and what's not.

The bigger issue for me I think as a risk is to try to think about what's really going to be different?

And we have to all understand what changes are temporary versus what changes are permanent and structural. And -- and that's the key I think in terms of appreciating risk and -- and the key thing for invest -- investors to -- to understand as they try to navigate through this -- this complex environment.

ALISON MASS:

All right, I'd like to talk a little bit about ESG. And can you talk a little bit about how Carlyle has historically incorporated ESG into your strategy?

KEWSONG LEE:

Look, crisis or no crisis, ESG and -- and quite frankly impact is priority one in -- in the sense that regardless of the crisis we're very focused

on it only because for us it's just a part of how we do business.

And you can't do that without taking a very holistic approach to understanding how do we -- how do we make our portfolio companies better? And to that end, it's just not about growing revenues or managing costs. It's about creating diversity. It's about better boards.

At Carlyle, five years ago, we wanted to have two directors of all of our companies that we control be from diverse backgrounds.

I'm happy to report 100% of our largest funds have reached that target. And so what we're doing with this pandemic is we're actually doubling down, and we've actually raised the target. And we now want on a global basis 30% of our directors to be from diverse backgrounds.

So we're actually trying to up the game, and -- and go even, you know, more -- you know, put more

energy and focus on trying to make sure we have diversity at -- at our boards at Carlyle.

ALISON MASS:

So Kew, if you think back on your career, what would you say is the greatest investing lesson that you've learned from a particular deal, whether it's a deal that went well or a deal that ended up not working out so well?

KEWSONG LEE:

[LAUGHTER] You know, I think you learn the most and are most reflective about times when you've made a mistake. And so for me, my investing career is one where I hope it's successful, but I've learned a lot from mistakes that I've made.

And in particular, I remember one deal where I was so focused on price and the deal structure. And this happened when I was younger in my career. And what I've learned to understand and really appreciate is, you know, while price and structure is important, it's so much more

important to appreciate that the CEO, the company, what's happening in the industry, really in my mind trumps the numbers.

And so you can't have something that's crazy with respect to price and structure, but -- but I -- I made a bad mistake early on in my career thinking that a deal was going to be a great deal because I got a great price. But guess what? The CEO wasn't up to it. The company was not exactly what I thought. And it turned out not to be a great investment, and -- and I learned from that.

ALISON MASS:

Well, you clearly have built a successful investment career. So what I'd like to hear your perspectives on are what are those things that you think have contributed to your personal success as an investor?

KEWSONG LEE:

I think over time from an -- from a person --

personal perspective, certainly EQ is exceptionally important. I'm not saying IQ isn't important, but I'm saying great investors in my mind in the private equity business also have a very good sense for -- for EQ.

And they have really good pattern recognition. A lot of times it's not about just the granularity of -- of -- of putting a deal together. It's the ability to instantly and intuitively appreciate certain types of patterns based on what -- what they've -- what they're seeing in front of them and to have a -- an instinct or an intuition as to kind of, you know, what makes for a good deal.

You know, these are all things, at least from an individual perspective, that I'd offer you. I tell you, though, that at an institutional or firm level, there's probably nothing more important really to drive great investing than having a great culture.

ALISON MASS:

What would you say is the biggest challenge that Carlyle faces today?

KEWSONG LEE:

You know, I think we're experiencing it right now, which is in this pandemic, remote working, you know, work from home -- although I call it "living at work," [LAUGHTER] you're -- you're in -- you're in a place where these conversations are occurring. And I think over time this erodes culture. It doesn't build culture.

And so I think the greatest challenge for us right now is no doubt we have adapted incredibly well to this living-at-work environment. No doubt we've been able to do it. We've sustained ourselves, but I don't think it's sustainable.

ALISON MASS:

So your perspective on the S&P 500. A year from now, will it be higher or lower?

KEWSONG LEE:

Not to shirk your question, but, you know, to me it kind of almost doesn't matter too much whether it's up or down. I think Carlyle is well positioned. And it's all about just building value and looking for deals and great investment opportunities over the -- over a much longer term horizon.

ALISON MASS:

And not to shirk my question, but you did. Just saying. [LAUGHTER]

Okay. China and the US. Will the relationship be closer or further apart, in your view, a year from now?

KEWSONG LEE:

Yeah, I'm really hopeful for -- for closer, but I think, sadly -- and -- and I am sad about this -- I think there is a -- a continued divergence that's occurring. And -- and my guess is that's going to continue for -- for a little bit longer.

ALISON MASS:

So finally, what advice would you have for

someone starting out in investing today that you wish someone had given you when you were starting out in your career?

KEWSONG LEE:

Too many folks I think these days, they have their heads down and they're focused on the numbers and they're trying to just -- just crunch. And I'd say to folks take a step back. Pick your head up. Don't put it down. Pick your head up.

And have a point of view. And -- and then articulate it.

But I think you learn the most from great people. And so as you try to manage your careers as you're trying to figure out what should I be doing or doing next, I -- I always think about it through the lens of: How do I find the best people I can work with and -- and learn from them?

ALISON MASS:

So Kew, I really appreciate you sharing all your insights with us, and I hope you stay healthy and stay safe.

KEWSONG LEE:

Same to you, Alison, and -- and really thank you very much for having me. Enjoyed it.

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