

The Economic Club of New York

502nd Meeting
112th Year

David M. Rubenstein
Co-Founder and Co-Chairman
The Carlyle Group

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Moderator: Glenn Hutchins
Vice Chair, Economic Club of New York
Chairman, North Island

Introduction

Chairman Marie-Josée Kravis

I'm Marie-Josée Kravis, the Chair of the Economic Club. Welcome to everyone here today to our 502nd Economic Club meeting. And I'd like to especially thank the 280 members of the Centennial Society. Many of you are here at the front of the room and thank you for ensuring the stability and growth of the club. Your contributions really are the lifeblood of the club and I thank you. And I also welcome our 2019 Class of Fellows.

Now, I'm very happy today to welcome David Rubenstein who is the Chair of the Economic Club of Washington – a club with whom we have reciprocal arrangements. But David is really hard to introduce. He himself – in his rather inimitable self-deprecating way – has explained that his mother wanted him to be a dentist but he went to law school after graduating from Duke University, went to Chicago Law School, was the editor of The Law Review. Joined Paul, Weiss, a prestigious law firm but left, not really happy with his lot there. And a little, I think, surprised that his partners didn't try – or the partners, he wasn't a partner at the time – didn't try to hold him back. But he left and went to Washington, was Counsel to the Senate Judiciary Committee's Subcommittee on Constitutional Amendments, then became Deputy Assistant to President Carter for Domestic Policy. And David claims that he had a big role in bringing the inflation rate to 19%. He then became a lawyer again.

But finally in 1987 decided to build on his knowledge of Washington and the corporate world and he founded The Carlyle Group, which of course became one of the country's leading investment firms and now has assets of over \$210 billion. But he didn't only do that. He also became very involved in the not-for-profit world. He currently chairs the Board of Trustees of the John F. Kennedy Center for the Performing Arts, the Smithsonian Institution, the Council on Foreign Relations. And he sits on a number of other not-for-profit boards – the University of Chicago, Memorial Sloan-Kettering, Johns Hopkins Medical Center, Lincoln Center for the Performing Arts, the Institute for Advanced Study at Princeton, and the World Economic Forum. And that's only naming a few. At one time David was running eight major capital campaigns across the country. So his commitment to philanthropy is a very deep commitment.

David will begin a conversation with Glenn Hutchins, who is the Vice Chair of the Economic Club and also Chairman of North Island. Glenn Hutchins will be on the other side of the interview process. David is very well known with his interviews and will now be answering questions instead of asking them. So I ask Glenn and David to please join us. And I remind everyone that the meeting is on the record and please entertain us. (Applause)

Conversation with David M. Rubenstein moderated by Glenn Hutchins

GLENN HUTCHINS: Thank you Marie-Josee, and thank you for everything you do for the club. It's terrific. David, thank you for being here.

DAVID M. RUBENSTEIN: My pleasure.

GLENN HUTCHINS: So David has an announcement he'd like to make. He intends to announce today at the club that he's going to be a candidate for President of the United States. (Laughter) And David, would you like to fill us in on that news of the morning? This is on the record of course.

DAVID M. RUBENSTEIN: It's embarrassing to be the only person I know not running for the Democratic nomination. (Laughter) I no longer can find anybody to have dinner with because everybody's running for president. So I decided that maybe I would join them all and run on the Carried Interest Ticket. (Laughter) But I'm not sure that would probably appeal to that many people in Iowa or elsewhere so I think I'll stay where I am actually.

GLENN HUTCHINS: So, David, thank you. We'll come back to that later. Maybe by the end of lunchtime, we can persuade him differently, but we'll come back to that. David, you grew up in Baltimore, everyone knows. Your father was a postman, is that right?

DAVID M. RUBENSTEIN: My father worked in the post office. He had dropped out of high school to go into World War II. He came back. He met my mother. They got married not that long thereafter. And the only job he really was qualified for – he didn't go back to high school or to college – was a job that didn't require those degrees. So he worked at the post office his entire

career.

GLENN HUTCHINS: So, what about your formative years in that community in Baltimore and in that family prepared you for the career you've had?

DAVID M. RUBENSTEIN: Well, nothing probably, I'm not prepared for it. But the truth is when you grow up in a family that doesn't have a lot of wealth, you don't, you know, commiserate with your friends and say, oh my God, I have friends that are wealthier. You just take your situation as you see it and do the best you can. So I didn't say, boy, I'm poor and there are other people that are wealthy and they have a better life. You just do the best you can and actually in hindsight, as all of you know, if you grow up in a, let's say a lower income family, lower middle class, it's a great advantage in the rest of your life. Growing up in a very wealthy family is, you know, we can make jokes about it and so forth, but it's not as big of an advantage as you think. As you probably all know, raising children when you're very wealthy is not an easy thing to do. And as Jackie Kennedy famously said, if you mess up raising your children, nothing else in life really matters. So, all of you who have seen the problems of raising children, some of you no doubt know about it, if you have a lot of wealth, you often see kids who turn out not to be as motivated as you want. So I had the advantage – I didn't realize it at the time – of knowing that if I was going to get anywhere in the world, I couldn't do it because my father or my mother did something for me necessarily, other than giving me unconditional love. They just basically said you have to do something on your own. So it's a great advantage. My children have done

pretty well, but, you know, they know that there's probably some fallback where if they didn't do well, they're not going to be on the street. I didn't quite have that sense. So I'm very happy to have grown up in the situation that I did and now I see that the irony of it is that sometimes people who grew up in the wealthiest of circumstances and mine were not, they're working for me, or they have positions that are subordinate to mine in some cases. It's kind of a strange thing that America produces where you get people from modest circumstances sometimes becoming more prominent than people who came from the wealthiest of circumstances. So that's actually a good thing about our country.

GLENN HUTCHINS: There are a whole host of issues that are in the political ether today that you just alluded to – income inequality, labor mobility, how you get an education and move ahead in your life. You look at Baltimore today, this weekend, Sunday *New York Times Magazine* has a cover story about Baltimore and how, not only has it not improved like a lot of cities have, the urbanization, but it's continued to deteriorate. How do you think about that?

DAVID M. RUBENSTEIN: Well, Baltimore when I was growing up was the ninth largest city in the United States. That's hard to believe. But it was a population of about 930,000 people. It's now probably about half of that. It was at the time a majority White city. It's now a majority minority city. But it was also strange in my circumstance. In 1948, the United States Supreme Court in *Shelley v. Kraemer* said restrictive covenants are against the law, against the Constitution, which meant you can't have a mortgage which says you can't sell to a person who

is Black or Jewish. Those kinds of mortgages were very prominent in the United States – 1948, they were outlawed. But Baltimore never quite got the word so in Baltimore, if you were Black or Jewish, you couldn't buy a home in certain areas. So all the people who were Jewish, they had to build their homes or move into areas where there were already people who were Jewish. So I grew up in a Jewish ghetto and I didn't know anybody who wasn't Jewish until I was about 13. I thought the whole world was Jewish. Then I realized not that many people were Jewish. But it was unusual circumstances. And the house I grew up in was very small, and I don't want to make it sound like I'm Abe Lincoln or anything, but these were...

GLENN HUTCHINS: Don't worry, we're not confused...

DAVID M. RUBENSTEIN: These were 800 square foot homes. I went back and looked at them, 800 square feet. And I was the only child so these homes were all built for families that have one child. And when I was, I wanted to show my son when he was 10 years old that I grew up in a smaller house than he was living in, I took him back to my house in Baltimore and I said here it is. And it was a row house. And he said, Dad, that's not so small. It's ten doors. You had ten doors in your house. I said, no, no, those are ten houses. He didn't realize, these were very small houses. But in the end, you know, it worked out okay. I went to a large public high school which was, you know, not so Jewish. And it was a different world. But I grew up in pretty much a Jewish ghetto, though I didn't emerge probably as Jewish as some people would like me to be.

GLENN HUTCHINS: So, would your mother still have wanted you to be a dentist in retrospect?

DAVID M. RUBENSTEIN: My mother, look, all parents want their children to be happy. The happiness is the hardest thing in life to achieve. As we all know, you spend your whole life trying to figure out how to be happy and my mother thought, what could be better? You know, if my son could be a doctor, a lawyer, a dentist, but the dentist, she said, you get to be called a doctor. No weekend hours. And my mother was always spending time at the dentist so she thought this was a good thing. I told her I might get arthritis in my fingers and then what would I do? So I talked her out of that fortunately.

GLENN HUTCHINS: Okay, good. So she was happy with the course you took.

DAVID M. RUBENSTEIN: Reasonably happy.

GLENN HUTCHINS: So Duke, University of Chicago Law School, academic distinction in both places. The next...

DAVID M. RUBENSTEIN: I would say, okay, in other words, the truth is if you go back and look, the people who were first in their class in all these great schools – you went to Harvard for three different schools, parts of Harvard – the people who are number one, you never know what actually happened to them. The people who actually succeed sometimes are people who were not

the superstars and that's the strange thing of life. If you go back and look at who was first in their class at Harvard or Yale or Princeton or Duke or Stanford, very often they haven't achieved as much as you would have expected. I did an interview not long ago of Jeff Bezos. And Jeff Bezos said that when he was at Princeton, he wanted to be a nuclear physicist, I think, and he thought he was pretty smart. And he got there and he realized there was some kid who was much smarter and anytime they had a challenging question in nuclear physics, they would go to this kid. And so after the interview was over, people were going on the internet and saying who was this kid, what happened to this kid who was so much smarter than Jeff Bezos? Well, he's running a two-person consulting firm somewhere in Southern California. Obviously Jeff Bezos did better.

GLENN HUTCHINS: Done a little bit better.

DAVID M. RUBENSTEIN: Bill Gates, when Bill Gates went to Harvard, he thought he was a brilliant math person, but he realized there were people even better than him. And the superstar math person was a person that Bill Gates hired to help him get Microsoft off the ground. He paid him \$1,000 I think. And you kind of say to yourself what happened to this person who was smarter than Bill Gates in math? Is he, you know, changing the world? Well, no, he's a tax lawyer in New York City.

GLENN HUTCHINS: What was his name?

DAVID M. RUBENSTEIN: I forget his name...

GLENN HUTCHINS: Monte...

DAVID M. RUBENSTEIN: Hughes, Hubbard & Reed

GLENN HUTCHINS: ...He's the third person who has the original copyright of the first copy of MS-DOS.

DAVID M. RUBENSTEIN: So, you know, I did okay in school but not so great that people would say this person's going to be brilliant. And, you know, I got lucky in many ways.

GLENN HUTCHINS: So you landed in the next part of your resume at the Carter White House and Domestic Deputy Policy Advisor as Marie-Josee said. But one of the things that's always struck me is that group of people who you were with at that time period, it was an extraordinary group. Talk a little bit about that.

DAVID M. RUBENSTEIN: Well, I had, what happened was I came to Paul, Weiss, and I wanted to go to Paul, Weiss because the man I idolized was Ted Sorensen. He was the greatest presidential speechwriter of all time. I was inspired, when I was in the sixth grade, to read and learn the great Inaugural Address of John Kennedy. My teacher went over it word for word. It

was really poetry in prose form, 14 minutes, spectacular speech, still stands the test of time as the greatest, I think, inaugural address of the 20th century. So I wanted to work for the man. I went to Paul, Weiss, He didn't really need me to work for him, but I tried to do some things. And after a while, I came to the conclusion I wasn't that good a lawyer, and he came to the same conclusion...(Laughter) and my clients did as well. And so, you know, the advantage of knowing that you're not good at something early on is that you can try something else. Nobody has ever achieved anything great hating what they do. Nobody won a Nobel Prize hating what they do. These are people that love what they're doing. You don't do anything great 9 to 5. So I wasn't that good a lawyer. I didn't like it that much. I said can you please get me a job so I can be like you working in the White House and be an advisor to the President of the United States. And I didn't say this, but then coast the rest of my life having been an advisor at the White House. I thought that was a good thing. But anyway, he got me a job with the man who said he'd be the next President of the United States. I joined his Senate staff. His name was Birch Bayh. Sadly, he died this morning. He was a very talented senator. He was running for president. And sometimes the most talented people don't get elected president – some that we have observed. And so, you know, he didn't get that far in the primaries. Jimmy Carter was doing better. Ultimately, there was an opportunity to work for Carter. I didn't know Carter from anything. I'd never been to Georgia practically. I got a job and went down there. And as we have observed, people who work on White House staffs, often people who work on the campaign, they're not the most qualified people because the most qualified people are probably not working in campaigns. But I got a job as the Deputy Domestic Policy Advisor when I was 27 years old, you know, to be an

advisor to the President of the United States. I wasn't qualified. I didn't think Carter was qualified. Though by today's standards, he's extremely qualified. He was Governor of Georgia for four years, extremely qualified by today's standards. And so I did that for four years and I loved it. There's nothing like working in the White House when you're single, you have nothing else to do. It was great fun. And as you suggest, a lot of very good people worked on the White House staff who have gone on to do great things in the financial world and in the academic world and other things. So we had a lot of young people who were very motivated to get a Democratic president in office again and they just congregated together.

GLENN HUTCHINS: So what were your key take-aways from that experience? What did you learn during that brief, maybe briefer period than one expected in the White House given the 1980 election, that you've taken with you through the rest of your life?

DAVID M. RUBENSTEIN: Well, there was a famous scriptwriter in Hollywood who wrote Butch Cassidy and the Sundance Kid. His name was Bo Goldman. And he later wrote a book called, *Nobody Knows Anything* or *Nobody Here Knows Anything* meaning that nobody in Hollywood really knows what's going to make a hit movie. Well, nobody really knows anything in the government either about what's really going to work, what's not going to work. What I've learned is that in government if you're important in the private sector, it doesn't mean that much. You might have been a famous person in the private sector, you come into government, if your position is lower than somebody else's you just don't have the power to do what you want to do.

So many people who were very successful in the private sector don't succeed in government. Government is all about power, access to the decision maker. And I learned that in general, like most things in life, hard work probably pays off more than being brilliant. Being nice to people probably pays off more than being arrogant. Being able to figure out what motivates people probably pays off more than just ignoring what people's motivations might be. So I learned a lot, but I also learned that in the end, if you're going to accomplish something in the end in your life, you have to do it yourself. And you can't depend on somebody else to help you or you can't just coast on somebody else's success. So if Carter had been successful, maybe my career would have gone different. I thought Carter was going to win. And, in fact, I'll never forget this. I said, dear God, please let us run against Ronald Reagan. He is an old, old, old man. How can anybody that old even run for president, get out of bed in the morning, because he was 69 years old – I was then 31. Now I'm 69 and I think 69 is like a teenager. (Laughter) But then I didn't think, so, you know, be careful what you wish for because we ran against Ronald Reagan and he clobbered us. We didn't realize we had underestimated how talented he was, what a good speaker he was, and Carter just really never caught up to being able to compete with him. And we had the hostages and the high inflation and gas lines and so forth. So some of you may have had this experience in life, I hope you have not, but in many ways I hope you have had this experience. And it's this, people came to me in the White House – and you worked in government as well, you know – people come to you when you have power and they say you're brilliant, you're great, you're terrific. And sometimes you actually believe that maybe they know more than you know. But you realize you're not probably as good as they think, but they're flattering you. And

so people would come to me all the time and say you're great, by the way, can you help me on this, can you help me on that? And they'd say, by the way, if you ever want a job, call me up. And I'd say, well, why would I want a job, I'm going to be in the second term of Carter and I'll be the Senior Domestic Advisor so why would I need a job? But thank you for telling me to call you. Well, we lost the election, and when we lost the election I started calling all these people saying, well, remember, I'm David Rubenstein, the bright, young man, do you want to hire? No calls back. Nobody called you back. Because you're out of power in Washington, you're a dead man. As Harry Truman said, you want a friend in Washington, get a dog. So one day I'm riding around on Air Force One, Marine One, I'm going to Camp David, I'm advising the President. He's calling me for advice. I'm 31 years old at that point. And the next day we lose the election, nobody calls you back. And so I hope none of you have this experience, but on the other hand it may be character building. So I interviewed with a lot of law firms and they didn't want anybody who didn't really know how to practice law. And being a Carter White House aide didn't exactly excite people. So I didn't want to tell my mother that her well-educated son who turned down being a dentist couldn't get a job, so January 20th comes and I, you know, go to the inauguration, see Reagan inaugurated. My mother said where are you going to work? I said, well, I have so many offers from law firms, I don't know which one to take. (Laughter) January, February, March, April, May...no offers. And my mother said, well, just take one offer, just any firm. I said, well, I'm very picky, I don't want to go with the wrong firm. It took me until June to get some law firm to hire me again at the bottom. So I had to start all over again. And then once again my clients said, you know, you're not really that good a lawyer and my partners reminded

me that I wasn't that good a lawyer. So I had the advantage at a young age of knowing that I wasn't good at what I was trying to do so I was able to switch. If I had waited until I was 50 to switch, it'd be harder. And I also had the advantage that I read two things that changed my life. Number one, I read that Bill Simon, who had been Secretary of the Treasury in the Ford years, he had done something called a leveraged buyout. You know what a leveraged buyout is. And he had done something buying Gibson Greeting Cards and he more or less parlayed \$1 million of personal investment into \$80 million in like three years. I said that's a better business than practicing law. I didn't know what a leveraged buyout was but I thought it'd be better than what I was doing. And then I went down the street to Bill Miller who was Secretary of the Treasury in the Carter years and said your predecessor did a leveraged buyout, you must know what a leveraged buyout is. Why don't you do one and I'll do your legal work for you? Obviously knowing my legal skills weren't that great, he didn't really bite at this. So I was thinking about starting the first leveraged buyout firm myself and I didn't really have the financial skills. And then I read that an entrepreneur will start his or her first company as an entrepreneur between the ages of 28 and 37. And after the age of 37, it's like a woman's biologic time clock, your chances of reproducing goes down after 37, your chances of starting a new company, and I read that when I was 37. So I said, uh oh, I better start something. So I just cobbled together some people who knew more about finance and I started the first firm in Washington that does this. And if we had started in New York, people would have made fun of us because we didn't have the investment banking background and the credibility. Nobody in Washington paid attention to us and so we could make mistakes and nobody really paid attention for a while so the company took

off. But if I hadn't read those two things, I might still be practicing law.

GLENN HUTCHINS: So you started in 1987, the year of the Great Crash. That was a pretty bold move.

DAVID M. RUBENSTEIN: We started. Three weeks later the market crashed, went down 508 points. We thought, geez, we're wiped out after three weeks. But we survived that.

GLENN HUTCHINS: So, you had a very effective partnership I always thought observing your firm, opportunity from the inside. Talk about how you and your partners worked together to build the firm.

DAVID M. RUBENSTEIN: As all of you probably know, being married is complicated. You're married to one person for, you know, whatever the number of years it might be and a business relationship is like a marriage or a partnership. And being in business with somebody, another person, for 32 years is not easy, but I've done it with two other partners. Two other partners and I more or less built the firm. And the way we were able to stay together is, one, we each had our area of expertise so we didn't kind of get in the other person's sandbox. Secondly, we respected each other. Third, we didn't really fight with each other, and certainly not in front of anybody else. And fourth, we really, you know, felt we were doing something useful and we kind of felt that sublimating our ego was probably better than just having fights and saying I'm more

important that you. And so we kind of, it worked out. And I took on the role, I didn't have the finance background. So I said I don't have the finance background, what can I do to contribute to this partnership? Well, nobody want to go actually do the dirty work of raising the money. And so I would go out and sort of start begging for money and run around the world raising money. The other guys didn't want to do that so that was my contribution to some extent.

GLENN HUTCHINS: And in those early days you engaged a few people to work with you. One notably was the former President of the United States, George H.W. Bush, Jim Baker, others. How did you use that as the strategic tool?

DAVID M. RUBENSTEIN: Well, in the early days, despite my enormous reputation as a White House advisor, nobody ever heard of me. So if I was calling up somebody and said, would you like to meet with David Rubenstein and hear about Carlyle and why they should invest, they would hang up or they would say maybe or not right now. So I didn't really have the ability to get in to see people of any prominence. So Frank Carlucci was stepping down as Secretary of Defense in the Reagan Administration, he wasn't a lawyer. In those days if you were not a lawyer you couldn't affiliate with a law firm so he was looking for some place to kind of be affiliated with in Washington where he could go on a lot of his corporate boards that he went on. Somebody recommended us. We talked to him. We said fine. He joined us. And actually he could call people and get them on the phone because he was Secretary of Defense. I couldn't get these people on the phone. So he helped us get deals, met with some investors. Four years later,

Jim Baker was available. I said, well, Frank Carlucci was good, but Jim Baker was even bigger. So I went to meet with him. I didn't know him. And it took me many months to convince him to join us. And then he said can he bring along Dick Darmon who was his protégé and we said okay and so we had Carlucci, and Baker and Darmon. And then Jim Baker said what about my friend George Herbert Walker Bush? I said I've heard of him. I don't know him but sure. He said, well, he may be interested. He joined as well. And then he said what about my friend John Major. I said okay, fine, we'll have them all. So we had them all. You know if you go to Kuwait with George Herbert Walker Bush, you can probably get to see anybody you want to see. So it was very helpful in getting in to see people. On the other hand, if you have a terrible track record, you don't know what you're doing, you know the meeting won't last that long. But we had a good track record, and getting in the door was helpful. We'd have dinners where I would invite people to hear Jim Baker or George Bush or John Major and it kind of worked out. Then when George W. Bush was elected, it turned out that his father said, well, I don't think I can be in business anymore, so I'm going to step down. I said okay. But then after a couple of months, he said, well, I don't think it's such a big problem, I can be loosely affiliated. So he kind of still affiliated with us. And then when the Iraq war went south, we, all of a sudden because we had these people close to George W. Bush, we were blamed for it. And so it was an awkward situation because we had these prominent people and they were, you know, affiliated with us and we're being blamed for the Iraq war. So we had to make an adjustment and ultimately they all retired and I recruited Lou Gerstner to be our chairman. And so I tried to change our image from being political, where we really weren't that political, but make it seem more like a business organization. And it kind

of worked but it was awkward because these were very good friends of mine. And George Herbert Walker Bush, I became very close to him and he's one of the, I would say the nicest man I ever met in my life – gracious, charming, fair, funny, terrific. But in the end, we de-affiliated with a number of these people to help improve the firm. But I kept good relationships with those people, but it was a little awkward at the time.

GLENN HUTCHINS: And you originally were identified with doing deals in and around the defense community.

DAVID M. RUBINSTEIN: Yes, because Frank Carlucci came in so he was the former Secretary of Defense and so we said, well, let's put it this way, Everett Dirksen, who was the Senate Minority Leader in the 1960s famously brought the Republicans along for the 1964 Civil Rights Act, he famously said when you're getting kicked out of town, get out in front and pretend you're leading a parade. Now what does that mean? That means take advantage of the situation you find yourself in. So I found myself in Washington – people in New York didn't take us seriously – and so how can I say that people should invest with us? So I said, well, people in Washington, we understand companies more heavily affected by the federal government than the guys in New York. And it sounded good, it made sense. So we pretended that we were leading a parade by saying we understand heavily affected, industries that are heavily affected by the federal government. So one of those was the aerospace defense industry. So I, interestingly, bought a number of companies there. And then we found that a lot of people said, wait a second,

you're buying companies in the defense industry? Yes. But they made it sound like it was the offense industry and a lot of people didn't really like to invest in the defense industry. It became more complicated. And then the deals kind of dried up, there weren't as many of them. But we did make a number of investments in the aerospace industry and defense and they worked out reasonably well and that enabled us to have credibility to branch out into other areas.

GLENN HUTCHINS: Then you struck upon a strategy of going global when that wasn't the case in business, developing multiple asset classes when that wasn't the case and that became a very unique strategy. Why don't you talk a little bit about that?

DAVID M. RUBENSTEIN: Private equity was essentially a Mom and Pop business. When Henry Kravis and his partners did the famous RJR deal in 1989, the biggest buyout ever done, they only had, I think, seven investment professionals because they were small firms. They were very small. And why were they small? They were Mom and Pops. Why is that? Well, the partnership agreements said you can only have one partnership at a time. So if you're Henry Kravis, you have a buyout fund, you can't have another fund. You're supposed to spend 100% of your time doing that. So that was the rule we had as well. So Carlyle raised \$100 million fund. And then a lightbulb went off in my head and I said, you know what, why don't we try to build like a Fidelity or a T-Rowe Price or a Vanguard of private equity where we have many different funds and we'll centralize fund raising, legal, tax, accounting in Washington, but we'll have a buyout fund, a venture fund, a real estate fund and therefore take advantage of our brand name.

That was a novel idea at the time. Now they don't give Nobel Prizes in private equity, but that deserved a Nobel Prize, right, this idea which contributed so much to society. So what we did is we basically built out a series of funds and then the next thing we decided to do was to globalize it. Historically, if you were an American firm you invest in America. European fund in Europe. Asia in Asia. We decided to hire local people in each of these jurisdictions and raise a fund around them that we would control. And so that's how we built out a multi-discipline, multi-country organization. And obviously other firms, Apollo, Blackstone, KKR among others have done the same.

GLENN HUTCHINS: So, not long after you de-affiliated with your first round of partners, we encountered the financial crisis. You famously saw it coming. In fact, I've got a quote here from you, from Harvard Business School, David Rubenstein. I analogize private equity to sex. You realize there are certain things you shouldn't do but the urge is there and you can't resist. Now, did you actually say that?

DAVID M. RUBENSTEIN: Well, I was speaking at Harvard Business School...

GLENN HUTCHINS: He didn't say no.

DAVID M. RUBENSTEIN: If I can just put it in context, I was speaking at Harvard Business School and my daughter was a student there. She invited me to speak.

GLENN HUTCHINS: So your daughter was in the audience for that?

DAVID M. RUBINSTEIN: My daughter and my son-in-law were in the audience. And I said what kind of subject appeals to students? How can I, an older guy, make students think I'm really relevant? So I said I'll make a sex analogy. And the analogy was that, people would ask me what I think about bubbles, and I said, how do you know a bubble when you see it? I said you don't really know but it's like sometimes you realize when you're investing in a bubble, that maybe you shouldn't be doing it. You know it's the top of the market, but you kind of can't resist the temptation. I said, not unlike sex. Sometimes you can't resist the temptation but maybe you know you shouldn't do something. So I thought it was a little bit of a joke. Got a little joke. And unfortunately at the end Reuters wrote a story afterwards: David Rubenstein says private equity is like sex, which isn't quite what I said and I've been trying for the last 20 years to get it off my Wikipedia site. And I've learned...

GLENN HUTCHINS: Not successfully.

DAVID M. RUBINSTEIN: Well, you can't get something off your Wikipedia site, it's not that easy. I've been begging the founder of Wikipedia, Jimmy, how do I get this off? Well, it's not that easy. So it's still there. And I think, in my grave, by the time I'm dead, it'll still be there. But anyway, that was the genesis of...

GLENN HUTCHINS: What did the private equity industry learn from the financial crisis?

DAVID M. RUBENSTEIN: Well, the serious lessons of the financial crisis were these: one, if you have, if your company is going under, you have distress. Don't panic. Buy your debt back at a discount because you can probably buy your debt back at a discount. So the greatest deals done in the time of the financial crisis were done by people that bought their own debt back at a discount. Apollo famously bought back their debt in one of the chemical deals. I think they made a \$9 billion profit. Blackstone had a problem with Hilton. They probably needed to restructure the debt and put more equity in, but they turned out to make a \$13 billion profit. So, one, buy your own debt back at a discount. Buy more equity at a discount. Stay with the company. Work with the banks. Don't throw in the keys because in the end the world always comes back. So that was one of the lessons. Another lesson was probably don't leverage yourself up too much and therefore have more equity in the transaction. And probably treat your investors well and let them know what's going on, but also treat your bankers extremely well because your bankers can decide whether they're going to pull the plug or not. So there were many lessons learned. I think one of the lessons we've all learned is that the world does come back. And if you're sensible in pricing something, you buy something reasonable, at a reasonable price, and ultimately the economy goes against you, you can still make it work. Now, not every deal was saved, but many of the largest deals done at the time of the market decline actually turned out to be reasonable deals. Not great, but reasonable.

GLENN HUTCHINS: So, any echoes from that period and the situation we see today?

DAVID M. RUBINSTEIN: Today, we have recessions in the United States on average every seven years since World War II. We're now ten years into a growth cycle. So at some point, the economy may go down. I don't know when it will be and I don't like to use the R word. When I worked in the White House, we had an inflation advisor named Fred Kahn. And he said publicly that we were going into a recession in 1980. Now Carter called him into the Oval Office and said, look, I'm running for re-election, don't use the R word. It scares people. And Fred Kahn said what can I say? I believe this. He said, just don't use the R word. From then on, Fred Kahn would go out and say I think we're heading into a banana. And he used the word banana instead of recession and no reporter would want to say Carter's inflation advisor thinks we're heading into a banana so they kind of left him alone. I don't think we're heading into a banana necessarily, but at some point the economy will slow down. There's no evidence of it today. And I think probably we're in reasonable shape this year. I can't predict too far in advance. But at some point, when the economy does slow down we will probably have some companies in stress. What we've learned is if you buy the companies in stress at good discounts, you can make a fair amount of money. The major change between the last time and this time is that before when the Great Recession happened, about 30% of the debt in buyouts was so-called covenant-lite, which means it's hard to default on it. Now it's about 90%. So it's harder to default than it was before. We've also learned that people are paying high prices now. It used to be before the Great Recession you might buy a company for, let's say, eight or nine times cash flow. Now I would

say more typical is 13 or 14 times cash flow, so you're paying higher prices. Now it's not as bad as it sounds because investors are willing to accept lower rates of return. Private equity basically got where it is by getting people net internal rates of return of around 20%. It's gone down a bit now but I'd say today most investors in private equity, if they can get 13, 14, 15% net returns after three or four years are probably okay with that. And so you can pay a little bit more, prices can come down a bit, and you can still do okay.

GLENN HUTCHINS: So, you're a famously successful investor. Can you explain why you declined to meet with Mark Zuckerberg?

DAVID M. RUBENSTEIN: Okay. My daughter was an undergraduate at Harvard and did not get in by athletic means, I should say...(Laughter)...

GLENN HUTCHINS: Either way...

DAVID M. RUBENSTEIN: Right. She was not an athlete. My daughter was an undergraduate there and she was dating a man she's now married to and he knew I was in the business world – investment world – so I guess he said, by the way, my classmate from Phillips Exeter, also my classmate at Harvard is thinking of dropping out and starting a new company and would you like to look at it? I said what does it do? He says, well, it brings college students together kind of, for help for dating or other stuff. I said, look, I've looked at these things before. All these dating

companies, they never really make it in the end so, no, I don't really want to do this, meet with him. That was Mark Zuckerberg. He was looking for \$10 million as it turns out. That \$10 million is today probably worth, I don't know, \$100 billion or something. So I declined to meet with him and that is one of my great regrets.

GLENN HUTCHINS: You've run, in the last couple of years, you've successfully run a succession process at Carlyle and you've started your new family office, Declaration Capital. Talk a little bit about that.

DAVID M. RUBENSTEIN: Well, succession is a complicated thing. Nobody actually says, you know what, I can't do what I could do before as well as I used to do it and I'm really ready to step back. That rarely happens. Sometimes it does. Lou Gerstner stepped down at 60 years old at IBM when he joined us. That was relatively young. But some people just don't want to step back. Warren Buffett is 88 and he's doing a great job. He's still there. And clearly, if you're still working it can, you know, it can keep you alive. Hank Greenberg is like 92 or 93 and is still going strong. But we decided that we wanted to step back when we were in our late 60s so people wouldn't say you're staying too long. I remember that one firm, a well-known private equity firm, the founders stayed until they were both 70 and they were criticized for that and they lost some people who didn't want to wait for them to retire. So we decided we would make the transition. We picked two people to run it on the theory that we had two people running it day-to-day and if two people were good enough to run it, we couldn't think anybody was good

enough for one person to do it. In other words, we didn't think anybody was good enough to do what two people had done, so we wanted to have two people. But obviously it's hard to pick one person to do what two people did so we have two people who are well qualified. They've been at the firm for a while. And we stepped back. We gave them the title of Co-CEO and we gave ourselves the title of Co-Executive Chairs. And, you know, transition is always complicated because one day you're running the firm, the next day people are looking past you saying, well, thank you for getting me hired here, thank you for helping make me some money, now I don't care about you so much. I care about the other person. But, you know, it's life. And that's the way probably things should be. We're very happy with the people we've brought in. They've done a very good job. They've done things that we didn't do. You know when you're a founder of an organization you have a certain way of doing things and that's how the organization grew. But necessarily you don't do all the things that maybe second generation people do. You won't fire some of the people that should be fired. You won't get into some areas that you should get into. So we're happy we did it. I think that it's a transition we're happy with. I decided to start up a family office because I got tired of the people asking me, David, do you have a family office? And I didn't have a family office. I had what I call family office envy. I didn't have any family office. Everybody's asking me how come you don't have one? So I got tired of saying I don't have one so I said, okay, I'll have a family office. So I decided to find some things that Carlyle doesn't do so it wouldn't be a conflict with Carlyle. And I have set up a family office in New York run by Brian Frank who had been at Michael Dell's family office for quite some time, a very talented person, graduate of Harvard, Harvard Business School. And we've hired a fair

number of people. But we do things that Carlyle doesn't do and we have to clear everything through Carlyle so there's no conflicts.

GLENN HUTCHINS: So you brought the same level of zeal, global reach, and energy to your philanthropy as you have to your business. I'm going to quote you here. "I try to remind people you don't need to be wealthy to be a philanthropist. You don't need to be wealthy to help your country. Philanthropy is an ancient Greek word that means love and humanity. It doesn't say rich people writing checks. So you can give your time, your energy, your ideas, whatever it might be. You can be a great philanthropist." You've won the Carnegie Medal of Philanthropy, the David Rockefeller Award. You're in my view one of America's great philanthropists of our generation. Tell us a little bit about your philosophy of philanthropy.

DAVID M. RUBENSTEIN: Well, when you grow up poor or lower income, you don't think about philanthropy. But, you know, when you make a fair amount of money, you can say to yourself, well, what are you going to do with the money? Now here are the choices. You can do what the ancient pharaohs did and build pyramids and be buried with the wealth on the theory that you need it in the afterlife. But there's no evidence you really need this wealth in the afterlife so probably being buried with it isn't a good idea. So I decided to eliminate that possibility. Another possibility is you can do what many people do. In fact, 99% of people do this. They don't give it away until they die and then give it away when they die I guess on the theory that they'll be somewhere where they can see it being given away by their executor or

something. I wasn't sure I'd be where I could see what my executor was doing. So I decided I would try to give back to society while I was alive. Then you do run the challenge of how much do you give to your children? Everybody always says how much do you give? How much do you spoil your children with? And I just decided that I would prefer to probably give away the bulk of my money and not "burden" my children with the money though they may not think that it's a big burden. And so ultimately Bill Gates called me at the time that my net worth was being publicized and he said would you join The Giving Pledge? And I understood what it was and I said okay, and so I did. And my theory is I just, I got very lucky in life financially and I want to give back to society. And like most of you who do things in philanthropy – and there are obviously some great philanthropists here in this audience – Marie-Josée being one of them – you realize that there's an infinite number of good things to do. So medical research is one thing that I try to do somewhat. Education is something I try to do. And 90% of my money actually goes into areas that isn't that well known. But I did one thing that got more attention than anything else and that's something I've called patriotic philanthropy. I bought the Magna Carta when I realized it was likely to leave the United States – the only copy in private hands. I kept it here, put it in the National Archives. And then I got in the habit of buying other historic documents and putting them in places where people could see them on the theory that if they would see these documents, they might be inspired to learn more about our history. We don't teach history very much, American History in junior high school anymore. You can go to any college in the United States and graduate without having taken an American History course. You can major in History at 80% of the colleges and not have taken an American History course. And

the result is that you get things like this. It turns out that when you ask American citizens what river did George Washington cross during the Revolutionary War, they say, 30% the Rhine River. When you ask – which is not in our country – Americans, who the first Treasury Secretary, 30% will say Larry Summers. Recently a survey found that about two-thirds of Americans cannot name the three branches of government. Two-thirds of Americans cannot name the three branches of government. And 10% of college graduates think that Judge Judy is a member of the United States Supreme Court...(Laughter)...which is not yet the case. So I've tried to get, my theory is that the human brain still works this way. If you see something on a computer slide, in your computer, you might just go right past it. But if you take the time and trouble to go visit the original Magna Carta, you will maybe spend more time learning about it before you get there or learning about it afterwards. So it's one way to kind of help people learn more about history. A second thing is when the Washington Monument had earthquake damage, I said to the head of the Park Service, how long is it going to take to fix it? He said I don't know. If they deal with Congress, it'll take a long time. I said I'll put up the money. And then I got in the habit of fixing other historic buildings – Mount Vernon, Montpelier, which was James Madison's home, Monticello, Arlington House at the Arlington Cemetery, Iwo Jima Memorial and so forth. And the theory was if you fix these places up, people will visit them more, maybe they'll learn more about American history. I've also tried to educate members of Congress about American history. I've started a program where I take a great historian and I interview them – Doris Kearns Goodwin or David McCullough – in front of members of Congress to educate them about American history. And I've been doing it for about six years now and it's worked out well.

Members of Congress actually, they know a lot about history, but they always want to learn more. So I'm trying to, you know, do something that I think is useful to society. I can do it while I'm alive and see the benefits of it. I don't have as much money as many of the most famous philanthropists – Bill Gates is in a different league. If I had as much money as Bill Gates, maybe I'd do the same thing he's doing. Like all of you, if you had \$100 billion and it was given to you tomorrow, what would you do with it? Well, you'd buy a plane and a boat and a couple of houses, but then you've got \$99.9 billion left, what are you going to do? Well, that's the problem that Bill Gates has and he decided that K-12 education in the United States and global health were things he was interested in and maybe I would have made the same decision. I don't have as much money. So I pick things where I can start something that wasn't started before, finish something that wasn't going to get otherwise finished, that I'm likely to see the benefit of it in my lifetime, and that I have some intellectual connection to it, that I want to stay involved. So one of the things I've tried to do is not just give money but get involved on the boards, stay involved, help with fundraisers, do more than just my money. And, as you said in the quote you read, philanthropy is an ancient Greek word that means love and humanity. And many of the greatest philanthropists are people that don't have a lot of money but they're doing great things for society. And I tell people, consistently when I make speeches, think about what you're doing with your life. And what would you want people to think about what you've done on your very short time on the face of the earth. You know, humans, homo sapiens, which is what we are, have been around for about 400,000 years. The average life expectancy now in society, maybe in Western society, maybe 80 years, 85, something like that. So it's a relatively short time, 80 years

out of 400,000, and so we're here for a short period of time. What can we actually do during this period of time to justify our existence on the face of the earth. And my theory is that if you give back to society and help other people, it's probably the most useful thing you can do. And also selfishly, it makes you happy. Grumpy people are not as likely to live as long. Happy people live longer. And so David Rockefeller lived to be over 100 years old, a great philanthropist. So my theory is that if you give to other people and help other people with money or your time, you'll be happier. Nobody says to themselves I just was at a food kitchen today, served food to people, I hate myself for doing that. Or I gave some scholarships to poor kids today, I hate myself for doing that. They don't. They like themselves and so selfishly they say, you know, maybe you could say you should do all these things just because it's likely to make you live longer. And also there's probably a special place in heaven reserved for people that do these things. Now I can't guarantee that, but why would you all want to take a chance that I'm not right. So finally, a point on this. Remember this, there was a man named Alfred Nobel. We referred to him earlier. He made the mistake of not having a private equity Nobel Prize but other than that he had one other problem in his life. In the late 1880s, his younger brother died. And the newspapers in Stockholm made a mistake. They thought that Alfred Nobel had died. And so they wrote a headline that said, Alfred Nobel, merchant of death, inventor of dynamite has died. Thank God he's gone. Well, Alfred Nobel is sitting at the breakfast table reading that he died and he didn't die. And so he realized that that was people were going to say about him when he died, that he was a merchant of death. So obviously he came up with an idea of the Nobel Prizes. Think about what you would want...

GLENN HUTCHINS: So, what exactly are you worried about then?

DAVID M. RUBENSTEIN: Well, I'm worried about many things, but what would all of you want to have written as your obituary? Suppose you could write your obituary tomorrow and you could write it, what would you want to say? That you made a lot of money or that you gave away a lot of money and you helped other people? That you did something good for society?

Presumably the latter is what you want to say as opposed to just made a lot money and had a lot of houses. So I tell people to think about what you want people to think about you as you get to the latter stages of your life. Now many of you are much younger than me so you're not thinking about the latter stages of your life. But I think people should think about what they can do to give back to society and they'll be much happier and I think they'll live longer for it.

GLENN HUTCHINS: Well, this might seem – in light of that – mundane, but I think it's interesting that you say you get about \$50 million in requests per month. And you don't have a staff.

DAVID M. RUBENSTEIN: That's correct.

GLENN HUTCHINS: How do you sort your way through that?

DAVID M. RUBENSTEIN: Well, I don't have a staff because I'm afraid if I have a staff, that

they'll tell me that I should do this or that and then I'll have to say to my staff that I'm not happy with what you recommend. Look, I know kind of what I want to do. And like most people, most people like their own ideas better than other people's ideas. Right? You know if you have your own idea, you kind of like it. So I kind of know what I want to do and I just will go ahead and do it. So I thought, I wanted to go see Monticello. I hadn't seen it in many, many years. I went down there. I thought they needed to fix it a bit so I said I'll give you some money to help fix it and do some other things. So I kind of have some ideas and, you know, I just, I can't really say, people come to me all the time with ideas and I'm sure they're very good ideas. But usually I'm more interested in my own ideas. And probably all of you are interested in your own ideas as well.

GLENN HUTCHINS: You mentioned Monticello. I was interested in something you said about the choice at Monticello to renovate the slave quarters. Talk a little bit about that.

DAVID M. RUBENSTEIN: Well, Monticello – for those who don't know – was the home that was designed and built by Thomas Jefferson. And he loved it. It was his great pleasure in life. He didn't really want to depart from there to go live in the White House. But it was a plantation. He had many slaves. He had a very profitable business running a plantation with slaves. And he famously had a relationship with Sally Hemings from whom it appears that he had at least four children that we know of. So I said that Monticello, I would like it to be rebuilt in many ways, but I'd like the slave quarters to be built out so that people can know that Thomas Jefferson, for all of his strengths, had some flaws as many of the founding fathers did. And the same thing with

Montpelier. I asked that the slave quarters be built out so people when they visit can see the good and bad. And I tell people that patriotic philanthropy, which I define it as, reminding people of the history of this country and the heritage has to be the good and the bad. If we don't learn about the bad things, we're likely to repeat them. Now, a famous Harvard professor, George Santayana, said those people who don't remember history are condemned to relive it. So if you don't want to learn about the bad things, you're probably going to relive some of those bad things. So learn about the bad things and realize how terrible slavery was and how even great people got caught up in tolerating it. And therefore, I want to remind people about it and that's why I wanted the slave quarters to be built out at Monticello and they are.

GLENN HUTCHINS: So what part of American history are we reliving today?

DAVID M. RUBENSTEIN: Are we reliving?

GLENN HUTCHINS: Yes, because we've failed to study it.

DAVID M. RUBENSTEIN: Well, today it's a situation where the United States is still, I think, the most admired nation in the world generally and people want to come here obviously, and it's a great chance for opportunity. But we have to recognize that we probably have a rival for global supremacy called China. And probably 50 years from today, because the population of China is bigger than ours, it may be difficult to be as dominant an economy, as dominant a military

power, as dominant a political power. But still it's a country of great opportunity and a country where you can come from modest circumstances and still rise up and become an important part of society. So I think it's the best place in the world to live and obviously I'm privileged to be an American citizen. And as Warren Buffett has famously said, you know part of his success has been being an American and investing in the United States. So it's been a great place for all of us, I think, generally. And we do have to recognize that not everybody in our society has done as well. There are people at the bottom of our society who are not going to get to the top. When I was growing up, I believed in the American Dream. You could work hard and get to the top. Many people at the bottom of our society don't believe that anymore and they've just given up. And one of the big problems which is untalked about, not talked about that much, is literacy. You can't really succeed in our society if you're not literate, if you can't read. But 12% of Americans are functionally illiterate meaning they can't read past the fourth grade level. And 80% of the people in our juvenile delinquency system are functionally illiterate. Two-thirds of the people in the federal criminal prison system are functionally illiterate. We have to do a better job of getting people to actually read. If you can't read, you can't get very far in life. And I try to spend some time on that subject, but we've got to do much more to make our educational system work. We have the greatest university education system in the world. We're the most admired university system in the world. The K-12 is not in that category. And obviously Bill Gates and others are trying to spend time and money doing it. It's a big challenge in our country to bring the income inequality up and also the social mobility up. If I had the answers, I would be running for president. I don't have the answers, but it's obviously something we have to address.

GLENN HUTCHINS: So we're almost out of time. One last topic area I want to raise with you which is another area that you've thrown yourself into with zeal and success, which is interviewing people. You've done it across a broad variety of platforms. You now have a TV show which is great, really interesting. If people in this room haven't seen it, I highly recommend it. So tell us why you do that, what interests you about it, what you're trying to accomplish.

DAVID M. RUBENSTEIN: Well, let me tell you how it came about. It wasn't something, I didn't grow up saying I want to be an interviewer – not that that's not a good thing to do. At Carlyle we used to have prominent people come to our events for our annual meetings. We had former presidents of the United States, former Secretaries of State, former Secretaries of the Treasury. And we'd pay them their going rate which would be \$100,000, \$200,000, whatever it be, and they would give a speech and then I could see a lot of people were not excited by the speech. Given all the money we paid, we wanted people to be more excited. And so I concluded that maybe I could make them more exciting if I would just interview them and ask some humorous questions as opposed to just serious things. I started doing that. Then people said I'm going to get the same fee, right? Yes. Okay. I don't have to prepare a speech? You're just going to interview me? Yes. So I did that. And, you know, many of them were happy with it because they didn't have to prepare anything and I would just ask them questions. And so I developed a little bit of a skill in it. And then Vernon Jordan asked me to succeed him as the President of the Economic Club of Washington. At the time they only had 100 members. And he said just get one

business person a quarter, you get questions that come up from the audience after the business person is finished. You read the questions, that's it. So I started doing that and I realized that most business people are not gifted public speakers, and the questions that came from the members honestly weren't so wonderful either. So I would pretend I was reading questions from the audience but I was making them up. And so the questions I was making up were funny. People liked them. So I said why don't I just junk that format and go to the interview process. So I went to the interview process and then somebody from Bloomberg saw it and said why don't you do it on TV. And so I enjoy it. You know it's my substitute for not playing golf. I don't play golf because I think if I have a meeting with somebody and they think you're competent and intelligent, I don't want to destroy the illusion of competence if I went on a golf course and the ball would go to the wrong place. So I don't play golf. I know you're a very good golfer, but I can't do that. So I don't do that and this is my substitute. And it's fun, I prepare for them and I try to do it in a certain way and people seem to like it. And, you know, it's fun.

GLENN HUTCHINS: David, 1:00, time to stop. Thank you, not just for being here today, but for everything you do. You're a special guy. (Applause)

CHAIRMAN MARIE-JOSEE KRAVIS: Well, thank you Glenn and David. And David, you're obviously living by your own adage of doing things that make you happy. And if we could make you happier and give you the Nobel Prize we would, but it's beyond our control. So, thank you, both of you. And thank everyone for being here and I just want to remind you that we are not, the

season isn't over. Our program continues. And April 3, we will have Rag Rajan, who is the former Governor of the Central Bank of India with us. He's now a Professor of Finance at the Booth School of Business in Chicago. And April 11, we will have Valdis Dombrovskis, who is the Vice President of the European Commission. And he will be discussing Brexit. And, of course, we are going to continue our endeavor with Women in Corporate Leadership. We had, and I want to thank – many of you were there on Monday with our group of women investors. So we will continue with a reception and panel on April 16 discussing diversity in media and how news outlets are confronting gender representation. So please mark your calendars. Enjoy lunch. And again thank you to David and Glenn. (Applause)