

**The Problem With Capitalism?
We Don't Have Enough of It.**

Chris Schelling

Director, Private Equity

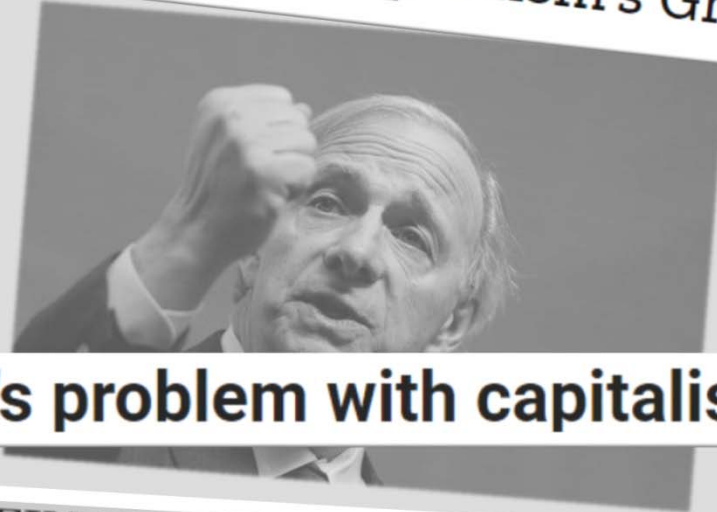
Texas Municipal Retirement System

**Ray Dalio Says Capitalism Is
'Not Working.' Here's How He
Thinks the U.S. Should Fix It.**

**Institutional
Investor**

TIME

American Capitalism's Great Crisis



Opinion: America's problem with capitalism

FINANCIAL TIMES

**How to reform today's rigged
capitalism**



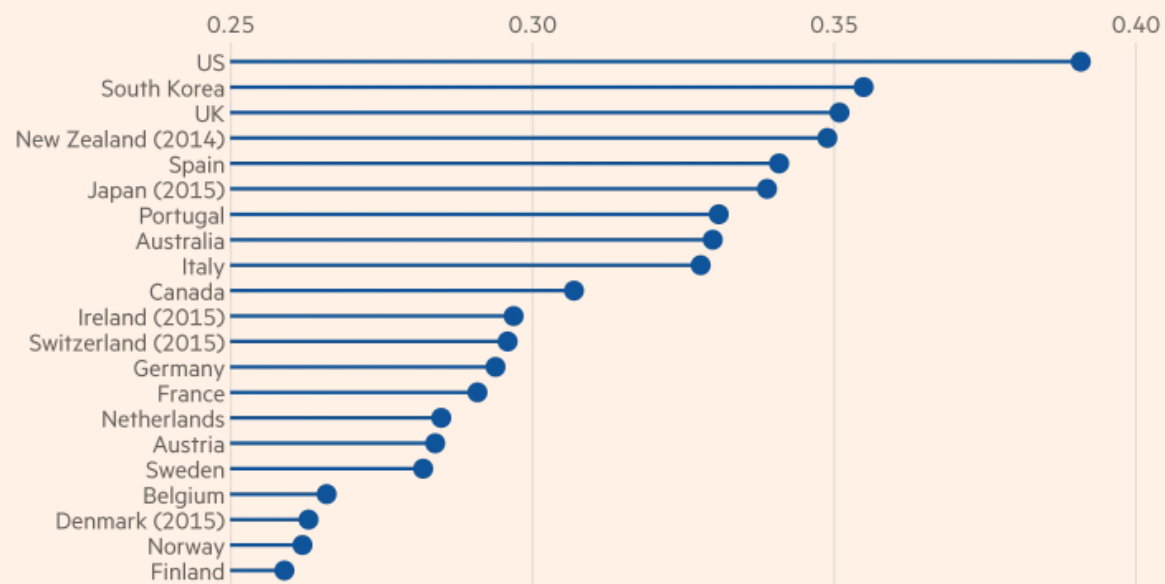
Capitalism Isn't Bad; It's Just Broken

Forbes

RISING INEQUALITY

The US and UK are league leaders in inequality

Inequality of household disposable incomes after taxes and cash transfers (2016)*

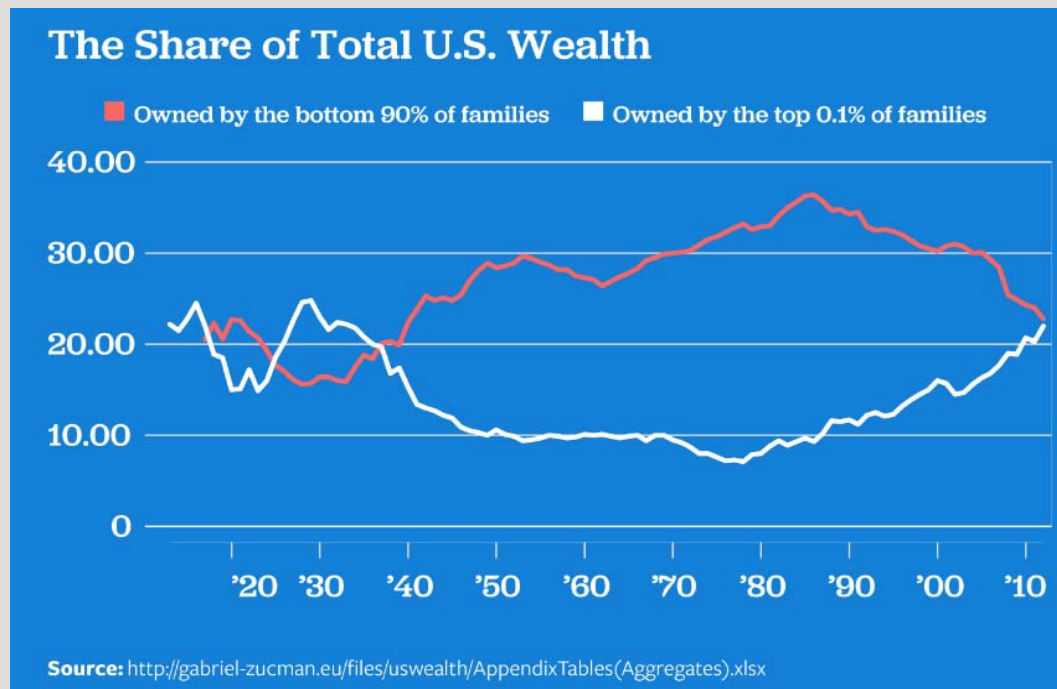


*Measure of inequality (0 = absolute equality, 1= absolute inequality)

Source: OECD

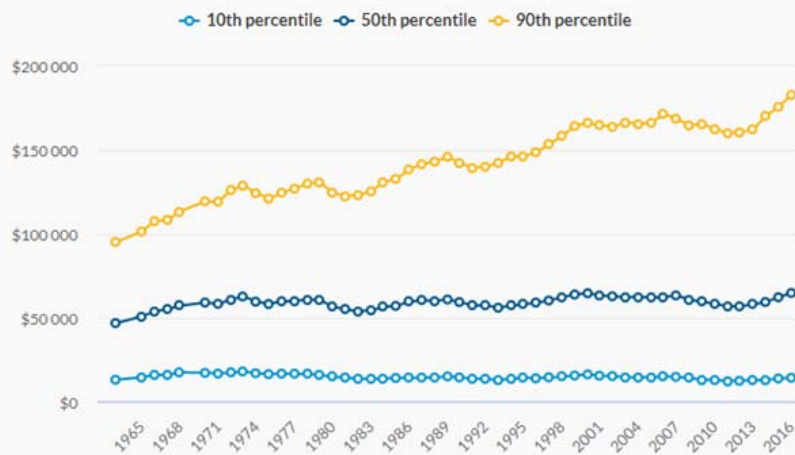
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CONCENTRATION OF WEALTH



CONCENTRATION OF WEALTH

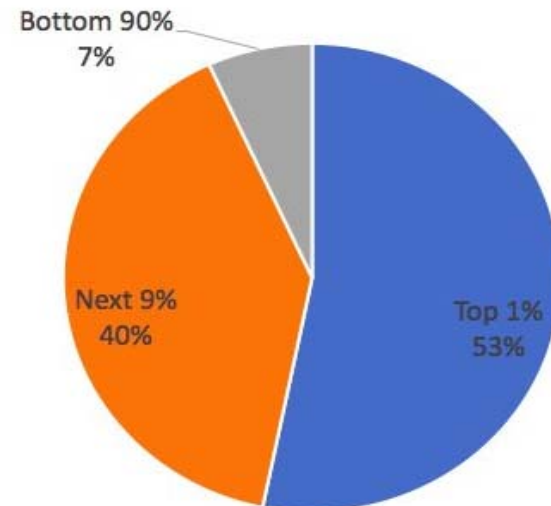
Distribution of Family Income, 1963–2016



Sources: Karen Smith, Urban Institute's tabulations from the Current Population Survey 1963–2017.

Notes: 2016 dollars. Income here is measured as private income (e.g., earnings and dividends) plus cash government benefits. Income differences narrow when all taxes and transfers—such as health insurance and in-kind government benefits—are included, but private wealth does not change.

Distribution of stock ownership



UNCHECKED GREED

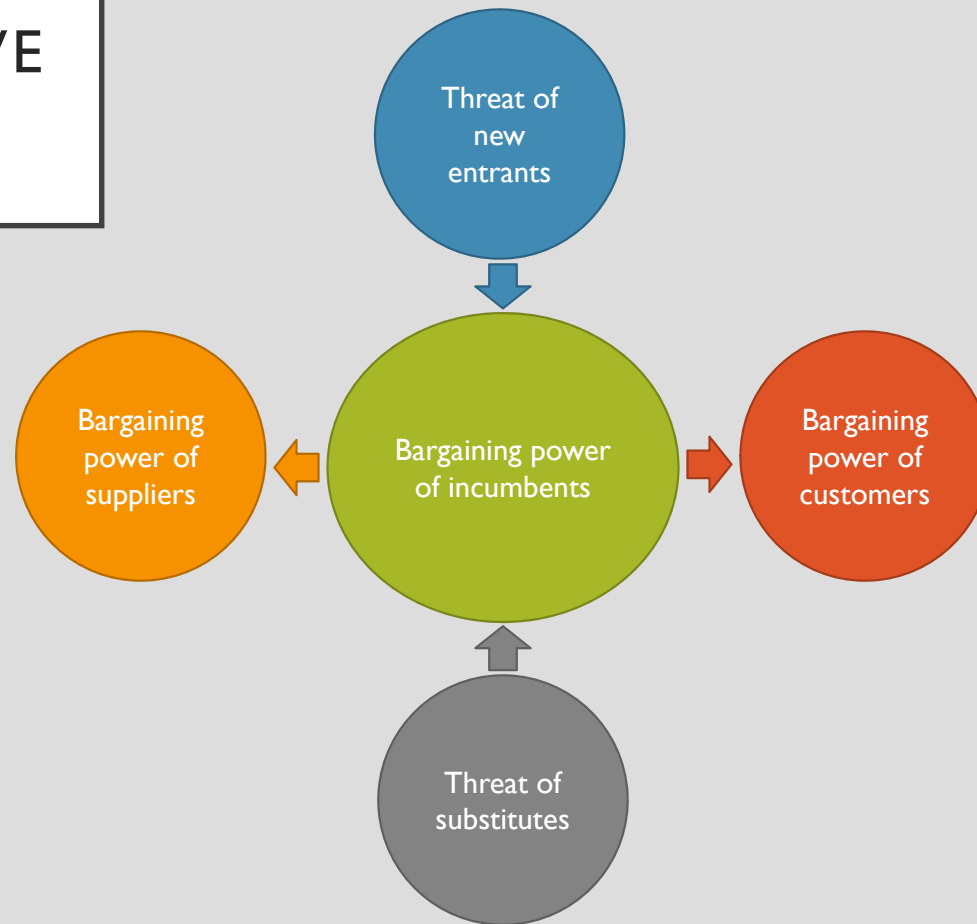
or

**UNCHECKED
CONCENTRATION
OF ECONOMIC
POWER?**

**IT'S
ALL
MINE!!!**



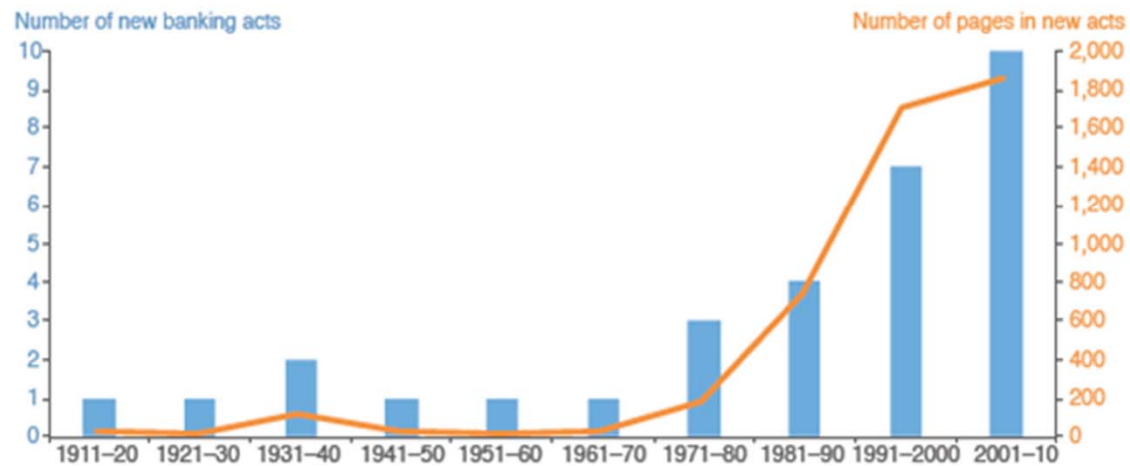
PORTER'S FIVE FORCES



INCREASING FINANCIAL REGULATION

Chart
4

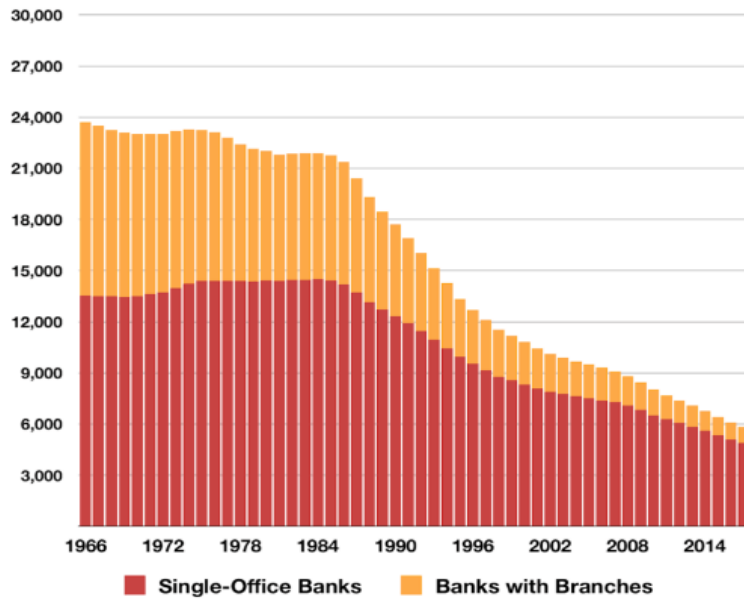
Over the Past Century, Legislative Complexity Soared



SOURCE: Federal Deposit Insurance Corporation, Important Banking Legislations.

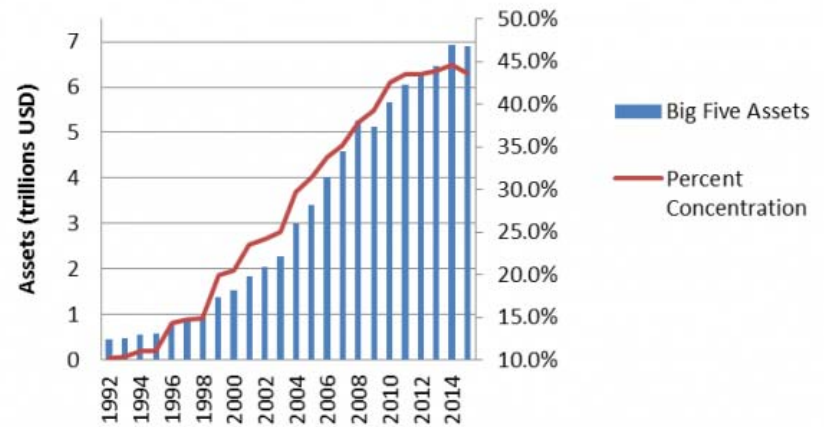
BANKING CONSOLIDATION

Number of Commercial Banks in the U.S.

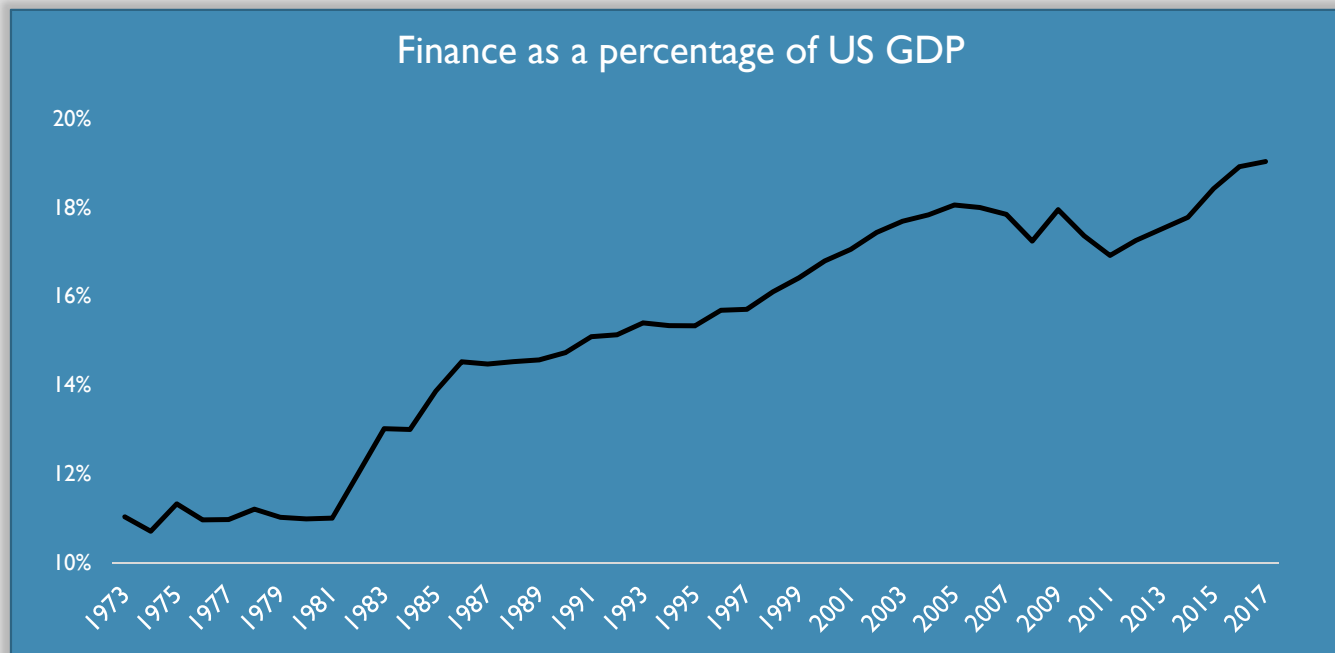


Source: Federal Deposit Insurance Corporation

Concentration of Banking Assets



RISING MARKET POWER



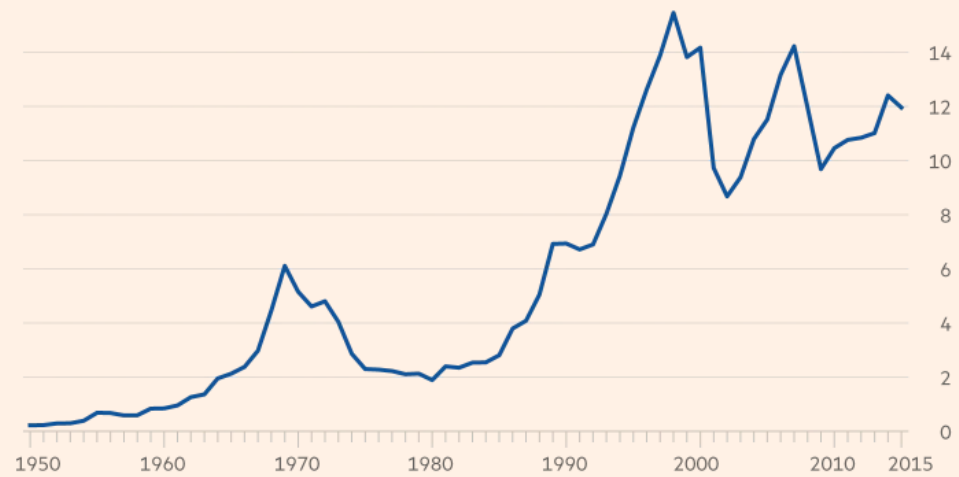
ACROSS ALL SECTORS

- Ford, GM, Fiat-Chrysler, Toyota, and Honda
- Bayer-Monsanto, DowDupont, Chem-China-Syngenta, and BASF
- CNN, MSNBC, and Fox News
- S&P, Moody's, and Fitch
- Google alone
- 68% of US auto sales
- 70% of the seed market for important crops such as corn and soy
- 80% of cable news show ad revenue
- 95% of credit ratings
- 93% market share in search

BROAD CONSOLIDATION

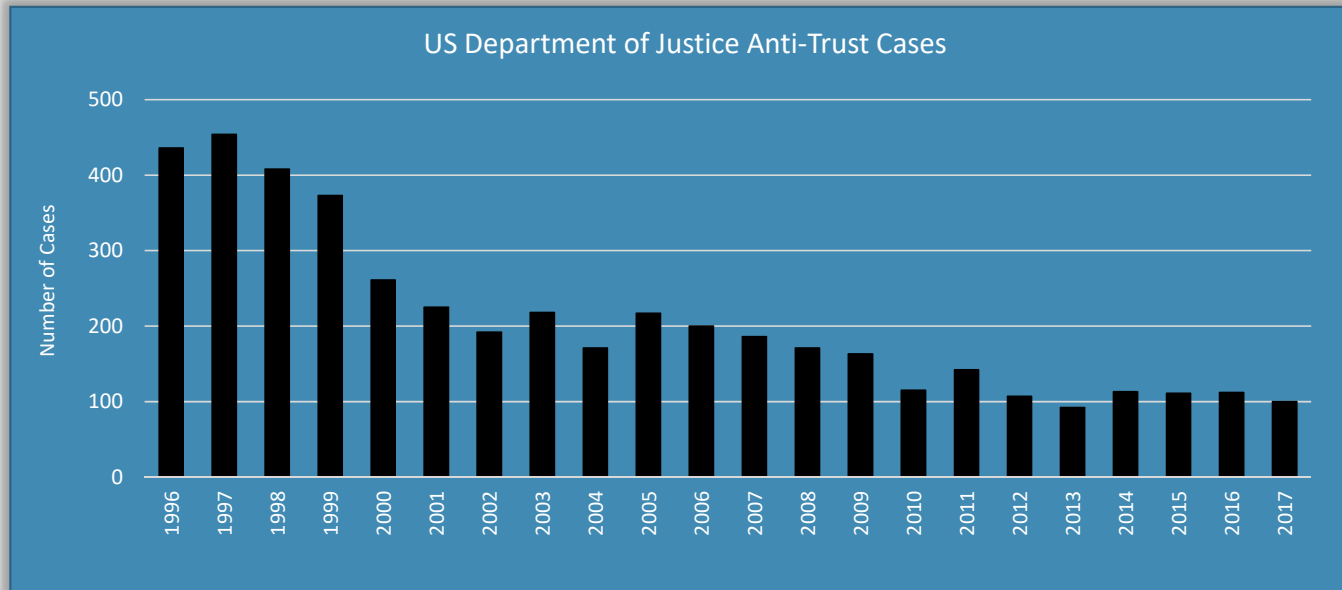
Huge spikes in mergers and acquisitions

Number of M&A deals in the US ('000s)



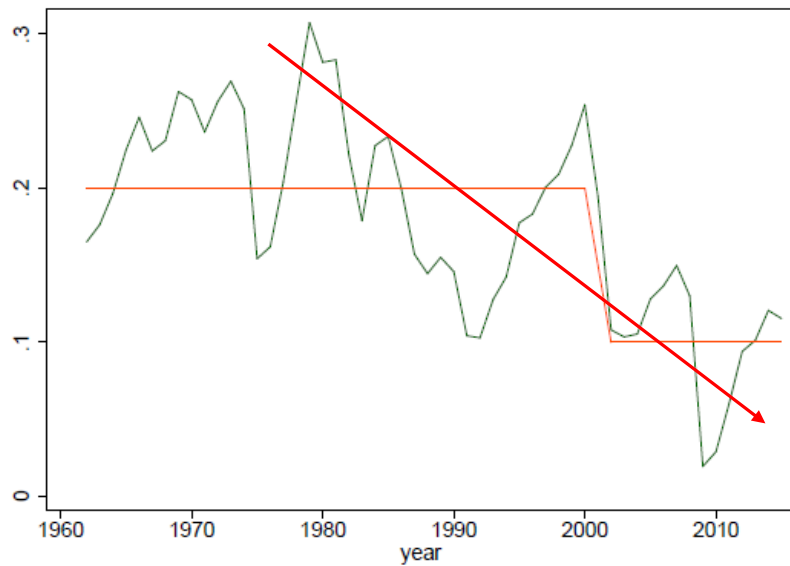
Source: Thomas Philippon 'The Great Reversal'
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MERGER FRIENDLY REGULATORY REGIME

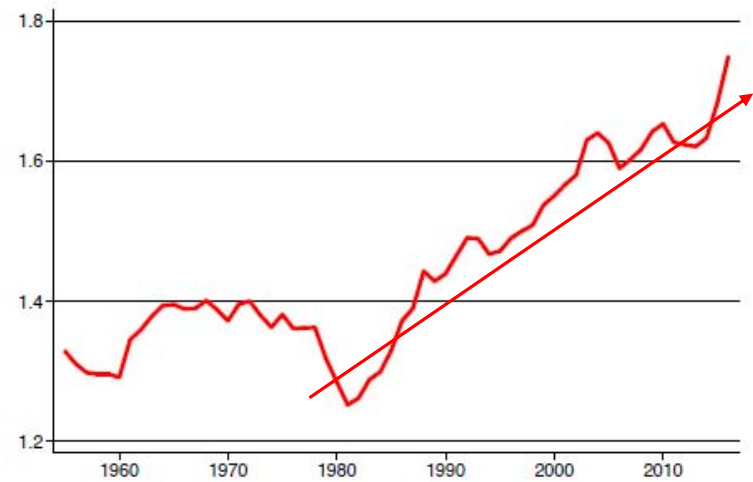


MARGIN ENHANCEMENT

Figure 2: Net Investment Relative to Net Operating Surplus

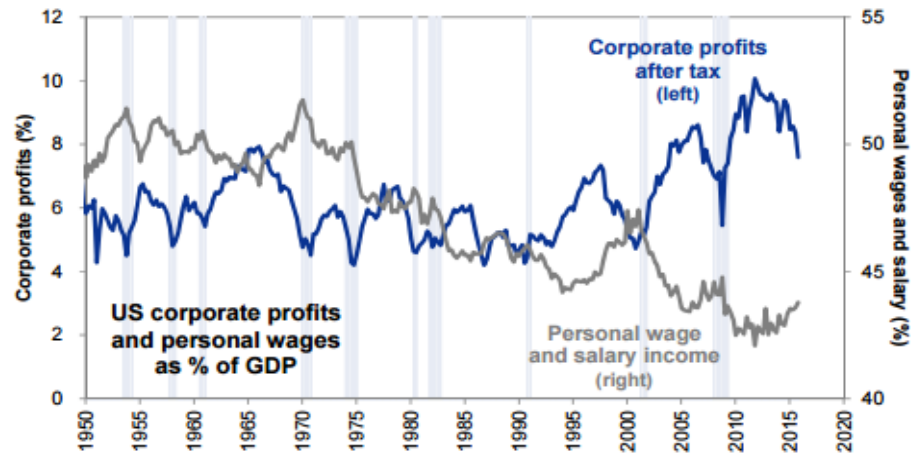


Average Mark-up for US Firms



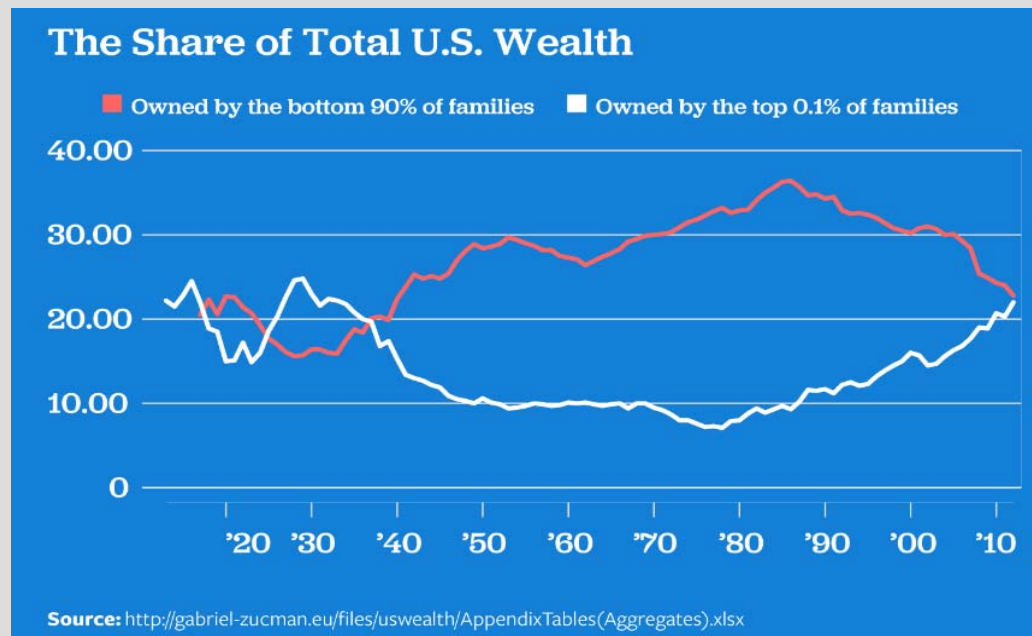
RECORD PROFIT MARGINS

Exhibit 1: Corporate profit share of GDP rose to record levels at the expense of labor share as of April 11, 2016

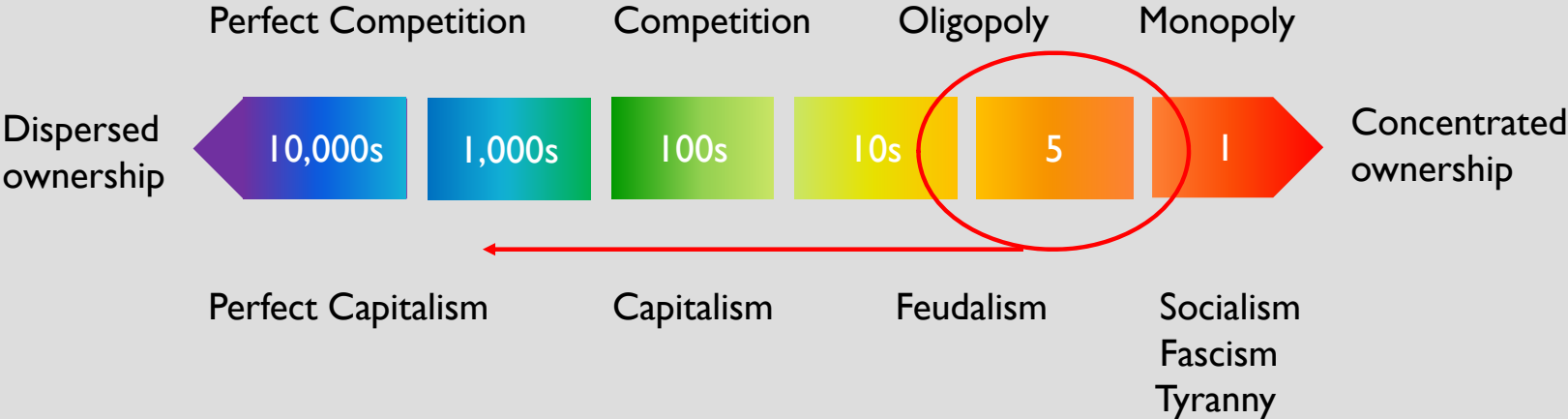


Source: BLS, FactSet, Compustat, and Goldman Sachs Global Investment Research.

INCREASING INEQUALITY



INCREASING CAPITALISM?



An illustration showing several hands in business suits reaching towards a large pie. The pie is divided into two main sections, one blue and one red. The hands are positioned around the pie, suggesting a process of division or negotiation. The background is a light blue-grey gradient.

SPLIT THE PIE UP MORE EQUITABLY

- Regulatory Solutions
 - Must address weakened competition – Bust the trusts and block anti-competitive mergers
 - Extend better protections to individuals at least equivalent to corporations – legal, tax and intellectual property (which is the capital of the information economy)
 - Perhaps ensure all employees of public companies get equity based compensation
- In private equity, focusing more on
 - Sectors that drive innovation and disruption, like technology and healthcare
 - Strategies that drive organic growth versus cost-cutting or financial engineering driven
 - Even with in growth, add-on strategies only in heavily fragmented markets. Avoid “last man standing” consolidators
 - Go upstream – earlier stage managers, smaller funds, smaller companies