

05-Dec-2018

# The Carlyle Group LP (CG)

Goldman Sachs U.S. Financial Services Conference

# CORPORATE PARTICIPANTS

Alexander Blostein

Analyst, Goldman Sachs & Co. LLC

Glenn A. Youngkin

Co-Chief Executive Officer & Director, The Carlyle Group LP

## MANAGEMENT DISCUSSION SECTION

### Alexander Blostein

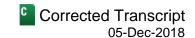
Analyst, Goldman Sachs & Co. LLC

Great. Thanks. Thanks, everybody. So, next up I would like to welcome Glenn Youngkin, the Co-CEO of The Carlyle Group. Carlyle has gone through a very successful fundraising cycle on the way to exceeding its original \$100 billion target and delivering on its commitment to grow fee-related earnings. In addition, the firm has been expanding into new businesses to drive a more sustained organic growth over time. We look forward to getting an update from Glenn on how the firm is positioned into 2019, and of course, your perspective on the markets broadly given what sort of have been going on in the last couple months. So, thank you so much for being here.

### Glenn A. Youngkin

Co-Chief Executive Officer & Director, The Carlyle Group LP

Great, Alex. Thanks for having me and great to be here.



# QUESTION AND ANSWER SECTION

#### Alexander Blostein

Analyst, Goldman Sachs & Co. LLC

Q

So, first off, I'd like to just start-off with a broader macro backdrop topic. Just given the volatility we've seen in the market for the last couple of months as I mentioned, there's lots of concerns around what's going on in the real economy and given your perspective across the portfolio, I was wondering if you could expand on that, just what you guys are seeing in terms of the macro outlook for 2019?

### Glenn A. Youngkin

Co-Chief Executive Officer & Director, The Carlyle Group LP



Yeah. Sure. Well, of course, we all know that what's happening sometimes in the real economy isn't really reflected in markets. We often say that the investment environment and the economic environment often times aren't aligned. And I think we're just seeing a very natural reset of the market to a reset in expectations. And I think expectations have gotten a little ahead of themselves on where the economy really was going to go. But I'd now think that this volatility reflects a meaningful reset in expectations and I think people always reset too far.

So, let me just give you a sense. We think the United States economy is in good shape. Listen, the slope of the curve has changed and we think the economy is growing slightly slower than it was earlier this year, where earlier this year, it was clearly growing in excess of 3% and today we think it's growing 2.5% to 3%, and as we move into 2019, 2.5% is a good number. We see it in our portfolio. The growth rates in our portfolio have slowed a bit, but they're still growing at healthy growth rates. Europe has got a lot going on. We do continue to see the European GDP growing, again slowing its growth.

I think the one area of the world that we're all paying considerable attention to is China. And China, we have seen its growth rates slow more than the rest of the regions in the world. And I think that's reflective of not just all the trade tensions today, but also a real constraint on their lending policy. And while the Shibor has been brought down from a monetary policy standpoint, the regulatory policy has really tightened lending standards in China. And so, you see actually a slowdown in lending and trade issues. And as a result, we think China is slowing probably more than consensus, where consensus would be 5% or 6% growth rates in China, we think that they're 5% or less right now and that's just got everybody's attention.

Listen, China is an extraordinary economy over the long-term and one of the great gifts of being The Carlyle Group is that we buy companies and projects and real estate assets for the long-term as oppose to trading quarter to quarter. And our long-term view is China is an extraordinary place to invest and in fact, when you have these dislocations, it creates purchasing opportunities.

#### Alexander Blostein

Analyst, Goldman Sachs & Co. LLC

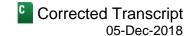
Yeah. Hitting on a couple of things here, I guess if you're thinking about some of the risks that are out there that are perhaps outside of this kind of base case scenario, what are you guys worried about as you're looking out to the next year?

#### Glenn A. Youngkin

Co-Chief Executive Officer & Director, The Carlyle Group LP



Goldman Sachs U.S. Financial Services Conference



Yeah. Well, it's – Alex, if I can I'm going to stretch a little longer than a year. Every single asset, company, projects, credit that we underwrite today, we have a base case view that over a four, five, six-year holding period, there will be an economic reset. We don't think it's going to be next year, we feel strongly it won't be next year. But over that kind of time horizon, there will be an economic reset. And as a result, everything we're underwriting has to fit that scenario. Now, we hope we're wrong, and if we're wrong, then things will be very good. But if we underwrite with those standards, companies that we buy, et cetera, then we're going to be pleased with our portfolio.

So, what are the risks that we see? We actually see risk in underwriting strong revenue growth. And if you're underwriting, the typical – the trees are going to grow to the sky kind of revenue forecast, then you're going to be disappointed. We're making sure the capital structures are extraordinarily robust. And so, they can take a dip where underwriting cost take-outs and efficiency improvements and operational enhancements that come from our own doing, helping our management teams and companies, that we can feel much more confident are going to be realized.

And so, we're a little bit more defensive today. We're investing in really good companies that we think can become great companies. We're not getting [ph] layout (00:05:13) in the risk curve expecting to transform a business in a material way today. Our real estate investments are cash flowing, demographic-driven investment thesis, not GDP investment thesis. And our energy businesses, we're investing in the strongest basins around the world behind cash flow at very modest oil prices, not the kind of oil prices that we've seen lately. And so, this is just reflective of the fact that in today's environment, if you're not playing a little defense, because of what's going to happen inevitably over the next four, five years, then you're going to be surprised. And our job, when you own things for the way – long as we do is not to be surprised, but to actually – on a downside, but maybe sometimes on the upside.

#### Alexander Blostein

Analyst, Goldman Sachs & Co. LLC

Right. Let's talk a little bit about that. So, you touched on some of the capital deployment opportunities you're seeing with – given your outlook, with over \$80 billion in dry powder across all the funds that you guys have raised over the last four months. How should we think about I guess the pace of that capital deployment in the areas that you just mentioned? I guess what folks are trying to figure is the recent dislocation to market is big enough, you see an acceleration from some of the sponsor activity or is it still too early?

### Glenn A. Youngkin

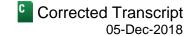
Co-Chief Executive Officer & Director, The Carlyle Group LP

Yeah. I think it's too early. So, first of all, our general pace of deployment will be down a bit from last year. Prices have been extraordinarily high in anything, and therefore, we've been picky. One of the great things of about being a private capital firm is you've committed capital, our investors give us a long horizon to invest it, it's four, five, six-year funds, sometimes in on our long-dated private equity products, we even have longer than that. And so, there is no pressure to invest it all tomorrow, and by the way, there's no pressure to sell tomorrow and we get to optimize. And so, in this environment, we've been very careful. We've had a very healthy investment pace, but it has not been the same as the year before, and so down kind of 15% or 20% from a pace standpoint and we think that's absolutely proven in this environment. Once again, we're constructing a portfolio that we want to hold for four, five, six, seven years.

On a look-forward basis, I wouldn't expect that to change materially if things stay as they are, which is volatile with an expectation that they're going to recover, which has to happen of course and everybody knows this, when a seller do the short-term change in market conditions, the seller's view of what their company is worth doesn't



Goldman Sachs U.S. Financial Services Conference



change overnight. And so, this takes time. And so, I wouldn't expect this to be a near-term opportunity shift. The one part of the world that I might suggest to be a little busier next year is China. As I said, I think with the kind of dislocations in their public capital markets and yet the long-term growth prospects for that economy, private capital has a bigger role.

Alexander Blostein

Analyst, Goldman Sachs & Co. LLC

The other side of the business model is obviously realizations. And if you look at the accrued carry balances, they're up considerably for you guys over the last 12 months.

Glenn A. Youngkin

Co-Chief Executive Officer & Director, The Carlyle Group LP

Yeah.

Alexander Blostein

Analyst, Goldman Sachs & Co. LLC

Obviously, it's a very important part of the cash earnings growth story for Carlyle as we look out over the next kind of 12 to 24 months. What are you seeing from a realization perspective? Is the volatility that we're seeing in the marketplace today enough to kind of slow things down as well or there is enough maturity in the portfolio that you kind of still see exits even in a more kind of choppy backdrop?

Glenn A. Youngkin

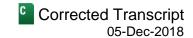
Co-Chief Executive Officer & Director, The Carlyle Group LP

Well, I would – first, just to frame it, so our accrued carry balance at the end of the third quarter got to \$1.9 billion. It's near record high for us. It reflects extraordinary performance across a past group of our funds. And Alex as we've talked about before, what's happened over the course of 2018 particularly is our previous generation of very large funds which we've been exiting out of and realizing carry, the carry balance has now moved to our latest generation of funds and oh, by the way, that generation of funds was 40% bigger on average than the previous collective generation.

And so, we told everybody coming into this year that we would expect our exit rate to be consistent, but we'd have a lower distribution rate this year as we moved from older mature funds to newer younger funds that are performing well, and that's exactly what's happened. So, our exit rate this year has continued about average on an LTM basis through 9/30, we exited \$27 billion of equity positions in all of our carry-related funds. By the way, our average over the last five years has been \$28 billion. We are not a – we don't careen to one extreme or the other, we're just consistent sellers.

And so, we don't see any major change in that approach. What we do see, of course, is when you have moments like this where equity markets are down 800 one day and up 600 the next, and particularly see concerns around where things are going to go in 2019, the public market exits are hard. And so, we would expect the IPO volume to be lower. We would expect secondary offerings to be tougher. And so inevitably, there's going to be a bit of constraining on exit activity. With that said, going back to my earlier comment, Alex, we are not a forced seller. We have a spectacular portfolio that has performed really well. The accrued carry balance reflects the embedded value of that portfolio and our job is to systematically realize that over time. And one quarter or two quarters of what could expectedly be a bit of a constrained exit environment doesn't change the inevitable value.

Goldman Sachs U.S. Financial Services Conference



I always think about it this way, Alex, we had a wonderful investment years ago, but they sold Dr Pepper/Seven Up, et cetera. And if it wasn't on the shelf and didn't get purchased that day, then you lost the sale. Well, our business is totally different. If we don't exit a business in December, it's going to sell in April or May, and the value that we're going to realize isn't' impacted by three or four months delay. So, I think the net of it is, listen, I do expect exit pace and transaction pace generally to take a little bit of a hit as we move through this volatile time, but the inherent value of the portfolio and the ultimate realization of what is a great fund construct will be there.

#### Alexander Blostein

Analyst, Goldman Sachs & Co. LLC

C

Yeah. It all makes sense. Let's shift gears a little bit and talk about the fundraising backdrop for you guys and for the private markets industry broadly and starting with Carlyle, so you guys are well on your way to raising \$100 billion and talked about exceeding that number. What comes next?

### Glenn A. Youngkin

Co-Chief Executive Officer & Director, The Carlyle Group LP



Yes. So, we – first, I think when we set out our \$100 billion target, we told everyone that by the end of 2019, we'd raise \$100 billion, it was over a four-year period, and we have raised more money and raised it faster, and just given the volatility in the markets today, that's a really good thing. So, we actually were able to pull forward some funds into 2018 particularly that we had slated for 2019. We raised them faster and we exceeded our expectations.

So, that exact thing fund family that has moved into carry today that's going to drive the next number of years of distributions from us from a performance fee standpoint, which was 40% bigger than its previous group. This group on average is 30% bigger than that group that we're raising now. And so, we have this wonderful scaling going on in our business. What happened, of course, is we have pulled forward some of 2019 into 2018. We raised \$51 billion over the last 12 months, and that's a wonderful accomplishment for our firm.

With that said, as we look into 2019, we've a number of really good initiatives. We have to finish our European – fifth European buyout strategy. We have a wonderful credit portfolio that we're raising, and I will tell you, interestingly the mindset of sophisticated limited partners is that aggregating capital in funds today, making commitments today in preparation to what should be a buying opportunity over the next two or three years is the right business decision. So, we continue to see strong interest across the portfolio, across the fund platform from investors.

And so, as we look at 2019 and we're bringing our second-generation international energy funds, we're bringing our second-generation long-dated private equity strategy. We have a number of credit strategies that are in the market now and then we've new ones that will come into the market next year. We have very, very strong performing open-ended real estate products. And so, while it won't be \$50 billion next year, we expect it to be a reasonable fundraising year and we do – as I said, we do expect to exceed the \$100 billion target by the end of next year.

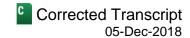
#### Alexander Blostein

Analyst, Goldman Sachs & Co. LLC



Right. In terms of the markets broadly, we've obviously seen a lot of capital [ph] pour into the alternative asset managers (00:14:50), particularly the private side.

Goldman Sachs U.S. Financial Services Conference



### Glenn A. Youngkin

Co-Chief Executive Officer & Director, The Carlyle Group LP

Yeah.

А

#### Alexander Blostein

Analyst, Goldman Sachs & Co. LLC

There's been a lot written about the record amount of dry powder that's kind of sitting on the sidelines. How do you think that's going to impact the prospective returns in the asset class [indiscernible] (00:15:05) and do you think the recent kind of volatility creates a little bit of a risk to a slowdown in the fundraising that the industry has seen in years?

Glenn A. Youngkin

Co-Chief Executive Officer & Director, The Carlyle Group LP

Right. So, lots there. So, let me first get at the size of the fundraising over the last few years. So, there's an estimated roughly \$3 trillion asset base in all of private equity and the fundraising that's occurred over the course of the last few years has created dry powder. That dry powder represents about 35% of the size of the asset base. And interestingly, if you go back to 2006, at that time, it was 48% of the asset base. And so, what we've seen in the industry is a meaningful increase in just the size of private capital private equity destination. Companies are staying private for longer, if forever, the structure flexibility that we're given by our investors to be creative has expanded. And as a result, the ability to actually find good homes for that capital has in fact increased materially. Now, with that said, it's competitive and you better bring your A-game every day, every single day. And that's one of the reasons why firms like Carlyle have significantly invested in the teams that in fact support our portfolio and help drive value.

And so, the days of investing money, levering it, having a management team go off and do their thing, and coming back and making four times your money have been gone for a long time. And that's why when you hear us talk about great investment opportunities, we just closed earlier this quarter on the Specialty Chemicals business from AkzoNobel, which we renamed Nouryon. That business was fundamentally – the investment in that business was fundamentally driven by our view that we could meaningfully enhance the profitability of Nouryon through operational improvements, by bringing to bear a lot of resources from inside Carlyle. What that's resulted in is through the third quarter, our funds were up 17%. That's across private equity, private real estate, private energy, private credit, and the [ph] MSCI World Index was up 8 (00:17:28).

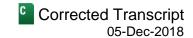
So, 900 basis points of outperformance, that's what our investors need to see. There's of course an absolute level of performance. Those numbers don't mean much to our investors if over a long period of time everything is negative, we don't expect that to happen. But the outperformance relative to public alternatives is why so much capital is flowing into the private capital industry. And the big firms, Carlyle, we have an edge. We have an edge to drive value in the portfolio companies to squeeze out extra 100, 200 basis points of return. And what we're seeing time and time again is, when it comes to choosing partners, Carlyle gets chosen more often than not.

Alexander Blostein

Analyst, Goldman Sachs & Co. LLC

Let's talk about the outcome of the fundraising which is also fee-related earnings growth. That's been an important strategic focus for you guys for quite some time, and again, you are well on your way to deliver on that. So, by the end of the year, I think you will be at around \$400-ish million in FRE kind of on a run rate annual basis. You talked about some of the additional fundraising opportunity which is likely to continue to drive that, but how

Goldman Sachs U.S. Financial Services Conference



should we think about the FRE growth for Carlyle over the course of the cycle, and within that maybe you had on the margin opportunity as well that you sort of see within FRE?

Glenn A. Youngkin

Co-Chief Executive Officer & Director, The Carlyle Group LP

А

Yeah. So, just a little table setting and just to be very transparent. Kewsong and I, when we stepped into these new roles a year ago, recognized that as a firm, we had not executed well against delivering FRE. And so, we made it a very high priority to not just deliver it, but to really help all of you see where it's coming from and where we're going. And so, back in January, on our February call, we told everybody that while fee-related earnings in 2017 for the whole year were \$125 million on an adjusted basis, we had a big insurance benefit that year. So, the underlying number was roughly \$125 million in 2017. We told everybody that we were going to push the firm, drive the firm in order to have a run rate coming out in the fourth quarter of \$75 million a quarter or \$300 million a year versus the \$125 million one-year earlier. And we focused the firm there in addition to doing all the things we need to do to make the funds work and we, in the third quarter, actually posted \$89 million for the quarter.

Now, let me be clear. That \$89 million has things like catch-up fees which are little bit one-time in nature, et cetera. But at that point, we were very comfortable saying we expect it to not just exceed \$75 million, but we expect it to exceed \$85 million in the fourth quarter from a clean run rate basis. And that focus for us we think underpins a ton. We think it underpins: one, your confidence in our ability to deliver earnings; the second thing that it does is it represents the fact that our business is substantially bigger today than it was just five years ago. When we look across our platform and we're investing \$18 billion, \$20 billion, \$22 billion a year across our platform and just five years ago that was \$12 billion, \$13 billion. So, there's been a material improvement in just the ability to deploy and invest across our platform, because we've grown our energy business, our real estate business, our credit business, and our private equity business, and our solutions business has grown as well.

And so, as we look into 2019, what we see is the ability to continue to focus on dropping margin. Now, our margins were very low in 2017. We ran in about a 15% margin. We told you all in our last earnings call that we expected to be able to run at 25%. We're going to push on that 25%. Our model is such that we believe that having extensive resources around the world is what drives our returns. So, our balance is to find a healthy margin that gives everyone a predictable view of FRE, higher than it is historically ever been, substantial pickups over previous years, and yet balance that with the kind of investment performance that we've been delivering, and I have to say that one of the keys to Carlyle's long-term success is that balance. We've been delivering extraordinary returns for our investors. They're very happy. They keep rewarding us with increased commitments to our funds. Those increased commitment to the firm enables us to drive margin and drive FRE, and that is a virtuous cycle.

#### Alexander Blostein

Analyst, Goldman Sachs & Co. LLC

Yeah. Picking with some of the micro questions, there's a lot been written and talked about, about the valuation in the alternative asset management side for quite some time. Obviously, the market backdrop is challenging. But given the growth, what can you guys do to unlock value for shareholders?

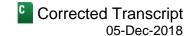
### Alexander Blostein

Analyst, Goldman Sachs & Co. LLC



Well, Kewsong and I have felt that the first thing we can do is deliver. At the end of the day, that's job number one. And so, we've felt that one of the major inhibitors to people recognizing the value in Carlyle was delivering on an FRE story. And so, that's where we are really focusing to deliver. Alex, it's interesting, when you go back and you

Goldman Sachs U.S. Financial Services Conference



look at a business as you said that we're going to – as we said, we're going to run it at a run rate in excess of \$85 million in the fourth quarter, and you have a business that has that kind of FRE run rate and you put whatever multiple you want to put on that, and that's pre-tax I understand, but people sometimes [ph] draw a 15 (00:23:16) on that number.

And you look at our balance sheet and [ph] we've got a (00:23:20) balance sheet over time. And so, we've got \$1 billion of investments on our balance sheet. We've got \$1.5 billion of cash on our balance sheet. We've got nearly \$2 billion of accrued carry on our balance sheet. And our current market cap is less than \$6 billion. That ascribes zero value to actually generating performance fees. And over the last 10 years, we've averaged just under \$500 million a year performance fee every year. That math doesn't make any sense to me, which is why in the last call we told everybody that we have also been systematically in the stock buyback mode.

#### Alexander Blostein

Analyst, Goldman Sachs & Co. LLC

Yeah. Let's talk a little bit about some of the new initiatives you discussed that will kind of drive growth in the firm beyond the \$100 billion you mentioned, one being credit. And of course, there's been lots of questions and concern over the last couple of months and really over the course of yesterday in terms of are we in a credit cycle and what does it mean for the expansion in the private credit markets that we've seen with alternative asset managers?

#### Glenn A. Youngkin

Co-Chief Executive Officer & Director, The Carlyle Group LP

Yeah.

### Alexander Blostein

Analyst, Goldman Sachs & Co. LLC

What is your view on that question? Are you guys growing within private credit? What do you some of the opportunities still and what are some of the more kind of risky areas that you're trying to avoid?

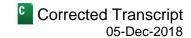
#### Glenn A. Youngkin

Co-Chief Executive Officer & Director, The Carlyle Group LP

Yeah. So, private credit is a place not for the JV team right now, do not send in the JV team into private credit, and one of the great things is we have a world-class [ph] Varsity (00:24:41) team at Carlyle. And as Kewsong and I have really initiated a strong growth program in credit, we find ourselves quite fortunate in the timing to be honest. So, what's happened over the course of the last year is the basis of Carlyle's credit business which has really been underpinned by \$25 billion of great investing in CLO and structured credit, where our default performance is extraordinary far better than the market and we're one of the clear leaders in this aspect of credit investing. Our distressed business has been phenomenally successful with the three subsequent top-quartile funds, and that's the basis that we're building on.

And so, over the course of the last really 18 months, we've seen our credit business AUM go from \$25 billion to \$37 billion, and that growth in AUM has in many respects been capital to be deployed. It's been fundraising and getting ready. And there's no better time to be ready to deploy than now. And therefore, we think our distressed business is poised and ready to go, we think our opportunistic credit business which we've been raising capital for is staffed and ready to go. We're excited about this recent acquisition that we made in the aviation credit business. We think asset-backed financing right now has a real edge. And so, we've been tooling up for that.

Goldman Sachs U.S. Financial Services Conference



And so, therefore, I think one of the – I think confusing parts of people talking about broad credit is we don't run a long-only standard credit book with a lot of BBB exposure in it. That's not our business. And our business is really very much underpinned by an extraordinarily successful CLO and structured credit business that performed fabulously during the 2008 and 2009 downturn, and that's why it is the market leader that it is a wonderful distressed business. And then a lot of asset based lending in energy and in aviation now, and then new businesses that are poised with new capital in direct lending and opportunistic credit. So, we feel like we're positioned pretty well right now.

#### Alexander Blostein

Analyst, Goldman Sachs & Co. LLC

That makes sense. Another pretty important theme in this space has been growth from insurance companies in a variety of ways. We've obviously seen a couple of your peers partner, in one way or another, with insurance companies or provide more of a holistic solution. Can you expand on what you guys are doing in the space and you had on the partnership with AIG?

Glenn A. Youngkin

Co-Chief Executive Officer & Director, The Carlyle Group LP

With AIG, yeah, of course. So, we totally agree that this is an extraordinarily interesting area for private capital to had moved into and move further into. And the primary reason is the recognition that insurance liabilities in many classes of insurance products are so long-dated or long-lived that in fact they match very well with long-dated or long-lived asset management. And so, over the course of the summer, we announced a partnership with a subsidiary of AIG which at the time was called DSA Re has been renamed Fortitude, and we bought a 19% – 19.9% stake in Fortitude. And we also established an asset management agreement or investment management agreement with Fortitude, where over time they would rotate from their traditional insurance asset allocation liquid book, a reasonable portion of what is \$40 billion of total assets into Carlyle managed private capital across the private credit, private energy, private real estate, and of course, private equity.

And so, that transaction closed earlier this quarter. Out of the box, it's going well. We, of course, have a big step, because we're also setting it up as an independent company within this, and so we've got to carve out things from AIG. So, there's a lot of work going on there. But the asset rotation is starting. We've told everybody over a 30-month period, we would expect to reach a run rate of \$50 million of incremental management fees across that asset rotation. I will repeat it's a 30-month rotation. So, it's not happened at all at one time as they work through their portfolio allocation and it will go across our whole business. A big chunk of that will actually go into our Global Credit business, which again it's the right time to move into the opportunistic credit funds and be ready.

Alexander Blostein

Analyst, Goldman Sachs & Co. LLC

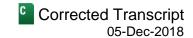
Yeah. Make sense. Another question for me before we hand it over to the audience for Q&A, I wanted to ask about your retail initiatives. Again, we've seen some of your peers talk a little bit more broadly about how big of an opportunity the retail market has become. Obviously, some are little further along than others. How are you guys approaching the retail space? And I know you had a partnership with Oppenheimer. I don't know if the investor acquisition does anything to that and how that could impact that?

Glenn A. Youngkin

Co-Chief Executive Officer & Director, The Carlyle Group LP

Yeah. So, let me tackle that first and I'll go back into your question. So, first of all, it actually doesn't impact it at all and I think the acquirers from Oppenheimer were excited – were even more excited about this initiative. And that's

Goldman Sachs U.S. Financial Services Conference



a joint venture between Oppenheimer and Carlyle in the credit space. Oppenheimer will, in fact, distribute the product and it will be a broad-based credit product. It's just coming into the market now, just getting started. And so, these initiatives take a long time to get set up. And so, you end up announcing them, because you have to, because you've to make filings and those kinds of things. And so, we're just starting to get ramped up into the variety of credit opportunities that Carlyle offers.

The retail opportunity is deep. It has lots of challenges. You have to make sure that you're offering products that are particularly tailored towards retail investors, and of course there is different classifications of retail investors, and the word has tossed around as if there's just one omnibus retail investor. And the reality is we have an enormous wealth management side to Carlyle where high net worth individuals invest repeatedly and consistently in all of our funds. It ranges from anywhere to 10% to 20% of fundraise, almost every time, and that is just a wonderful flow of capital for us. And then, what we've also seen is an opportunity to do things like the Oppenheimer joint venture which enable us to tap into another class of investors, and we'll continue to push down that path.

The one reality, of course, is the most important decision that we make day in and day out with regards to our funds is how big should they be, how big should they be and our job is not to go raise as much capital as we possibly could raise, but to actually raise the right amount of capital. And so, there has not been a shortage of demand for Carlyle funds. And so, we have to be very careful as to what funds we bring to market, who we sell them to, to make sure we manage that demand/supply equation the right way, but we do think there's lots of opportunities in retail. We think we're moving into them carefully and appropriately, and we think the products we're going to bring to market are products that are very well tailored to those investors.

#### Alexander Blostein

Analyst, Goldman Sachs & Co. LLC

Great. We have a couple of minutes left on the clock. So, if anybody has a question in the audience, just raise your hand and a mic will come around. Yeah.

Hello. Thanks for joining us. I think the theme of sort of commentary from yourself and peers is continued bullishness on the fundraising cycle, while maybe there's some near-term hiccups in the monetization opportunity. Can you just talk about the sensitivity of fundraising to realizations and returning capital to LPs given you guys have a ton of repeat customers? Thank you.

### Glenn A. Youngkin

Co-Chief Executive Officer & Director, The Carlyle Group LP

Right, great question. So, when people ask me about what are your investors think about this, the reality is – and we have 1,700 investors around the world, institutional investors around the world, that's not individuals, it's institutions around the world, and they all have different algorithms they run on what they want. But one meaningful trend has been just the absolute recognition across the investor base of higher allocations to private capital, and that is driven by returns which by definition have been higher than the public alternatives, and of course, the recognition that those returns lock in capital for a long period of time. And it is this dilemma that sometimes we face.

Many of our investors don't want the money back. They actually want us to keep it invested for a long period of time, keep compounding at double-digit rates and we'll see in 10 years, if not longer, going back to our

Goldman Sachs U.S. Financial Services Conference



discussions around some of the insurance companies. And that has led to an evolution of some of these longer-dated products, open-ended products to allow people to do that. We have other investors who like to see the kind of four to five-year cycle of distributions. And what we try to do is run our business to the way that we think fulfills our view of investing well, returning capital, taking new commitments, but then offering products that in fact people can choose to go in for a long period of time as a compliment. That's why our exit pace over the last six years has averaged \$27 billion, \$28 billion. It has not bounced around. We haven't had a \$50 billion a year and a \$10 billion a year. What that has translated to we think is a very consistent flow of capital back to investors and their desire to recommit.

One of the biggest issues that investors face around the world today is their boards are authorizing increased allocations, capital is flowing back to them, and it's harder and harder for them to actually take the step up in assets in the ground because the floor assets are being returned to them. And so, they're having to commit even more and more and more. This is the cycle we're in right now. But let me just say for the record, if we move into a much more volatile market period, it by definition does impact [indiscernible] (00:35:25). And so, that's why I said earlier, we're very, very pleased to have gotten way ahead of our fundraising schedule, to have raised bigger funds faster. We do not see a slowing in LP commitments today, but I might be wrong. And we feel like we've accomplished an extraordinary amount in 2018 to derisk that on a go-forward basis should things change.

### Alexander Blostein

Analyst, Goldman Sachs & Co. LLC

Great. Well, I think with that, we're out of time. Glenn, thank you so much for being with us today.

### Glenn A. Youngkin

Co-Chief Executive Officer & Director, The Carlyle Group LP

Great. Thanks, Alex. We really appreciate it.

### Alexander Blostein

Analyst, Goldman Sachs & Co. LLC

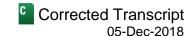
[indiscernible] (00:35:57)

### Glenn A. Youngkin

Co-Chief Executive Officer & Director, The Carlyle Group LP

Thanks everybody for coming.

Goldman Sachs U.S. Financial Services Conference



#### Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2018 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.