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The Carlyle Group, Inc. (CG)

Q1 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Thank you for standing by and welcome to Carlyle Group's First Quarter 2023 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speaker presentation, there will be a question-and-answer session. [Operator Instructions] I would now like to hand the call over to Head of Public Investor Relations, Daniel Harris. Please go ahead.

Daniel Harris

Head-Public Market Investor Relations, The Carlyle Group, Inc.

Thank you, Latif. Good morning and welcome to Carlyle's first quarter 2023 earnings call. With me on the call this morning is our Chief Executive Officer, Harvey Schwartz; and our Chief Financial Officer, Curt Buser. Earlier this morning, we issued a press release and a detailed earnings presentation, which is also available on our Investor Relations website. This call is being webcast and a replay will be available on our website.

We will refer to certain non-GAAP financial measures during today's call. These measures should not be considered in isolation from or as a substitute for measures prepared in accordance with generally accepted accounting principles, we have provided a reconciliation of these measures to GAAP in our earnings release to the extent reasonably available.

Any forward-looking statements made today do not guarantee future performance and undue reliance should not be placed on them. These statements are based on current management expectations and involve inherent risks and uncertainties, including those identified in the Risk Factors section of our Annual Report on Form 10-K that could cause actual results to differ materially from those indicated. Carlyle assumes no obligation to update any forward-looking statements at any time.

I'm going to begin with a quick discussion of our results and then hand the call over to Harvey. For the first quarter, we generated \$193 million in fee related earnings and \$272 million and distributable earnings with DE per common share of \$0.63. We raised \$6.8 billion of new capital and deployed \$3.8 billion in capital across our carry funds. Our accrued carry balance remains at a robust \$4 billion. We declared a quarterly dividend of \$0.35 per common share. We know it's a busy morning and as we already have a long queue, [Operator Instructions]

And with that, let me turn the call over to our Chief Executive Officer, Harvey Schwartz.

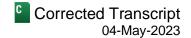
Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group, Inc.

Thanks, Dan. Good morning and thank you for joining us today. It's great to be here with all of you. Some of you I've worked with in the past and others, it'll be great to meet you soon. There are three things I plan to review today: our first quarter performance, the macro environment and our general outlook. And lastly, I'll end with some initial thoughts on my first 80 days here at Carlyle.

First, with regards to our performance, let me be clear. We're not pleased with our first quarter results. Curt will walk you through the details, but our activity levels and investments, realizations and fundraising were more muted than our prior expectations. We continue to navigate one of the most complex financial markets in recent memory, which is clouding the near-term outlook and impacting market sentiment. It's our expectation these effects will last throughout the remainder of the year and impact both FRE and distributable earnings.

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That said, importantly, we are confident that Carlyle is well-positioned for when market stabilize and activity levels ultimately pick up. We don't invest and we don't run the firm quarter to quarter. The firm has a long history of successfully investing through all cycles. We have a leading Private Equity business with a long-term track record, a fast-growing Global Credit business, and a high-performing Investment Solutions business. We have \$381 billion in assets under management and \$73 billion in capital available to deploy across strategies and geographies. And we have long-standing, very deep relationships with the largest and most sophisticated global investors. There is substantial and very attractive white space for Carlyle to continue to grow our platform, which, alongside a disciplined approach to running the firm, will ultimately expand margins, expand FRE and grow distributable earnings.

Shifting now to the macro environment, for the past 30 to 40 years, there were several megatrends at play. These megatrends underpin economic activity, a long-term downtrend in interest rates, supporting an upward trend in equity markets and asset prices broadly. Markets benefited from historically low inflation, and increased globalization and technological innovation allowed global economies to thrive.

Today, for the first time in many investors' lifetimes, some of those trends are slowing or even reversing. The cost of capital has gone up. Discount rates and cap rates have increased and are pressuring valuations as well as expected returns. Of course, this shift in trends will take time to work through global markets and asset prices. Adding even more complexity, while the banking system in the US and abroad generally have healthy balance sheets from years of capital building, they're now tightening underwriting standards, and regional banks following recent stress are likely to face increased regulation and capital requirements. In my experience, this will almost certainly lead to a further tightening of lending standards, dampening the pace of economic activity.

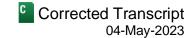
While companies are not raising capital at the same frequency as prior years, their core needs haven't changed. They need capital to grow and capital to refinance liabilities. This is where our Global Credit business is taking share from traditional lenders. And just this week, you will have seen Fortitude announced a major reinsurance transaction that will accelerate the growth of their business. For our LPs, who require help managing their portfolios in this complex environment, our Global Investment Solutions business is well-positioned to meet this demand and continue to grow on the platform.

The important point to remember is that Carlyle has operated through significant market dislocations before. We remain actively engaged with sellers, buyers and capital providers around the world. We're very front-footed. We certainly don't invest for any single quarter or year. We raise capital and we invest for the long term. The opportunities across asset classes, regions and sectors are growing increasingly more attractive as markets remain volatile and uncertain. While we remain cautious on the near-term environment, we also are beginning to see opportunities to put a huge amount of capital to work that will help drive long-term performance and asset growth. This is an exciting time to be an investor in global private markets.

I'll close with some thoughts [ph] I've gotten started (00:07:01) in my new role. I've spent the past few months meeting our people and getting to know our investors around the world. Carlyle is an iconic brand, one I've admired my entire career. We have an experienced and talented team of professionals who are up for any challenge. And that team is a big part of why I'm here.

Our culture is strong. It reflects the 35-year history of the firm. And it's made up of a group of talented, smart, hardworking, world-class professionals who care deeply about our firm. And we are committed to being a fiduciary for our clients. We are in an industry that is growing, and there is massive long-term potential for Carlyle.

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Everything starts with investment performance, and our firm was built to provide the highest level of care to our investors and to capture the significant opportunities that continue to emerge.

Throughout my career, I've been a believer in disciplined growth. As we grow, we're also working to identify areas where we can instill more discipline around our operations. This approach will deliver returns for our shareholders and fund investors alike. It's an exciting time for the industry and for Carlyle, and I'm very excited to be here and be part of it.

With that, I'll hand things over to Curt to provide a more detailed breakdown of the quarter.

Curtis L. Buser

Chief Financial Officer, The Carlyle Group, Inc.

Thank you, Harvey, and good morning, everyone. I want to start with an outlook on three particular areas that complement Harvey's comments and put our financial results in context with the current macro environment. First, with respect to fundraising, we continue to expect to raise more capital this year than we did last year, though the composition of that fundraising has skewed further towards Global Credit and Investment Solutions and less from Corporate Private Equity.

Over the balance of this year, expect to see CLO issuance resume in addition to incremental fundraising for a number of credit products, as well as raising capital in our secondaries and coinvestment strategies in Investment Solutions. While we believe that we will attract a significant amount of capital for our next vintage of buyout funds, we no longer expect these funds in the aggregate to be the same size as their predecessors and now expect to see a decline in buyout fund sizes across most geographies.

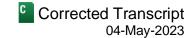
Second, as you heard Harvey indicate, we expect that the slowdown in capital markets activity will result in a muted level of near-term realizations, pressure on capital markets' transaction fees and lower performance-related earnings. That said, we continue to have \$4 billion in net accrued carry and believe the firm's ability to monetize that carry will be strong over the next few years. And third, our 2023 FRE outlook, given uncertainty in current market conditions, including the impact from a slower transaction environment and a lower buyout fundraising outlook, our 2023 FRE is likely to be modestly below last year.

While we expect to see top line fee growth this year, we also expect to see continued investments into our teams and businesses. We will be disciplined managing our expenses while, at the same time, ensuring the firm is well positioned to grow over time, notably across our Global Credit platform, extending the capabilities of our capital markets team and supporting continued growth at Fortitude.

Now let me dig a bit deeper into the major drivers of our results. Fee related earnings of \$193 million increased 6% over the first quarter of 2022. Top line management fees of \$506 million were up 11% year-over-year, with the strongest growth in our Global Credit platform through a combination of organic growth and the impact from strategic transactions last year. Fee-earning assets under management of \$271 billion increased 29% from the first quarter last year, driven by \$28 billion of fundraising over that same time period, alongside strategic transactions completed last year.

Two days ago, on May 2, Fortitude announced an agreement to reinsure \$28 billion of life and fixed annuity products. This Fortitude transaction is a great example of its strategy to become a preferred solutions provider to large global insurers as it leverages its strong balance sheet and broad capabilities to pursue growth. Fortitude expects to close this transaction in mid-2023 pending customary regulatory approvals.

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When the transaction closes, Carlyle's fee-earning assets under management will increase by the amount of the reinsurance transaction as part of our strategic advisory services agreement with Fortitude. And over time, we expect about 20% of the general account assets related to this transaction to be directly invested into Carlyle investment strategies. The impact of this transaction was included in our updated fee related earnings outlook for the year. Fee related performance revenue of \$29 million in the first quarter was down from \$45 million last year, as the contribution from Core Plus real estate was muted in the first quarter, while Global Credit fee related performance revenue was up more than 30%.

Looking forward to the second quarter, we expect to benefit from a substantially higher level of fee related performance revenue in Global Private Equity. This is because we expect a significant step-up in the crystallizing of gains next quarter in Core Plus real estate, which will then moderate in the following quarters. As we have previously noted, we expect to generate significant revenues in this line item every year, though certain quarters throughout the year will be higher than others.

Also, keep in mind that fee related performance revenues compensation expense, which is captured in our FRE compensation line, will vary directly at about 45% of revenue. FRE margin was 35% this quarter, down modestly from 36% in the first quarter last year. While total fee revenues were up 7% compared to last year, FRE expenses increased 8%, leading to the margin compression. For the full year, we expect FRE margin to be modestly lower compared to 2022. Longer term, scaling the firm and operating effectively remains a key priority, and we expect to see FRE margins resume their upward trend in 2024.

Moving on, our portfolio continues to perform well relative to choppy public markets with overall portfolio appreciation of 2% in the first quarter across the carry funds and appreciation of 7% over the past 12 months. This is well higher relative to a 9% decline in the MSCI All Country World Index over that same time period. Our Global Credit carry fund portfolio rose 3% in the quarter and is also up 7% over the last 12 months, while our Corporate Private Equity portfolio was up 1% in the quarter and 3% over the past year.

Appreciation in our Infrastructure & Natural Resources portfolio was flat in the quarter amid volatile but rangebound energy prices. But this portfolio is still up 24% over the last 12 months and appreciation in our Global Investment Solutions funds was up 5% in the quarter and 7% over the past year.

A few other quick points, equity-based compensation expense of \$57 million increased from \$41 million in the first quarter last year as an elevated level of equity grants to employees and our new CEO grants in February began to impact results. We expect to see this expense tick higher in the second quarter and then remain at an elevated level. We repurchased \$100 million in shares in the first quarter. And as of March 31, our board of directors reset and increased our repurchase authorization to \$500 million.

Our balance sheet remains solid, over \$1 billion in cash and nothing drawn against our \$1 billion revolver. We have the flexibility to remain opportunistic if prospects arise to deploy our valuable capital. And as we've said before, our DE effective tax rate is likely to be volatile on a quarterly basis. And this quarter, it was lower than normal, but we still expect it to average around 20% on an annualized basis. In sum, while there are some short-term challenges, we are optimistic long term and see opportunities for growth and value creation.

With that, let me turn the call back over to Harvey, who'd like to make a few closing remarks.

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group, Inc.



Thanks, Curt. Before we move on to Q&A, I wanted to reiterate that while there are near-term challenges, there is tremendous long-term opportunity for the firm. The overall positive trends in the industry and the strength of our brand and our people, well, these are the reasons why I'm here. It really is quite a privilege to be part of this team and part of this firm.

Let me turn the call over to the operator so we can take your questions. Again, great to be here with you.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from the line of Glenn Schorr of Evercore. Your question, please, Glenn. Glenn Schorr Analyst, Evercore Group LLC HI. And, Harvey, good to talk to you again. Harvey Mitchell Schwartz Chief Executive Officer & Director, The Carlyle Group, Inc. Hi, Glenn. Glenn Schorr Analyst, Evercore Group LLC Hello. Harvey Mitchell Schwartz Chief Executive Officer & Director, The Carlyle Group, Inc. Glenn, you're just breaking up a little bit. **Glenn Schorr** Analyst, Evercore Group LLC

Sorry. Well, good to talk to you again. I'm curious it's a little bit of a unique situation, but new CEO, I heard some of your previous comments. I'm curious how you describe, maybe in layman's terms, what are you here to do? I saw the quote in the beginning of the slide deck of continuing to expand and diversify the platform. I heard your comment about substantial and very active white space for Carlyle. So I was wondering if you could expand on that a little bit. Thanks.

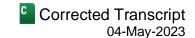
Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group, Inc.

Okay. Well, Glenn, it's good to hear your voice, even a little garbled but nice to chat with you again. I hope you've been well. Well, maybe I should back up for a second and before I get directly to your question, maybe I should just talk a little bit about why I'm here and how I got here and that decision-making process.

And so, as I said in my remarks, I've known about Carlyle for my entire career. It's an amazing brand. I know the power of an amazing brand. Since I met with the founders, we clicked immediately. And as I got to know the people, I knew that the talent in the organization and the investing provess, and then really when I looked at the

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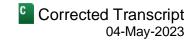
valuation gap between our firm and other firms. It doesn't make any sense to me. And so the decision to be here actually ended up being quite easy and, as I said, really quite a privilege for me to be part of this team and part of this firm.

Now, I've been here, I don't know, give or take 80 days, the team reminded me, and I sort of jokingly or I referred to it sort of as my own Carlyle immersion course. I've just been spending time with our LPs, spending time with the teams, getting to know everyone, and probably, more importantly, giving them a chance to get to know me.

In terms of the white space, there's just a lot of opportunity for us. We have businesses like Global Credit, which have been growing very quickly. We'll continue to grow those. There's the private wealth space; real Estate, one of the highest performing Real Estate teams, there's a lot of interest there; our Solutions business. When you go around the firm, there's a lot of energy to grow these businesses. Now, it's early days for me, but I can tell you the enthusiasm and the energy is real. We lose you, Glenn?

Glenn Schorr Analyst, Evercore Group LLC	Q
No. No, thanks, guys. No, we were limited to one question. I appreciate it, Harvey. Thanks. [indiscernible] (00:20:25)	
Harvey Mitchell Schwartz Chief Executive Officer & Director, The Carlyle Group, Inc.	A
No, I just thought maybe I lost you. No, you are limited to one question, Glenn.	
Glenn Schorr Analyst, Evercore Group LLC	Q
Thanks. Good to hear you.	
Harvey Mitchell Schwartz Chief Executive Officer & Director, The Carlyle Group, Inc.	A
You too.	
Operator: Thank you. Our next question comes from the line of Bill Katz of Credit Suisse. You're question please, Bill.	
Bill Katz Analyst, Credit Suisse Securities (USA) LLC	Q
Okay. Thank you. I think it's a bad connection as well. So, first of all, Harvey, congratulations	
Harvey Mitchell Schwartz Chief Executive Officer & Director, The Carlyle Group, Inc.	A
We can hear you [indiscernible] (00:20:57). Don't worry.	
Bill Katz Analyst, Credit Suisse Securities (USA) LLC	Q
Okay, great. Thank you. Very good. Congratulations and welcome.	

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Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group, Inc.

Thank you.

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Bill Katz

Analyst, Credit Suisse Securities (USA) LLC

So maybe just to build on your last set of responses to Glenn's question, can you sort of tie together maybe, as you look at some of these bigger picture opportunities, maybe the top one or two things you'll be most focused on as you look out over the next year or two? And relative to your discussion of sort of disciplined growth, can you tie that into Curt's comments about FRE guide down on expenses and where that expense growth may focus? Thank you.

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group, Inc.

A

So, well, the disciplined growth, that's just always the way I've approached businesses that I've been part of. It's the way the team here approaches things. And so that, again, I would say is more philosophically my approach, but it's also been the philosophy of the firm. I don't think it's a — how do I say this? I don't really have any favorite children. So I mean, I like growth for growth's sake. And so we have a lot of resources here. And so, if there's demand for our Solutions business, we'll respond to that. If there's demand for growing the private wealth footprint, there's a lot of people in the world that want access to Carlyle and Carlyle investing capability. Some things will take longer, some things will be more immediate, but I don't think it's a question of prioritizing one or two things. I think it's a question of, as a team, we mobilize against all these things, but we do it quite thoughtfully. We're not going to rush. I'm certainly not in a rush. And it's really going to be about excellence of execution and however long that takes. I think it's more about excellence of execution, but the opportunities are clear.

Curtis L. Buser

Chief Financial Officer, The Carlyle Group, Inc.



Why don't I take the second part of Bill's question really on FRE and the revised guidance. Look, we've been focused on growing FRE. It remains a key priority. And those white space opportunities that Harvey alluded to are going to propel us forward. Now, let's just kind of level set and remind everybody kind of where we've been. We grew [ph] out 40% (00:23:08) in 2022. And over the past five years, it's up about fourfold. And I think we are in great position to continue to do that over the next several years. But this year is not one of those growth years. This year is going to be – this growth trend is not even every year. And this year is a bit of a catch-up and get things in the right place.

Now let me level set that a little bit for you. It's a complicated and complex market environment, as Harvey said in his opening remarks. M&A volumes are about half of what they were just last year. IPO activity is sluggish. US leverage loans are much smaller, smaller than they have been in many, many years. And so all that activity level is depressed, and it impacts our earnings, our ability to generate transaction fees, impacts performance revenues. The lower level that you see [ph] is impacting (00:24:08) realizations.

And even at Fortitude, it affects kind of our fees there are a variable rate. And so as Fortitude does well, we make more money, but mark-to-market types of adjustments impacts some of those returns. And so right now, it's at a lower level. And so that's also impacted our thinking with respect to the current year. But again, we're in great shape for the long term, see lots of opportunities for long-term growth here and think that we'll be set up, and

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we're going to be very disciplined in terms of how we approach the balance of this year. And we're going to work really hard to outperform kind of where we are.

Bill Katz Analyst, Credit Suisse Securities (USA) LLC	Q
Good. Thank you both.	
Harvey Mitchell Schwartz Chief Executive Officer & Director, The Carlyle Group, Inc.	A
Thanks, Bill.	
Curtis L. Buser Chief Financial Officer, The Carlyle Group, Inc.	A
Thanks, Bill.	
Operator : Thank you. Our next question comes from the line of Alex question, please, Alexander.	ander Blostein of Goldman Sachs. Your
Alexander Blostein Analyst, Goldman Sachs & Co. LLC	Q
Great. Hey, good morning, everybody. And, Harvey, good to hear from	n you as well.
Harvey Mitchell Schwartz Chief Executive Officer & Director, The Carlyle Group, Inc.	A
Hey, Alex.	
Alexander Blostein Analyst, Goldman Sachs & Co. LLC	Q

Sticking maybe with – hey – so sticking with maybe some of the bigger picture kind of initiatives, as you look at areas of growth for Carlyle over the next couple of years, the firm has a really healthy balance sheet, to your point, [ph] generate (00:25:25) substantial amount of cash flow. How are you approaching the capital return framework for the firm? How are you thinking about inorganic opportunities within the context of sort of the white space that you've talked about?

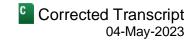
Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group, Inc.

Yeah. So the white space list that I went through, obviously, that's not inclusive, right? I mean, that's not a total, right? So you saw us announce the Fortitude transaction. And there's a lot of room for that business to grow, the capital markets business. And so our approach to all of this, as I said before, is going to be about patience and excellence of execution.

You're right to point out the balance sheet strength. I think Curt and the team have done an extraordinary job of structuring the balance sheet. It was one of the things I diligenced before I came to the firm, and there's a lot of cash flow generation. And so I think that all these things – I think in some respects, Alex, all these things kind of come down to math, right? So we have a cost of capital. We have very strong cash flow, and we have a very significant opportunity set. And so you're going to see us be quite disciplined about how we think about utilizing

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our capital. But we're going to invest in growth. And we're going to be very thoughtful about how we deploy that capital. We're always going to be thoughtful about it. I think in this market environment, you should expect us to be exceptionally disciplined.

Alexander Blostein Analyst, Goldman Sachs & Co. LLC	Q
Great. That's helpful. Thanks.	
Harvey Mitchell Schwartz Chief Executive Officer & Director, The Carlyle Group, Inc.	A
Sure.	
Operator: Thank you. Our next question comes from the line of Brian Bedell of Decopen, Brian.	utsche Bank. Your line is
Brian Bedell Analyst, Deutsche Bank Securities, Inc.	Q
Oh, hi. Great. Thanks for taking my question. Welcome, Harvey.	
Harvey Mitchell Schwartz Chief Executive Officer & Director, The Carlyle Group, Inc.	A
Hey, Brian. It's nice to meet you.	
Brian Bedell Analyst, Deutsche Bank Securities, Inc.	Q

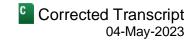
Nice to meet you. Yeah. And just your comment about the valuation gap that you see at Carlyle and the enormous opportunity to close that valuation gap, I realized there's a lot of things to invest in and a lot of white space, and that will create a sort of longer term pressure on expenses. But as you think longer term about the franchise in closing that valuation gap, how do you think about potentially changing the compensation structure to align more with some of the peers that have a higher FRE margin? And then how do you think about whether that is one way to do that as opposed to just scaling various businesses?

Curtis L. Buser Chief Financial Officer, The Carlyle Group, Inc.

Hey, Brian, it's Curt. Let me start and Harvey can add in. So, look, our compensation structures, we use a combination, obviously, of cash, carry, equity and you got be very careful when you move the cheese. And so we think very carefully about how all of this was set up and how we incentivize our people.

The alignment that we have in place does a couple of things. First, it aligns with our FRE growth, and we've had very good growth over the past four or five years in FRE. Second, it aligns with carry generation and the performance for our LP investors, very important that we drive LP performance and the carry that we've thrown off \$1.5 billion net realized carry in 2021, \$1 billion in last year, that provides a lot of capital as well for the balance sheet. So that alignment is important and keeping people kind of focused on the long-term trajectory of shareholder value. The equity awards obviously kind of play into that.

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And so all of those things matter. But you're right, we continue to evaluate how it could be better and drive further things and when we have something to announce in terms of a change, we'll be sure to make sure everybody is aware of that but nothing to announce for today.

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group, Inc.



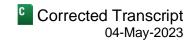
The only thing I would say is you mentioned the valuation gap. When I look at the valuation gap and when I was doing my diligence, I didn't look at it and say, oh, we want to be this firm or that firm. I just knew that it screamed opportunity because I know the power of the brand. And so what we're going to do is, I think what you hope we do, we're going to listen quite carefully to our LPs, we're going to evaluate our strength internally and we're going to marry those efforts together to make sure we deliver to our LPs, we drive growth and we use our capital along the way.

In terms of incentives, I think Curt captured it perfectly, we want our people to be incented. We have fantastic talent here. We want to attract the best talent. We want to retain the best talent. And so all these things are the way that we'll think through the compensation. And listen, we want to make sure people get paid for performance. That's how I'm thinking about it philosophically. Too early to comment on any specific changes, but I like Curt's language about the cheese. I don't think that was prepared remarks, by the way. But we probably wouldn't have put that in the script, but I think he captured it well.

Brian Bedell Analyst, Deutsche Bank Securities, Inc.	C
Yeah, that's great color. Thank you so much.	
Harvey Mitchell Schwartz Chief Executive Officer & Director, The Carlyle Group, Inc.	Д
Thank you.	
Operator : Thank you. Our next question comes from the line of Brian McKenna of JMP Securities. Your question, please, Brian.	
Brian McKenna Analyst, JMP Securities LLC	C
Thanks. I believe it's me, Brian McKenna. But good morning, all, and welcome, Harvey.	
Harvey Mitchell Schwartz Chief Executive Officer & Director, The Carlyle Group, Inc.	Д
Hey, Brian.	
Brian McKenna Analyst. IMP Securities LLC	C

So it's great to see the Fortitude – hey, how are you? So it's great to see the Fortitude deal get announced a couple of days ago. But, Curt, can you just remind us about the fee arrangement with Fortitude and then how that evolves over time with underlying performance of that business? And then related, how does the pipeline look for these larger deals looking out over the next 12 to 18 months? And does Fortitude have kind of incremental access capital for some more deals moving forward or will they have to look to raise some additional capital?

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Curtis L. Buser

Chief Financial Officer, The Carlyle Group, Inc.

Hey, Brian, thanks for the question and thanks for the comments on Fortitude. Look, we're really proud of what the team has achieved. If you look in our release, there's about \$55 billion of AUM. There's about another \$9 billion that they've directly invested into our funds not captured in that number. And this \$28 billion adds on top of all that. And they're still out there hunting and looking. There's a big pipeline. And it's very well-capitalized business. And we'd said before that with the raise that we did previously with our partners, that we were well set up to be able to about double the AUM there. And clearly, we remain working on that.

But keep in mind, these are complicated transactions. Fortitude has done a good job of thinking through this, and they've been able to do some things that are unique because of their skill set and how they're set up and their balance sheet. And these things aren't easy to get done, very proud of what they've been able to achieve. I think we can do more there.

And the fee arrangement, look, we're an investment advisor. And so, we fee really when they directly invest into our products, and we fee off of how we help them perform. And so that's a variable rate fee. And as they perform well generally over a trailing basis, we benefit. So we grow our fees as they grow in size and we grow our fees as they perform better, which we obviously contribute to.

But, look, markets are tough right now, and so some of that is also [ph] got this (00:33:42) from a lower level and we see kind of really upside potential from here in terms of fees off of that. But also keep in mind that this new \$28 billion is not closed yet. So it'll kind of contribute kind of later in the year when it's ultimately closed. Hopefully, that gives you some color, Brian.

Brian McKenna

Analyst, JMP Securities LLC

Yeah. No, no, that's great. Appreciate it, Curt.

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group, Inc.

Thanks, Brian.

Operator: Thank you. Our next question comes from the line of Chris Kotowski of Oppenheimer and Company. Your question, please. Chris.

Chris Kotowski

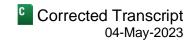
Analyst, Oppenheimer & Co., Inc.

Yeah. Good morning. Curt, in particular, I was wondering if you can give us some more color about the private equity fundraising environment. Obviously, we've been hearing about the denominator effect all year long last year. And one can only imagine that post-Silicon Valley environment that that didn't help things any. But I also wonder if you can talk about it just a little bit on a geographic basis. We've heard about that denominator effect, particularly as it relates to US buyout. But you've also got two big Asian and European funds that are kind of finishing up, I guess, their deployments. And they've got a strong track record. And I guess, is there any particular strategy or insights you can give us as to how you hope to raise the successor funds there?



Hopefully, that gives you some color, Chris.

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Curtis L. Buser

Chief Financial Officer, The Carlyle Group, Inc.

Hey, Chris. Hey, good to hear your voice. And thank you for the question. So, look, I am very proud of my partners and especially in the buyout space, in the private equity space, long, very successful track record, done a lot of great stuff over the years and fully eager to take advantage of opportunities as they are in the current environment. And so I think there's going to be some really neat deals done here in the near term. And I think that creates some just tremendous opportunities also in terms of encouragement from fundraising.

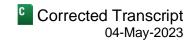
But look, it's a tough fundraising environment and particularly in buyout funds. And so, based on what we see today, we think in the aggregate across all of the different buyout funds, they're going to be somewhat smaller, some may be a little bit the same, some may be – but in the aggregate, the dollars are going to be lower than what the predecessors were. We still think this is a very good business for us. We can do a lot.

What I'm really encouraged about is the underlying portfolio. And the portfolio has really done well. Revenues are up across the PE space, about 12% over the last 12 months. EBITDA continues to grow up just shy of 10%. Margins have held up strong. From a financing perspective, there's no major issues in the PE space. Over half of the debt across the portfolio was fixed or hedged and roughly 95% of the debt has maturities in 2025 or later.

And that's all really important because it tees us off to really kind of generate the types of returns that we've done in the past and makes me very encouraged about the \$4 billion of net accrued carry on our balance sheet and how we turn that into cash in the coming years. It'll be a little slow this year, but we feel really good about that \$4 billion. And we're giving capital back to our LPs. Obviously, it's helpful and is what our teams are very much focused on.

Chris Kotowski Analyst, Oppenheimer & Co., Inc. Okay. Yeah. Thank you. That's it for me. **Harvey Mitchell Schwartz** Chief Executive Officer & Director, The Carlyle Group, Inc. Thanks, Chris. Operator: Thank you. Our next question comes from the line of Rufus Hone of BMO Capital Markets. Your line is open, Rufus. Rufus Hone Analyst, BMO Capital Markets Corp. (Canada) Hey, good morning. Thanks very much. So wanted to come back to the... Harvey Mitchell Schwartz Chief Executive Officer & Director, The Carlyle Group, Inc. Good morning.

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Rufus Hone

Analyst, BMO Capital Markets Corp. (Canada)

Good morning. Wanted to come back to the insurance transaction with Lincoln. Can you speak to how competitive that deal was and then can you help us with what the FRE contribution from this deal might be and how quickly do you expect to be able to migrate the 20% of general account assets into Carlyle Group Funds and hit the full FRE run rate contribution you expect there? Thank you.

Curtis L. Buser
Chief Financial Officer, The Carlyle Group, Inc.

Rufus, look, I'm a little censored on some of these components. We're also dealing with a public company as the seller. So I'm going to be a little careful in terms of how I answer this. But this sets us up real nicely for growth, particularly in 2024. I think the transaction, very carefully negotiated, I think our team worked really closely with the seller. I don't want to speak too much in terms of how competitive, but we were uniquely positioned to be able to do the transaction and especially something of this size and complexity and really solving the needs of all parties. And so I feel good about that.

The amount that will directly come into our funds, some of it as quick as this year assuming – once we get – obviously, we got to get it closed first. But you can kind of think of that mostly over a two to three year period. But the one thing I will say is Fortitude has been pretty aggressive in terms of migrating stuff pretty quickly, exclusive of this already at \$9 billion committed or invested into Carlyle strategies and looking to do the same

First and foremost, though, we're motivated through our fee arrangement to make sure that Fortitude does well and that we're a good advisor to them. Regardless of whether that comes directly in the Carlyle product or into other types of assets, we're seeking to help them perform really well. Thanks, Rufus.

Operator: Thank you. Our next question comes from the line of Kenneth Worthington of JPMorgan. Your line is open, [ph] Ken (00:40:10).

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group, Inc.

Good morning, Ken.

Kenneth B. Worthington

Analyst, JPMorgan Securities LLC

Hi. Yeah. Good morning.

Curtis L. Buser

Chief Financial Officer, The Carlyle Group, Inc.

Kenneth B. Worthington

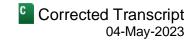
Analyst, JPMorgan Securities LLC

I wanted to sort of extend on insurance. We're seeing a much greater integration of insurance in alternative asset managers and there's some different approaches that your peers have taken to growing insurance. So you

managers and there's some different approaches that your peers have taken to growing insurance. So you mentioned that there's opportunities to grow here. Where does insurance or the insurance opportunity fit in your priority stack for Carlyle growth? And do you think Carlyle has the credit breadth to sort of maximize this

Hi, Ken.

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insurance opportunity? And for Carlyle, Fortitude seems to be the focus of the strategy here. Does that focus on one insurance company really make sense? Or to get big, do you need to broaden out the presence? So bunch there, but thank you.

Curtis L. Buser

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Chief Financial Officer, The Carlyle Group, Inc.

Hey, Ken, I'll start and Harvey can add in. So, first, we serve a number of insurance investors. Look, we're an investment advisor. We're not an insurance company. And so, Fortitude, obviously, because of our history or strategic investments with them and with our partners, that's why we tend to, in these calls, emphasize that. But there's a number of insurance companies that our credit team is routinely working with for a number of products.

The growth in our Credit business has been fantastic. We've doubled FRE there, doubled the AUM. Mark Jenkins and the team have just done a super job there. And they're very much focused on the insurance channel and taking advantage of it and so doing a lot there. And so, again, you want to be always thinking about how to grow the business and grow it in a disciplined, profitable way and they're doing just that.

In terms of Fortitude itself, I think, as it continues to scale, I think we'll also see more steadier flows of investments coming off of that. And I think that that also will help Carlyle from a growth and planning and getting things coordinated. But I like where we are. I like it kind of the breadth and I like kind of the relationship we have with Fortitude. And again, Fortitude has a very deep pipeline of other opportunities and it'll pursue that. And from a Carlyle perspective, we're here to support them. They're a separate company, and there's other investors we work with. Now, Harvey, do you have anything to add to that?

Harvey Mitchell Schwartz

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Chief Executive Officer & Director, The Carlyle Group, Inc.

No, I think Curt covered it very well. I would just say, again, in my first 80 days or so of being here, it's clearly obvious the strategic power of being an investor in Fortitude and it's alignment with the firm and the growth of our Credit business. And so, again, it's very high on the priority list, but there are a lot of good opportunities. This is one of them.

Kenneth B. Worthingt	0	r	1
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Analyst, JPMorgan Securities LLC
Okay. Great. Thank you.

Harvey Mitchell Schwartz

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Chief Executive Officer & Director, The Carlyle Group, Inc.

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Thank you.

Curtis L. Buser

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Chief Financial Officer, The Carlyle Group, Inc.

Thanks Ken.

Operator: Thank you. Our next question comes from the line of Adam Beatty of UBS. Adam, your line is open.

Adam Q. Beatty

Analyst, UBS Securities LLC

The Carlyle Group, Inc. (CG) Corrected Transcript Q1 2023 Earnings Call 04-May-2023 Thank you. Thanks very much. Harvey Mitchell Schwartz Chief Executive Officer & Director, The Carlyle Group, Inc. Hey, good morning, Adam. Adam Q. Beatty Analyst, UBS Securities LLC Good morning. Welcome to Harvey. Harvey Mitchell Schwartz Chief Executive Officer & Director, The Carlyle Group, Inc. Thank you. Adam Q. Beatty Analyst, UBS Securities LLC Appreciate you're taking all these questions. I want to follow up on the valuation gap and appreciate all your thoughts so far this morning. But just from the angle of perception, I was wondering if there's anything that you've been hearing in your discussions with LPs or investors in the stock or even sell side or what have you. That's just a misperception where you're already starting to think, hey, this is something where we're actually not the way we're perceived and we just have to correct that? Thanks very much. Harvey Mitchell Schwartz Chief Executive Officer & Director, The Carlyle Group, Inc. No, I don't think there's anything we have to correct. I guess I would say it like this. When I talk to LPs, I've talked to LPs all around the world, I think it's just crystal clear the brand is way more powerful in the valuation right now. And so that's why I say we just have to close that valuation gap. Brand is incredible, and so we just have to work with our teams, we have to execute, we have to grow this opportunity set that Curt and I have been talking about. But the brand is great, and it's disproportionate to the valuation, and the valuation just needs to be as great as the brand. Adam O. Beatty Analyst, UBS Securities LLC Got it. Thanks very much. Appreciate it. Harvey Mitchell Schwartz Chief Executive Officer & Director, The Carlyle Group, Inc. Sure. Operator: Thank you. Our next question comes from the line of Ben Budish of Barclays. Your question, please, Ben Benjamin Budish Analyst, Barclays Capital, Inc.

Hi there. Thanks so much for taking the question. And, Harvey, great to meet you...

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Harvey Mitchell Schwartz Chief Executive Officer & Director, The Carlyle Group, Inc.	A
Hey, Ben.	
Benjamin Budish Analyst, Barclays Capital, Inc.	Q
if not over the phone here.	
Harvey Mitchell Schwartz Chief Executive Officer & Director, The Carlyle Group, Inc.	A
You too.	
Benjamin Budish Analyst, Barclays Capital, Inc.	Q

You guys have talked a lot about the kind of big opportunities that you see going forward. And I think on the last call, I think, Curt, you mentioned that you see an opportunity for the company to grow FRE sort of well into the double digits over the medium term. I wanted to ask you about how you see private equity fitting in there. Just given the sort of step down and expectations for the current vintage of funds, what are kind of your longer term thoughts on how that business can grow from an AUM and FRE perspective?

Curtis L. Buser

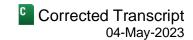
Chief Financial Officer, The Carlyle Group, Inc.

So, Ben, look – hey, good to hear your voice and hear the question. Look, our Private Equity business is in a long, long track record. Not every vintage is going to necessarily be up. And keep in mind that our Private Equity business is fairly diverse. So, look, you've got our Real Estate business, world-class business, see that we can kind of clearly grow in there. We have an Infrastructure/Natural Resources business that we're focused on in terms of helping it to grow. And I think that there'll be other – and our growth capital business has also done exceptionally well, some fantastic returns.

And, look, I think there will be other products that we'll also be exploring and taking advantage of. And from a private wealth standpoint, while still infancy in terms of where things are, a lot of the private wealth channel would love to have access to those product sets. And so that's something for us to explore more in the longer term. But it's out there. So I think that there's lots of ways that that business can continue to grow. And look, we'll also be disciplined and smart in terms of making sure we have the right resources, set the right way really with the asset base and so very optimistic about it.

Benjamin Budish Analyst, Barclays Capital, Inc.	Q
I appreciate the color. Thanks.	
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Curtis L. Buser	Δ
Chief Financial Officer, The Carlyle Group, Inc.	
Thanks, Ben.	

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Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group, Inc.

Thanks.

Operator: Thank you. Our next question comes from the line of Chuma Nwankwo of Morgan Stanley. Please go ahead, Chuma.

Chukwuma L. Nwankwo Analyst, Morgan Stanley & Co. LLC

Hey, good morning. Thanks for taking the question and welcome, Harvey.

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group, Inc.

[indiscernible] (00:47:43)

Chukwuma L. Nwankwo

Analyst, Morgan Stanley & Co. LLC

I'm standing in for Michael – hi, there. Nice to meet you, too. I'm standing for Michael Cyprys, by the way. He's just tied up in another call. Just I wonder if I could go back to the Fortitude transaction and talk a little bit about the opportunities you see there with the transition of the general account assets. I think, in the past, you previously talked about a sort of mid-teens and now you're talking about 20% here so nice to see that, I guess, [ph] better off than (00:48:05) expectations.

So I guess the question is, how should we think about that 20%? Would you be disappointed if you didn't do better than that? And also going back to the question about white space, what products do you see those assets potentially transitioning to that you have today? And where could there be potential for more product development to increase the scope for more of these insurance assets to be deployed? Thank you.

Curtis L. Buser

Chief Financial Officer. The Carlyle Group, Inc.

So let me start on that. So on the 20%, I think you're assuming a degree of - more degree of precision than how we think about it. So it's roughly 20%. Obviously, we're looking to assist Fortitude in doing what's right for Fortitude. And if that can be more, then we'll collectively work together for it to be more. If it should be a tad less, that's also the right answer. So we're looking to work with Fortitude on that. The assets that can come in, look, I mean we're going to be, again, what's the right way to approach that and think [indiscernible] (00:49:08) previously said, I think we can start to transition some of that quickly and some of it will take a longer period of time. But it's about really kind of helping them from that perspective.

And so that's really kind of – and we've talked about the other products in terms of white space and from a longterm growth perspective, I just reiterate that we can see 2024 and following years really being a return to growth in FRE and continue to feel good about our \$4 billion of net accrued carry and how that will generate and provide higher distributable earnings on a longer term basis. So, hopefully, that addresses your question.

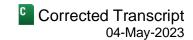
Chukwuma L. Nwankwo

Analyst, Morgan Stanley & Co. LLC

Thank you for the color. Appreciate it.

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Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group, Inc.

Thank you.



Operator: Thank you. I would now like to turn the conference back to Daniel Harris for closing remarks. Sir?

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group, Inc.

Hey, everyone again. On behalf of the team here, Curt and Dan and everyone, just want to thank you for participating in the call. Again, for those of you I know, great to catch up again. And for those you I haven't met yet, I look forward to catching up with you shortly. Again, thanks for your interest. Have a great day.

Operator: This concludes today's conference call. Thank you for participating. You may now disconnect.

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