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# The Carlyle Group LP (CG)

Q4 2018 Earnings Call

#### CORPORATE PARTICIPANTS

Daniel F. Harris

Managing Director & Head-Public Investor Relations, The Carlyle Group LP

Glenn A. Youngkin

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

Curtis L. Buser

Chief Financial Officer, The Carlyle Group LP

Kewsong Lee

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

#### OTHER PARTICIPANTS

Craig Siegenthaler

Analyst, Credit Suisse Securities (USA) LLC

Kenneth B. Worthington

Analyst, JPMorgan Securities LLC

Patrick Davitt

Analyst, Autonomous Research US LP

William Katz

Analyst, Citigroup Global Markets, Inc.

Michael Carrier

Analyst, Bank of America Merrill Lynch

**Brent Dilts** 

Analyst, UBS Securities LLC

Alexander Blostein

Analyst, Goldman Sachs & Co. LLC

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

Robert Lee

Analyst, Keefe, Bruyette & Woods, Inc.

#### MANAGEMENT DISCUSSION SECTION

**Operator:** Good day, ladies and gentlemen, and welcome to The Carlyle Group Fourth Quarter 2018 Earnings Call. At this time, all participants are in a listen-only mode. And later, we will conduct a question-and-answer session, and instructions will follow at that time. [Operator Instructions]

I would now like to hand the call over to Daniel Harris, Head of Investor Relations. You may begin.

#### Daniel F. Harris

Managing Director & Head-Public Investor Relations, The Carlyle Group LP

Thank you, Amanda. Good morning, and welcome to Carlyle's fourth quarter 2018 earnings call. With me on the call today are our Co-Chief Executive Officers, Kewsong Lee and Glenn Youngkin; and our Chief Financial Officer, Curt Buser. 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 reconciliations of these measures to GAAP in our earnings release.

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.

Early this morning, we issued a press release and detailed earnings presentation with our fourth quarter results, a copy of which is available on our Investor Relations website.

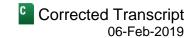
Let me summarize our results for the quarter. We generated \$175 million in fee-related Earnings in the quarter, which included several one-off items, which we'll discuss in our prepared remarks, and are detailed in our release; and \$211 million in distributable earnings in the fourth quarter, with DE per common unit of \$0.57 in the quarter and DE per common unit of \$1.78 for 2018.

Our fourth quarter distribution will be \$0.43 per common unit and we will have distributed \$1.34 per common unit for 2018. As we indicated previously, we will focus our non-GAAP discussion on distributable earnings and feerelated earnings and we'll no longer report economic income as part of our results. However, for the last time, economic income for the fourth quarter was a loss of \$97 million and for 2018 was a gain of \$455 million. ENI per unit was a loss of \$0.30 per unit for the fourth quarter and income of \$1.11 per unit for 2018.

Today, Glenn is going to begin with a discussion of 2018 and our current position, Curt will go through our results and provide some forward-looking commentary, and then Kew is going to wrap up by discussing where we are heading in 2019. To ensure participation by all those on the call, please limit yourself to one question and one – and then return to the queue for any additional followups.

With that, let me turn it over to our co-CEO, Glenn Youngkin.

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#### Glenn A. Youngkin

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

Thank you, Dan, and good morning, everyone. 2018 was a year of strong growth for Carlyle filled with important accomplishments that provide great momentum across our business for 2019. On our first call as Carlyle's co-CEOs last year, Kew and I mentioned the key areas that we would focus the firm on in 2018, investment performance, growing the firm, and driving our financial results with a particular focus on FRE.

I'm pleased to report that Carlyle performed extremely well against those goals. In fact, we progressed faster than we expected. First, we said that the Carlyle teams would focus on driving our fund's investment performance. For the year, across all four of our segments, our funds, which appreciated 9% for the year, had strong performance, especially when compared to any relevant public index, which would have been down substantially for the year. Kew will expand further on our performance. But this kind of investment result illustrates that the Carlyle teams often do our best work during volatile times. Second, we said that Carlyle would continue to march towards the \$100 billion fundraising target that we set back in 2016.

At this point, we are 90% of the way towards that goal and we expect to raise approximately \$20 billion of new capital during 2019, pushing well past our target. We've raised significant new capital in each of our segments, scaling some of our most important funds by 30% to 40% while maintaining fee economics. Our fundraising success fuels our investment activities, de-risks our management fee streams going forward and drives fee-related earnings and margin growth.

Third, we told you that we would focus on building global credit. The bottom line is, this segment had a very good year and we continue to allocate resources to build this business. While credit cycles are bound to occur, what remains clear is that our investors want more exposure to Carlyle's credit strategies. Our Global Credit business continue to expand in 2018 with management fees growing 27% and fee-earning AUM increasing 29%.

We closed our acquisition of Carlyle Aviation Partners, and this segment continues to gain momentum. Finally, we said that Carlyle would focus on fee-related earnings and that this important stream of earnings would grow significantly. Throughout 2018, you have consistently heard us reaffirm our focus on delivering higher and more sustainable FRE. Throughout the year, we raised our target that we had set at the beginning of the year and, in 2018, the firm delivered our best FRE year yet. As we look ahead into 2019, Carlyle's strong 2018 provides both momentum and substantial horsepower both at the firm and our investment funds for us to take on the challenges and opportunities that 2019 will present.

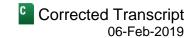
Let me hand things over to Curt Buser to take everyone through our results.

#### Curtis L. Buser

Chief Financial Officer, The Carlyle Group LP

Thanks, Glenn. I'm going to summarize our results, key metrics and highlight factors that contributed to our particularly strong fee-related earnings this quarter, then I will wrap up with our current outlook for the year before handing the call over to Kew. Fee-related earnings were \$175 million in the quarter and \$350 million for 2018, significantly higher than the guidance we provided last quarter. This result reflects great execution throughout the year. Fourth quarter fee-related earnings was positively impacted by several one-off results, which we spell out in more detail in the earnings release. The most significant of these are the recovery of \$32 million in commodity-related insurance in addition to elevated transaction and catch-up management fees in excess of our normal quarterly run rate.

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In the beginning of the year, we said Q4 run rate FRE would be \$75 million. We then revised that target to \$85 million. Even after excluding the insurance recoveries and other favorable variances from the \$175 million in FRE this quarter, we generated \$90 million in sustainable run rate fee-related earnings.

Management fees grew significantly over 2018 as a result of our growth in fee-earning AUM. Fee-earning AUM of \$160 billion is up 28% since last year and fourth quarter management fees of \$391 million increased 35% compared to the year-ago period. For the year, management fees of \$1.4 billion increased 26%, a much faster growth rate than the 13% increase in annual cash compensation, which helped drive FRE margin expansion.

With regards to compensation, about half of the 2018 increase in cash compensation was attributable to investments in growing our platform, including our Global Credit business. Managing unitholder dilution is also a key objective, and we intend to grant less in equity-based compensation and continue to repurchase units opportunistically.

In fact, based on current equity grants, we expect equity-based compensation to decline in 2019 compared to 2018. Equity-based compensation expense was \$43 million in the fourth quarter, lower than recent quarters. Furthermore, we repurchased 1.1 million units during the quarter for about \$20 million, resulting in total unit repurchases in 2018 of 4.9 million units for \$107 million.

And our board of directors reset our authorization to \$200 million to repurchase units effective January 1, 2019. We posted another year of exceptional fundraising in most of our large strategies, which helped drive management fees, fee-related earnings, and assets under management to record levels.

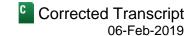
During the fourth quarter, our fifth Europe buyout fund reached nearly €6 billion in commitments. Real Assets raised \$2.6 billion including the first close of our second-generation international energy fund, as well as follow-on closes in NGP, infrastructure, and Europe real estate. In Global Credit, we held a final close in our second [ph] BDC (00:10:07) at \$1.2 billion and priced over \$1 billion in new CLOs. In Investment Solutions, Metropolitan Real Estate closed its latest secondary program at \$1.2 billion of commitments well exceeding its target.

Now, let me highlight some key metrics [audio gap] (00:10:26) quarter. Specifically, we raised \$7.1 billion in new capital and raised over \$33 billion for the year, putting us within \$10 billion of our \$100 billion fundraising target. We invested \$11.5 billion across our carry funds with two large investments in Corporate Private Equity responsible for approximately half of the total.

For the year, we invested a record \$22.4 billion into our carry fund similar to 2017. We realized proceeds of \$4.9 billion in our carry funds during the quarter and \$24 billion over the last 12 months. This is only slightly lower than our long-term average. Our carry fund portfolio depreciated 2% in the quarter, but appreciated 9% over the last year. Fourth quarter depreciation was driven by weakness across most local markets, but underlying performance of our portfolio companies remains solid.

Before I turn over to Kew, a few forward-looking comments. First, we now expect 2019 annual realized performance revenues to be generally in line with 2019 with realized carry positioned to grow thereafter, though market conditions could drive variance in any period. While our business continues to generate significant realized proceeds, a large portion of recent [audio gap] (00:11:57) funds of premium carry, but not yet taking cash carry. Further, it should come as no surprise that current volatility could dampen ex-activity at least for the first half of 2019. Keep in mind, we have \$1.7 billion in net accrued carry that we would expect to grow and ultimately realize with strong fund performance.

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Second, we expect to continue to grow fee-related earnings and FRE margin off of the fourth quarter run rate of \$90 million. We currently expect full-year FRE to be about \$400 million for 2019, a 26% increase from 2018 exclusive of the insurance recoveries. FRE margins are expected to approximate 25% during 2019, up from an adjusted 22% in 2018.

With that, let me turn it over to Kew.

#### Kewsong Lee

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

I want to devote most of my commentary to our priorities moving forward, but first let me say a few words about the implications of today's investment environment, which remains challenging and competitive.

High levels of dry powder in our industry combined with slowing global growth in volatile markets could affect both investment pace and realizations in 2019. Our public market valuation levels have decreased throughout the world. The private equity markets still exhibit elevated valuations, although in some segments in markets, particularly international, there are indications that valuation multiples may have peaked last year.

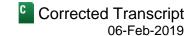
With respect to the private credit markets, recent volatility has enabled several investing strategies, particularly in credit opportunities and distressed to become relatively more attractive than they've been in the recent past. While public market volatility could affect portfolio marks and accrued carry balances in the short term, we believe our \$142 billion of in-the-ground invested assets are well-positioned. This broad global portfolio of high-quality assets is diversified by fund, industry sector, asset class, and region. And as such, over the longer term, we do not expect the firm's aggregate amount of realizations to be materially impacted by short-term volatility. Furthermore, our funds have \$75 billion of available capital that positions us well to take advantage of recalibration of valuations that could occur across Private Equity, Credit, and Real Assets over the next several years, especially if current volatility persists and growth slows down.

Now, looking ahead, we are focused on three major priorities. First, we will work hard to improve our corporate financial performance and, specifically, fee-related earnings operating results. We are on the right track, but considerable work and opportunities remain. We expect to drive FRE by, first, scaling up existing fund platforms, thereby creating incremental earnings leverage. Second, driving growth in Global Credit, which we believe will ultimately operate at a higher normalized FRE margin than our other segments. Third, making accretive external acquisitions and investments, better adjacencies and a fit with our platform such as Fortitude Re and Carlyle Aviation Partners. And fourth, controlling and managing our expenses carefully. As we stated multiple times last year, we remain focused on building sustainable and growing FRE over the long term. And this will be a multi-year effort.

Our second priority, we will continue unitholder friendly actions that should improve the value of our units over time. Examples include managing our equity-based compensation more tightly, reducing unit dilution from historical levels, focusing on appropriate metrics to report, which drove our recent elimination of ENI, and reinvesting our earnings back into the business in appropriate initiatives to drive growth.

Finally, our third priority for the year continued generating strong investment performance for our fund investors. Notably, in 2018, our Corporate Private Equity funds produced about 1700 basis points of relative outperformance versus global equity indices. This result was driven largely by the solid operating performance of our private equity portfolio companies, which in aggregate delivered year-over-year EBITDA growth of 9% on a global basis.

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The bottom line is our investment teams in a very challenging market across a very wide variety of assets and geographies substantially outperformed relevant benchmarks. We intend to continue developing our human capital and platform capabilities to help our deal teams create meaningful operating improvements at our portfolio companies.

Combined with deep industry sector knowledge and global reach, we have the ability to transact larger and more complex deals than ever before. Our investment platform is as strong as it has ever been and we believe we are well-positioned to navigate the environment ahead, not only to manage our substantial assets in the ground but to find interesting new opportunities to drive investment deployment and returns in the future.

So, stepping back and summarizing, for 2019, we are very focused on improving and growing fee-related earnings, continuing to emphasize unitholder friendly actions, and driving attractive investment performance across our broad and global platform. Before I turn the call over to the operator, I want to take a moment to thank all of our unitholders for their support in 2018. We have a lot of momentum as we turn to 2019 and we look forward to growing Carlyle together.

With that, we are now ready for questions.

### **QUESTION AND ANSWER SECTION**

**Operator**: Thank you. [Operator Instructions] Our first question is from the line of Craig Siegenthaler of Credit Suisse. Your line is open.

Craig Siegenthaler

Analyst, Credit Suisse Securities (USA) LLC

Thanks. Good morning, everyone.

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

Good morning.

Craig Siegenthaler

Analyst, Credit Suisse Securities (USA) LLC

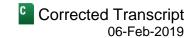
Hey. Good morning, Kew. And just before I start, I just want to say that we really appreciate the focus on FRE here and the migration away from ENI. But my question for you guys is on the Credit business. What are your plans for the new Aviation business? What is your target client segment and how you package these assets, and I think they're probably mostly leases but let me know if I'm wrong there. And then, most importantly, how do you expect this \$6 billion business to ramp?

Kewsong Lee

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

Hey, Craig. Thanks for your question. I appreciate that. We appreciate your comment upfront. Taking a step back, first of all, it's very early days with the Carlyle Aviation Partners and I think the bigger picture message is to say things are very much on track. We gave you guidance last year that we think this is going to add \$10 million of FRE this year incrementally to our results and we continue to believe that that is guite achievable.

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We are in the process right now of figuring out what new funds we could launch from this platform. It does have very interesting intermediate fixed income-oriented – fixed rate-oriented product that we believe could be quite interesting to certain segments in the market. And as you realize, this is not a financing business. This is very typical of the closed and committed capital funds business that we are very good at understanding how to manage and raise.

So, we are in the process of onboarding this acquisition right now. Things are going terrifically well. And it very much extends our platform and offers investment strategies that we think are going to be attractive to our investor base.

Craig Siegenthaler

Analyst, Credit Suisse Securities (USA) LLC

Thank you, Kew.

Operator: Thank you. Our next question is from the line of Ken Worthington of JPMorgan. Your line is open.

Kenneth B. Worthington

Analyst, JPMorgan Securities LLC

Hi. Good morning. Maybe for Curt, can you talk about the non-cash comp decision? Help us identify the magnitude of decline you might expect in the non-cash comp in 2019 versus 2018. And then maybe to go along with this, I assumed less non-cash comp means more cash comp and given non-cash comp, thus should we see cash comp go up or the non-cash comp goes down? Thanks.

Curtis L. Buser

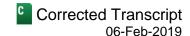
Chief Financial Officer, The Carlyle Group LP

Ken, it's Curt. Thanks for the question. Look, we're focused first and foremost was related to equity-based comp on managing dilution. So, what we're trying to do and what we fully expect to do is we're going to grant less in the way of units. You already see some of that coming through just in the normal kind of period of \$43 million of equity-based comp here in the fourth quarter, lower than the annual \$180-plus million that we had for the year. So, you can see – I think you will see a real step down this coming year in 2019. But please keep in mind that vesting [ph] dry (00:21:47) equity-based comp and so prior grants will continue to vest over 2019. And so that step down, as we step down units, will take a little bit of time to come to our numbers.

On cash-based compensation. First and foremost, you couldn't tell from our remarks we're focused on FRE – growing FRE and FRE margin. So, obviously, we're focused on cash-based compensation. So, on cash-based compensation, if you unpick our numbers, we had about 13% increase in cash-based compensation. About half of that was from the base business. You say why, well, there's market adjustments, there's promotions and there's a few hires that we make just to kind of sustain the growth in the base business. So, then, what you can expect on top of that for 2019, first and foremost, we're layering in Carlyle Aviation. So, you're going to see some more comp just because of that acquisition.

And then, we're fully thinking that we're going to continue to invest in our Credit business and that Credit business is really something that's going to help us drive FRE long term because it should give higher margin than the rest of the business. But here in 2019, we'll continue to add to that platform and that could cause some further increase in cash comp. But trust me, we're focused on driving efficiency throughout the firm and managing total cash comp, part of our strategy in terms of ultimately really trying to drive FRE.

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Analyst, JPMorgan Securities LLC

Okay, got it. Great. Thank you very much.

Curtis L. Buser

Chief Financial Officer, The Carlyle Group LP

Thanks, Ken.

**Operator:** Thank you. Our next question is from the line of Patrick Davitt of Autonomous Research. Your line is open.

#### Patrick Davitt

Analyst, Autonomous Research US LP

Good morning. Thanks. Appreciate all the detailed 2019 guidance. On the \$400 million fee earning guidance, should we think about that as kind of the absolute baseline that could likely be higher in the same way that your original guidance for 4Q was at \$75 million and ended up being \$90 million?

Curtis L. Buser

Chief Financial Officer, The Carlyle Group LP

Patrick, it's Curt. Thanks for that. Look, just like kind of level setting back. Remember, we started 2018 was not a very impressive FRE amount on a quarterly basis, but we gave guidance to get up to a \$300 million run rate really as we would end 2018 at the \$75 million. We then increased that to \$340 million. That was the \$85 million guidance and we're ending the year at \$360 million. Fully think that we can ramp that \$360 million on an annual basis to \$400 million. And you're right. There are contingency items that can affect that.

And generally, I generally think about some of the contingencies more or less positive. Could we have very high levels of transaction fees? Possible, but I wouldn't bank on it. Could there be some outsized catch-up management fees? Possible, but I wouldn't bank on it. Could we exceed our fundraising goals? Possible. Could our acquisitions of Aviation and our investment in Fortitude do better than we predict? Possible. And there's also some other contingencies that could go the other way. I hope that those don't happen and I think that they're few in number. But I think the \$400 million is the right way to think about what we'll do in 2019 for the full year.

Patrick Davitt

Analyst, Autonomous Research US LP

Thank you.

Operator: Thank you. And our next question comes from the line of Bill Katz of Citigroup. Your line is open.

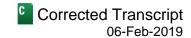
William Katz

Analyst, Citigroup Global Markets, Inc.



Okay. Thank you very much and also thanks for the disclosure, and I think the move on to stock-based comp makes sense as well. Just staying with the FRE discussion for a moment because it certainly seems like your franchise is transitioning from a period of strong growth to now maybe more of a profit focus. So, when you think about where that FRE margin can go and, Kew, I think you said it's going to take you a couple years till it ticked off three or four different things that you're focused on.

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What's the right benchmark to be thinking about in terms of the margin? Obviously, you're improving, but you're still well below peers. But your business model may not fully allow for comp margins. But what do you think is the right sort of run rate FRE margin if you look out to [indiscernible] (00:26:05) the other side of some of these initiatives?

Curtis L. Buser

Chief Financial Officer, The Carlyle Group LP



Hey, Bill, it's Curt. I'm going to start and then Kew or Glenn may add on to my comments. So, first, thanks for your question. So, let's think about where we've been from an FRE perspective and FRE margin. I just gave you the walk on FRE, but if you think about margin, for several years, we were operating in the low- to mid-teens on FRE margin.

We didn't really kind of started to give guide to kind of say think low 20s. And it is – then, we wrapped up 2018, if you back out the insurance proceeds, we generated 22% FRE margin in 2018. We're now shooting to get up to mid-20s, 25%, for all of 2019. I really like the trajectory that we're on. I feel good about what we're doing. I like where we're going. We're very aspirational about being able to continue to grow this business. If hopefully you took one message out of this, we're focused on FRE.

So, think more, but we're not yet in a place where I'm going to give you more guidance on 2020 or 2021. [ph] I want to (00:27:17) get through 2019 first.

William Katz

Analyst, Citigroup Global Markets, Inc.



Thanks.

Curtis L. Buser



Chief Financial Officer, The Carlyle Group LP

Thank you.

**Operator**: Thank you. Our next question is from the line of Mike Carrier of Bank of America Merrill Lynch. Your line is open.

Michael Carrier

Analyst, Bank of America Merrill Lynch



Thanks, guys. Just given the focus and the shift to the – Curt, you gave some of the color on the realization activity for 2019. I guess just when you think about the portfolio, like the age, how the performance is stacking up and assuming whatever normal markets are. But just when we think about 2020 and beyond, where are we may be in that realization cycle? And what could we expect in terms of ramp-up going forward?

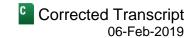
Curtis L. Buser

Chief Financial Officer, The Carlyle Group LP



Thanks, Michael. Let me try to give you a few comments and underlying metrics to look at. Page 11 of the earnings release I think is helpful here. So, if you look at the total portfolio, there's \$142 billion remaining fair value in the ground. \$79 million of that is in our carry funds and 24% of the \$79 million is over 4 years old. So, I would consider that, all else being equal, kind of ready or otherwise right.

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Another key metric is \$1.7 billion of net accrued carry down a tab from a year ago, but really feel good about the underlying portfolio. As we look forward, gave very clear guidance that I think 2019 will probably at least based on the growth of [ph] bulk (00:29:05) today look a lot like 2018. Now, things can obviously shift. The key point here is we're trying to get across as our realizations remain really good. So, we're continuing to exit. But a lot of those realizations are coming from the funds we've just finished investing. And those funds, while they're accruing carry and are nicely set up, aren't yet at a place where we're prepared to take cash carry. When those start to trip in and they could start to trip in end of 2019 or into 2020, that's when I think you'll start to see a big uplift. Yet again, I feel real good about the total amounts over a longer period of time. It's the short period here in 2019 where it's really hard to call exactly in terms of exactly how that carry kind of plays out. But the numbers I gave you at the start, \$1.7 billion, I think that number's going to grow is really kind of what helped us going forward.

Kewsong Lee

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

Yeah. Hey, Mike, this is Kew, and let me just add a little bit of color. In addition to that \$1.7 billion of accrued carry Curt pointed out, clearly, a lot of that value is building up in funds that are not yet taking carry. And so, as a result, as those funds mature, expect to see those realizations result in nice distributions. But I think the bigger picture is our funds are growing in scale 30% to 40% larger than they've been historically. We have more dollars in the ground in a high-quality portfolio than we've ever had before.

Assuming our performance continues the way we believe it can, there's no reason not to believe that over the longer period of time and, of course, it's very difficult to predict quarter-to-quarter given market, given volatility, just given that the pacing and the timing of how things work in our business. But over the longer term, given the step function increase in the size of our asset base that we have deployed in the ground, we should absolutely expect to see a much larger volume of realizations over that longer term.

Michael Carrier

Analyst, Bank of America Merrill Lynch

Okay. Thanks a lot.

Operator: Thank you. Our next question is from the line of Brent Dilts of UBS. Your line is open.

**Brent Dilts** 

Analyst, UBS Securities LLC

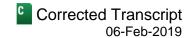
Hi. Thanks. Good morning, everyone. Could you provide some detail around how you expect the \$20 billion and 2019 fundraising to break down by segment? And how much of that you expect to be in next-generation funds versus new strategies?

Curtis L. Buser

Chief Financial Officer, The Carlyle Group LP

Brent, it's Curt. So, the \$20 billion that we're going to raise over 2019, a lot of that's going to come from the following the fund. First, our second-generation international energy fund. Next, our second long-dated private equity fund. We're also wrapping up our Europe buyout fund. You probably saw the announcement on our Europe technology fund. We'll be in the market with our next-generation Japan buyout fund. We have an infrastructure fund in the market. We have a credit opportunities fund in the market. Our Solutions business will be continuing to raise capital for its product set. Our CLOs will continue to do pretty much consistent with what – where we have been. And there's probably a handful that I have forgotten that Glenn or Kew can add to my list.

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#### Glenn A. Youngkin

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

Yeah. I think one thing — it's Glenn. One thing to just put into context is that our fundraising totals for any given year, and just remember over the course, particularly the last two years, we've raised over \$75 billion of new commitments to funds, really is reflective of the funds that we happen to have in the market in any given year. And as Curt just said, as we have finished the lion's share of our largest corporate private equity funds, Carlyle Europe should finish this year, Carlyle Asia finished last year, CP VII finished last year. We're beginning to see a shift of our fundraising weight towards the other segments.

Kewsong Lee

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

Yeah. And Brent, the only thing I would add, you specifically asked about existing versus new strategies. Of all the funds Curt mentioned, most of them are second or third or fourth generation funds. They are scaling up quite nicely. Of the funds that he mentioned that are first generation, that would be a credit opportunities fund. And I can't remember if he did or not, but our Global Infrastructure Fund is first generation and doing quite nicely as well.

**Brent Dilts** 

Analyst, UBS Securities LLC

Perfect. Thanks, guys.

**Operator**: Thank you. And our next question comes from the line of Alex Blostein of Goldman Sachs. Your line is open.

Alexander Blostein

Analyst, Goldman Sachs & Co. LLC

Thanks. Hey. Good morning, everyone. I'd like to go back to you guys just comment around deployment outlook. Glenn, I think in December, you talked about sort of widening bid-ask spreads between – for some of the larger transactions and maybe perhaps some of the smaller ones as well in the market given the rising market uncertainty. Obviously, there's been a lot of volatility things have rebounded a bit here. So, just wondering if you could give us an update on whether the buyers and sellers expectations are coming a little bit closer together and maybe perhaps a little more aligned in where you guys are thinking about your deployment would look like in 2019.

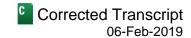
Glenn A. Youngkin

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

Perfect. Thanks. Alex. So, first of all, as Kew said in his comments, with the volatility in the public markets having had meaningful impacts on the public indices in the fourth quarter, we did not really see that big a change in the private markets during the fourth quarter, and that's the gap or the bid-ask spread that I'd mentioned to you when we were together in December.

What we see on a go-forward basis is a continued high-priced environment. Every asset is generally expensive. We do see potentially some reduction in purchase prices, as Kew said, in the international arena. I think, most important, however, is the way we approach investing. And Kew and I are going to tag team this a little bit. Let me just run through the kinds of things that we are seeing particularly in our infrastructure segment, in our energy segment and the real estate, and Kew is going to pick up a little bit in Credit and Private Equity.

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So, many of you may not have noticed over the course of the last year, but quietly we've been making a lot of great progress in our infrastructure business. And so those of you that live in New York City or use JFK will have noticed that we've been awarded the opportunity to completely redevelop Terminal 1, 2 and 3 at JFK. We recently were awarded the opportunity to partner with the Port of Corpus Christi to develop the first deep-water access crude export terminal in the United States.

And these kinds of investments really leveraged the big Carlyle platform capabilities to develop and create value. We're seeing the exact same thing in the energy world where many people see energy markets very volatile on the front end. We're seeing long-term opportunities to buy very good companies where we can drive operational improvement, and that's why you see the strong returns coming out of many of our energy funds.

And in real estate, one of the big shifts that our real estate team was very focused on over the last few years is shifting from GDP-driven real estate investment towards demographically driven real estate investment. And so, again, our real estate funds have been performing very well. We're very excited about the fact that the \$5.5 billion new Carlyle Realty Partners VIII that we closed this past year is moving into this market with a lot of dry powder and a lot of opportunity. Kew?

Kewsong Lee

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

A

Yeah. Hey, Alex. It's a good question and you've heard us say in the past our belief that if buyers do mark-to-market faster than sellers, and so there's a period of time that needs to happen for that recalibration to occur, I think it's fair to say our business is also a bit of a longer cycle, longer throughput business. And so, some of the deals that are transacting currently or in the recent past were a result of work that started many, many months ago or even in some cases a year or so ago. And so, we still are seeing on the Private Equity side higher valuations, meaning the valuation levels continue to remain high.

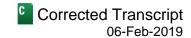
And that's why we continue to be very cautious in light of the current environment and want to make sure we're avoiding complacency because investment environment is challenging. Having said that, we feel very fortunate to have a huge amount of dry powder available given the success that we've had recently with our fundraising.

And all of our major funds are reloaded and we feel good about some of the opportunities that we're starting to see, whether it's very large businesses that we think are going to be resilient through the cycle such as the Sedgwick deal that we just announced or closed or businesses that can grow because they're disruptive like One Medical in the healthcare business.

Internationally in Private Equity, we do see valuations trending down, particularly in the Far East and perhaps maybe in Europe. But I think it's a little too early to tell whether or not deployment will pick up or not. As you know, in China, markets were down 25%, 30% last year and I think folks are still trying to figure out what that clearing level of valuation is in the private equity markets.

In the credit markets, and it's hard to generalize because there are so many strategies in credit, but clearly, volatility can be your friend and in credit opportunities and in distressed, we are seeing a lot more interesting deals than we otherwise would have seen a year ago because, quite simply, terms and conditions are improving. I don't have to tell you about the volatility that the leverage finance markets and the credit markets experienced late last year with a little bit of a rebound in the beginning of this year. But suffice it to say, buyers have become more discerning, terms and conditions are more attractive, and we feel there are some interesting opportunities moving forward for deployment in the Credit business.

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#### Alexander Blostein

Analyst, Goldman Sachs & Co. LLC

Great. Thanks for the detailed answer there.

**Operator:** Thank you. Our next question comes from the line of Brian Bedell of Deutsche Bank. Your line is open.

#### **Brian Bedell**

Analyst, Deutsche Bank Securities, Inc.

Great. Thanks. Good morning. Thanks for taking my question. Maybe just to focus on your comments, Kew, on the distressed part of that – of the Global Credit business. Given the opportunities that you might be seeing, can you talk about how you're feeling about building that out? And then, I think you mentioned earlier in the call, the demand is very robust for Global Credit products from the LP. So, maybe just to focus on that distressed part of that business, do you see enough opportunities there that you would be more aggressive in fundraising in distressed?

And then, just Curt, I think you mentioned FRE margins tend to be the strongest in Global Credit. Maybe if you can just comment on which parts of Global Credit you see the best FRE [ph] versions (00:40:46).

#### Kewsong Lee

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

Okay, Brian. So, let me expand your definition of distressed to both distressed and opportunistic because it's shades of grey and that can include special [indiscernible] (00:41:01) as well. We have, in the distressed side, a fourth generation fund called Carlyle Strategic Partners, \$2.5 billion I believe of – in the last fund raise, and it is performing exceptionally well, and it is starting to see even more opportunities than it has in the past. Not only are we seeing attractive training credits, but situations where we can take control of the equity via the debt and generate very attractive returns. You should assume that this business, which when supplemented with the fact that we put a lot of people on the ground recently with our credit opportunistic fund or credit opportunities fund, which is still fundraising. Combined, these teams are seeing a lot more opportunities now than they've ever seen before and, quite frankly, this is the benefit of us having patiently built this business over the past two years. We did not rush into the Credit business with a mentality of needing to make a big splash right away.

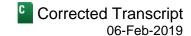
As you've heard me say on multiple calls, we are building this business over the long term. We are – our tendency is going to be to do it organically. We want to put great teams on the ground and we have an investment ethos, which we're building in order to generate great results. And I think the benefit of that patience is now we have a lot of dry powder in both of these areas and the opportunity set has expanded because of the volatility that we're seeing. So, hopefully, that gives you more color in terms of the fact that we do believe there are really interesting opportunities that are emerging and will continue to emerge in this style of credit investing.

#### Curtis L. Buser

Chief Financial Officer, The Carlyle Group LP

Brian, it's Curt. Let me just add along to Kew's comments, just give you a couple numbers. First, when you look at the FRE results for our Global Credit business, you just going to keep in mind that there's a lot of other stuff going on in there. So, in 2017, we still had kind of a wrap-up of the hedge funds, the commodities business and there were insurance recoveries in 2017.

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In 2018, you have a lot of building going on in the new business. Now, just making some simple numbers. In 2017, our fee-related earnings in Global Credit when you back out the \$68 million of insurance recoveries or about \$14 million, and when you do the same math in 2018, it's [ph] \$40 million (00:43:44). Not huge numbers by themselves, but 185% increase year-over-year in what we've achieved.

Second point, our CLO business is probably our strongest FRE margin business, but it has been masked by both hedge funds in the past and our current buildup. So, that business, together with the rest of it, is very attractive. I fully expect margins in our Global Credit business once we get it scaled properly to really run in the 30% to 40% range minimum for that business. So, I think that will then give us a good balance for the rest of the firm as we go forward. Hopefully that helps.

**Brian Bedell** 

Analyst, Deutsche Bank Securities, Inc.

Yeah, it does. And that 30% to 40%, is that after 2019 or is that we'll see that happening by the end of 2019?

Curtis L. Buser

Chief Financial Officer, The Carlyle Group LP

Probably it's more of a 2020, 2021 kind of target as – it's not going to be 2019 because we're still building.

Kewsong Lee

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

Yeah. Brian, I just want to make sure we are building this very patiently and we're building it for the long term and we're building an entire platform, which we believe will be very attractive to our limited partners. And so I'm going to keep saying be patient with us.

**Brian Bedell** 

Analyst, Deutsche Bank Securities, Inc.

Yes, I totally understand. Thanks for the detail.

Kewsong Lee

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

Thank you.

Operator: Thank you. Our next question is from the line of Robert Lee of KBW. Your line is open.

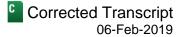
Robert Lee

Analyst, Keefe, Bruyette & Woods, Inc.

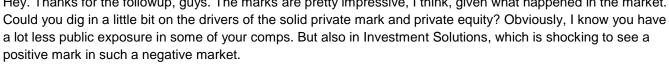
Great. Thanks. Thanks for taking my question and I just want to echo the earlier comments about the DE shift and the overall tighter focus. Appreciate it.

I'm just kind of curious with the robust fundraising in the last couple years. Just trying to get a sense of maybe how the LP base has involved, any kind of sense of if you look at kind of LP participation, broadly speaking, what was kind of existing client re-ups versus new clients, and then maybe some updated color on how many of your clients kind of are invested in more than one products and how much more potential do you think there is to kind of increase LP penetration and breadth.

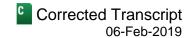
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Kewsong Lee Co-Chief Executive Officer & Director, The Carlyle Group LP	A
Great. That's a very fulsome question. We'll do our best to provide some context.	So, first
Robert Lee	Q
Analyst, Keefe, Bruyette & Woods, Inc.  There are four questions in there.	
Kewsong Lee Co-Chief Executive Officer & Director, The Carlyle Group LP	A
Yeah. So, first, just add 30,000 feet. Listen, the investor community continues to investing and that's universally across private equity, private infrastructure, private private credit. And that shift is driven by the relative performance that we even high and we see that shift continuing.	e energy, private real estate,
When we look at our specific investor base, we see all aspects of it growing. And building blocks of about 30% of our capital coming from the pension funds and at from a very robust high-net worth base and about 20% of the capital coming from continues. I will say the sovereign wealth fund community continues to grow in ow to grow in its ability to think long term and continue to commit to large private equivalent strategy. One of the great things that we've been able to do over the years base such that when they invest in one Carlyle fund, they like to invest in another our capital coming from investors that are in six or more funds. And that's a metric talk about for years and years and years.	pout 20% of the capital coming a sovereign wealth funds verall asset base and continues lity funds, including our longis foster the shareholder investor. So, we are approaching 70% o
It's an extraordinarily important metric. The other side of that is, during the last 12 who came into our funds and they committed approximately \$2.7 billion in their fir And so we have both very positive developments. One, our largest investors contacross the platform. And second of all, we keep finding new investors who can st that's helpful.	est round of committing to us. tinue to trust Carlyle and invest
Robert Lee Analyst, Keefe, Bruyette & Woods, Inc.	Q
It is. Thank you very much.	
<b>Operator:</b> Thank you. And our next question is from the line of Patrick Davitt of is open.	Autonomous Research. Your line
Patrick Davitt Analyst, Autonomous Research US LP	Q
Hey. Thanks for the followup, guys. The marks are pretty impressive, I think, give	n what happened in the market.



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Curtis L. Buser

Chief Financial Officer, The Carlyle Group LP

A

Sure. So, if you look at our underlying portfolio in the private companies, what we've said on the call or I said was that the performance remains very good. So, we're continuing to see good growth. So, as you didn't think about valuation and we generally use a multiple approach where we're going look at public company comps, precedent transactions to the extent of their relevant and also discounting cash flows. And we actually make sure to align each of those different approaches. So, we don't need to use any kind of weighted average approach. We actually align them and make sure that the valuation that we come out across all of those different inputs is aligned whenever that's possible to do. So, pretty much all of the buyout funds and any kind of company that as a traditional business, that approach works really well.

And the fundamental fact that performance remains good is allowing those companies to generally have very good performance in the fourth quarter. They were down about 1% or something like that and that really just is the multiple piece kind of hidden in it.

Different aspects of our business are [ph] often value (00:50:00). When you think about some of the energy portfolio, the energy portfolio, generally, we think about that price book long dated as opposed to the short-term volatility flux. And on the short-term perspective, you're really – a lot of that is hedged out, so you don't have the same kind of potential risk there. The real estate business, we've been continuing to really move a lot of product and so we had very current and recent comps in that business. And so, that's also to underpin a lot of that value.

In the Solutions business, really what you're looking at is you do have a bit of a lag in the Solutions business in terms of values. What fundamentally happens there is you end up getting the marks from the underlying funds. So, when we have fund-to-funds and secondary investments, you're getting what the underlying GP has given and then you're re-underwriting it to the extent that you can and really trying to bring that more current, but there can be a bit of a lag in terms of some parts of that portfolio but it's generally done really well. The other advantage in that place is our knowledge of the underlying GPs that we work with and our ability to continue to underwrite that and to think about kind of what's really going on. And the secondary business, you get a lot of the upside lift, so you kind of know and are able to pick your spots really well and the team there is it's really – very heavily data-driven in terms of how it goes about its work. I'm glad [ph] we keep getting that (00:51:35).

Glenn A. Youngkin

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

A

One thing I would add to the Solutions business, what you're seeing over time is a shift in that business from a very, very broad-based fund-to-funds business that's predominantly focused on middle market portfolios around the world. And that's still a big business. But what's growing, as Curt mentioned, is the secondary business and the co-investment business. And the team's track record in the secondary business is just extremely strong and their track record in the co-invest business is great. And so, you're beginning to see that performance show through more and more every quarter in the Solutions business performance numbers.

Kewsong Lee

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

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Yeah. And Patrick, the only color commentary I'd add on the Private Equity side is it's helpful just to keep in mind we are not index-based investors. We are company by company selecting superior management teams to partner with to grow these companies. And so, on aggregate, and, look, every fund will have one or two situations that we're very focused on that maybe not be going the way we would like. But in general, we have the ability to pick and select the investments and the companies that we think we can do the most with.

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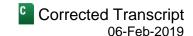


And keep in mind, over – year-over-year last year, that portfolio, the companies grew at a 9% average EBITDA growth rate. And we feel very good about our ability to influence and control and drive value at these companies over the long term. So, while there is short-term volatility in terms of the public comp aspect of the three-pronged approach that Curt mentioned with respect to mark, in the Private Equity business, the marks only matter at two points in time, when we buy the company and when we decide to exit the company. And the interim marks are of interest, they are important, but at least from our perspective in terms of realizations and what we really think we can generate, it's a long-term business and we're more focused on where the mark can get to as opposed to in between with respect to volatility in the markets.

Patrick Davitt Analyst. Autonomous Research US LP	Q
Great. Thank you. And just real quick thought, that 9% was LTM through 12/31 EBITDA growth?	
Kewsong Lee Co-Chief Executive Officer & Director, The Carlyle Group LP	A
Yes.	
Patrick Davitt Analyst, Autonomous Research US LP	Q
Okay, thank you.	
<b>Operator:</b> Thank you, and that does conclude our question-and-answer session back over to Mr. Daniel Harris for the closing remarks.	. I'd like to turn the conference
Daniel F. Harris Managing Director & Head-Public Investor Relations, The Carlyle Group LP	
Thank you, Amanda. We appreciate everyone's time this morning, and we look fo again for next quarter's call. Have a great day.	rward to speaking with you

**Operator:** Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program. You may now disconnect. Everyone, have a great day.

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