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The Carlyle Group, Inc. (CG)

Q2 2022 Earnings Call
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MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to the Carlyle Group Second Quarter Earnings Call. At this time, all participants are in listen-only mode. After the speakers' presentation there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Daniel Harris, Head of Investor Relations. Please go ahead.

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

Thank you, Liz. Good morning and welcome to Carlyle second quarter 2022 earnings call. With me on the call this morning is our Chief Executive Officer, Kewsong Lee; and our Chief Financial Officer, Curt Buser. Earlier this morning, we issued a press release and detailed earnings presentation, both of which are available on our Investor Relations website at ir.carlyle.com. 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 presentation 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 most recent 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. Turning to our results, for the second quarter, we generated $236 million in fee-related earnings and $529 million in distributable earnings with DE per common share of $1.17. We produced net realized performance revenues of $271 million, and our accrued carry balance remains at $4.3 billion. We declared a quarterly dividend of $0.325 per common share. To ensure participation by all those on the call, please limit yourself to one question and one follow up, and then return to the queue for any additional questions.

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

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

Thanks, Dan. Hello, everyone, and thank you for joining us today. Carlyle once again delivered strong results for the second quarter. We continue to drive growth and diversify the earnings power of our business. And importantly, our investment performance remains strong amidst the volatility and uncertainty in markets around the world. All of this is a result of clear strategic priorities and the hard work of our teams globally. We're in a much different environment as inflation, rising interest rates and uncertainty affect the real economy and financial markets. At Carlyle, we have been preparing for this complex and challenging environment, which is likely to continue in the near term. We are focused on continuously assessing risk, recalibrating valuations and capturing opportunities as we move forward.

The strength of our diversified platform, well-constructed portfolios and over $80 billion of dry powder positions us well as we have deliberately built Carlyle into a more resilient firm that is set up to adapt and manage through all types of market conditions. We are a different firm today and better positioned than ever before as we drive forward from a position of strength. Given the environment, we know that questions about our portfolio are top of mind, so allow me to address this topic before we get into the points we like to discuss today. Thus far, portfolios across the firm continued to perform exceptionally well. Our focus on investment excellence and the diversification of our platform are supporting the firm’s relative outperformance, with Carlyle's aggregate carry fund portfolio appreciating 3% in the second quarter, while various public benchmarks were down 10% to 20%. I'll provide some perspective, and Curt will drill into more specifics.

Our Global Private Equity portfolio appreciated 2% driven by strength in infrastructure and natural resources and real estate, and flat performance in Corporate Private Equity. Throughout the GPE segment, our overarching view is that we have well-constructed and well-positioned portfolios. Our approach has been always to invest in good assets and established companies led by strong management teams that have a differentiated path for growth and value creation. As a result, we have avoided the sectors that have been hardest hit, our portfolio is only 7% publicly traded, and we are benefiting from the strong demand that continues for high quality private assets even as public market multiples were contracting. And importantly, thus far, taken as a whole, the top line of the companies in our Corporate Private Equity portfolio continue growing at double-digit rates while maintaining operating margins.

Now, turning to our credit portfolio, we are seeing resilience in the underlying performance of our assets, and higher yields are driving better performance for LPs as most of our investment strategies benefit from higher rates. At this moment, credit quality remains strong, and we have not seen any notable pickup in duress or non-accruals, although we are closely monitoring our portfolio. We actively manage all of our credit positions, and are very focused on managing risk exposures and maintaining balanced risk adjusted credit quality throughout our portfolios. Before I hand things over to Curt, there are five important points to listen out for as she talks about the
quarter. First, our focus was on driving FRE growth. What we have done over the past several years to grow and change the nature of our FRE is, quite frankly, underappreciated.

Just this quarter, we delivered a record $236 million of FRE, up more than 60% from last year, and we are on track to achieve our previously stated $850 million goal in FRE for the full year of 2022. It's important to understand the vast amount of our fee revenue is agnostic to asset market's valuations and is instead based on committed or invested capital, giving us greater visibility on the level of fees and FRE that we will earn. Second, our deliberate effort to diversify the firm is paying off. Our earnings mix is more diversified and more resilient than ever before, and it continues to grow because we have reshaped our business to capitalize on those areas where we see attractive growth in the private markets. As a result, the largest share of our fee-earning AUM is now associated with Global Credit. Furthermore, FRE contributed 50% of DE in the first half of 2022, making our earnings stream more balanced, distributable earnings more predictable throughout different market cycles.

Third, the firm's capital formation efforts are powering us forward even during changing dynamics for fundraising. Importantly, please listen for the impact of the Fortitude transaction and how it sets us up for the future as total capital formation for the quarter was nearly $60 billion, with the addition of the highly scalable Fortitude advisory assets under management. This includes the nearly $10 billion we raised in new capital from LPs, with more than half this amount from Global Credit and Global Investment Solutions even as we continue to raise in the more traditional private equity funds. Next, the firm is operating from a position of financial strength. We have a nominal level of net debt, our dividend is comfortably covered by our sustainable FRE, and our balance sheet is positioned to help us to continue to grow. Add to this over $2 billion in investments and more than $4 billion in net accrued carry, and our balance sheet today comprises over $16 per share in value.

Finally, and perhaps most importantly from my perspective, we are executing against our strategic plan and delivering on what we told you we would do. Compared to just two years ago, Carlyle is more diversified, growing faster and more profitable. My job as CEO is to make sure we stay focused on the right priorities, develop our people and shape our culture. We are doing just that. Putting all this together, we believe we are positioned well to navigate through a period of increasing market uncertainty and complexity, and have confidence in our ability to deliver long-term earnings growth and shareholder value.

With that, over to you, Curt.

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

Thank you, Kew, and good morning, everyone. As Kew highlighted, we delivered strong results this quarter driven by the solid relative performance of our funds, increasing diversity of our earnings streams, and the significant impact from our recently closed strategic transactions. I want to focus my remarks on three areas. First, fee-related earnings and overall distributable earnings have had a strong start to the year, highlighting an increasingly diverse business mix and better balance between FRE and performance income. Second, our Global Investment platform performed well, and we continue to have a record level of net accrued performance revenues. And third, our Global Credit business took a major step forward in assets under management and earnings power, and we continue to see opportunities for further growth and performance.

Let’s begin by discussing the strength of our second quarter results, and more broadly, the first half of 2022 by highlighting a few important metrics. First, fee-related earnings were a record $236 million in the second quarter, up 60% year-over-year with substantial growth in Global Credit and Global Private Equity. Our fee-related earnings margin reached a record 40% in the second quarter and 38% in the first half, up from 33% in full year 2021. Distributable earnings of $529 million increased more than 34% from last year. And our earnings stream...
reflects an improving mix, with fee-related earnings contributing 50% of distributable earnings in the first half of this year. Digging into second quarter FRE, total fee revenue of $594 million increased 40% year-over-year, supported by strong organic and inorganic management fee growth, as well as higher transaction fees and fee-related performance revenue.

Management fee is comprised almost 90% of total fee revenue for the first half, and increased 24% compared to the first half of 2021. Included in our results this quarter are $19 million in catch-up management fees, largely associated with follow-on closings in our latest US Buyout fund, as well as several smaller GPE funds. We also benefited from strong transaction fees in Global Credit, largely related to aviation and insurance solutions activity. Transaction fees and catch-up fees help drive our record FRE margins this quarter. Though, it's important to note that these fees are dependent on the pace of future investment activity and fundraising. We also generated $35 million in fee-related performance revenues in the second quarter and $80 million for the first half of the year.

Looking towards the second half of 2022, GP fee-related performance revenue will likely be lower due to the construct of the Core Plus real estate fund, but will likely increase again in 2023. Global Credit fee-related performance revenues should be relatively stable. I mentioned last quarter that you would see a material step up in our quarterly fee-related earnings and margin owing to our recent Global Credit transactions, notably CBAM which closed on March 21, and Fortitude which closed on April 1. And that's exactly what the second quarter produced. Global Credit FRE surged to a record $72 million, nearly triple last quarter, owing to management fee revenue from these transactions and a high level of transaction fees. Global Credit's FRE margin also nearly doubled quarter-over-quarter to 42%.

While this number may vary quarter-to-quarter, we expect it to remain well above prior year margins. Our overall DE mix continued to skew further towards a higher level of FRE even as continued realization activity supports the production of net realized performance revenues. Diversifying our earnings stream has been a deliberate effort. And for the first half of the year, FRE comprised 50% of pre-tax distributable earnings. Moving on in what is a complex environment, our portfolio continued to perform well, as Kew noted, with 3% overall carry fund appreciation. Our diverse global portfolio has been carefully constructed with high quality investments, and together with persistent exit activity, supported positive appreciation despite significant declines in public markets.

Broad-based portfolio strength in infrastructure and natural resources was supported by higher energy demand and pricing. In our real estate strategies, portfolio construction and an active disposition pipeline supported strong valuations. We also saw growth in several of our European-based private equity strategies, notably Europe growth, partially offset by weakness in our public securities, the majority of which are held in our US Buyout strategy. As Kew also noted earlier, the portfolio's appreciation supported yet another record level of net accrued performance revenues at $4.3 billion. This quarter's accrual was partially offset by over $270 million in net realized performance revenues, more than double the level on the first quarter.

Our US, Asia and Europe Buyout fund and US Real Estate strategy were the biggest drivers of our net realized performance revenue this quarter. In total, we produced nearly $400 million of net realized performance revenue in the first half of the year. In addition, we have several transactions slated to close over the next few quarters that will support performance revenues and distributable earnings. The size and diversity of our net accrued performance balance and the quality of our investment portfolio gives us reasonable confidence we can generate an average of $1 billion of annual net realized performance revenues over the next several years, though market conditions will impact the actual level in any given year.

Moving on, I want to close with some thoughts on our Global Credit platform. Solid investment performance, strong fundraising and our recently completed strategic transactions drove [ph] fee-earning assets under
management (16:04) to $116 billion, more than double the level a year ago. Today, the Global Credit segment is our largest source of fee-earning assets under management, and the recent transactions have provided significant scale to this business. The transformation of Global Credit over the past handful of years is remarkable. Our opportunistic credit strategy is moving from strength to strength as it increases in scale and employs its available capital in a market that increasingly needs assurance and flexibility.

Our structured credit business with $48 billion in assets under management following the addition of the CBAM assets is the global market leader. They have a long-term track record of credit outperformance and they position their portfolio to balance risk and reward as we head into an increasingly complex environment, which provides us with significant conviction in the earnings sustainability in this strategy. Fortitude manages almost $50 billion in their general account, and our new advisory relationship with them positions Carlyle to scale considerably as Fortitude deploys their nearly $4 billion of excess capital. And we have a growing businesses in real estate credit, infrastructure credit, direct lending and aviation, and we expect these strategies to be significantly larger in the next few years.

Broadly, credit quality in our funds remains good, and we are pleased with the diligence of our teams as they [indiscernible] (17:39) these portfolios in a rapidly changing environment. In sum, in a difficult market, we posted strong results and are well positioned to deliver a solid year of distributable earnings. Our strategic transactions are performing well. Our teams are focused on managing their portfolios to deliver attractive performance for our fund investors, and we have substantial dry powder to capitalize on opportunities as they emerge.

With that, let me turn the call over to the operator for your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Alexander Blostein with Goldman Sachs. Your line is now open.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

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Hey, everybody. Good morning. Thanks for taking the question. Kew, maybe I was hoping to start with digging a little bit more into performance trends you're seeing particularly within Corporate Private Equity within Carlyle. Obviously, very impressive mark this quarter in light of macro conditions, and I appreciate the portfolio selection comment. But I guess, even good companies are facing higher cost and slower economic conditions, and obviously, lower multiples for the public market. So just curious how you're thinking about the offsets to these factors that drove positive performance within private equity for you guys this quarter. And as you think about the exit environment and the ability to actually monetize some of these gains, how are you thinking about that for the next couple of quarters?

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

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Sure, Alex. Thanks for the question. Look, it's clearly a complex market, but we're really focused on controlling what we can control, namely our investing and how we manage our portfolios. But I think the right way and the best way to answer your question, as I said in my opening remarks, we're more diversified than ever. And let me spend a few minutes walking through our various businesses and why I think we're so well-positioned with respect to our portfolios and portfolio quality, to which your question imply. So first of all, in Corporate Private Equity, it's
important to understand, we’ve got a world-class dominant business at scale. But what’s really important to appreciate is that, for the several years now, Alex, we’ve been running slower growth in our investment cases. And importantly, virtually all of our investment base cases contemplated contraction of exit multiples. So that's what I mean when I say, we’ve been preparing for these types of environments.

Now, we've always been focused on investing in great companies with a view to create growth and fundamental operating improvements to drive our returns. So when you put all this together, we've got great constructed portfolios across all of our CPE strategies, and they're diversified across sectors, regions, themes and vintages. And it's really why we've been able to avoid the hardest hit sectors, we've avoided the high flying companies that don't generate any profitability. And so when you take a look at that portfolio that you referred to, our Corporate Private Equity portfolio at the top line has been growing at about 14% this year. They've been maintaining their operating margins given all of the operating improvements that I just referred to. And so the value creation is really coming from growth in operating improvements, which has offset the contraction in valuation multiples that we've seen in the markets.

And with respect to the exit part of your question, look, you can't have good exits if you don't have good companies. Great exits start with great investing. We pride ourselves on being a great investment firm with a great investment ethos. And so when you pick good companies, partner with them to create value in a fundamental way, it sets you up for the exits, and it's just a matter of how you decide to exit given what the market and the conditions afford you. So look, taking a step up, we're at scale, we're very well diversified in Corporate Private Equity. We've got superior portfolio construction. Thus far it's performed relatively well because of the operating performance and the fundamental nature of our value creation. And who knows what the future has in store for everyone moving forward. But I like the way we are positioned as we're heading into this current environment.

**Alexander Blostein**
Analyst, Goldman Sachs & Co. LLC

Great. Thanks for all the detail there.

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

Thanks, Alex.

**Operator:** Thank you. Our next question comes from Craig Siegenthaler with Bank of America.

**Craig Siegenthaler**
Analyst, Bank of America Merrill Lynch

Good morning, Kew, Curt. Hope everyone is doing well.

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

Hey. Good morning, Craig. How are you?

**Craig Siegenthaler**
Analyst, Bank of America Merrill Lynch
I'm good. So we were looking to get an update on fundraising. So how crowded does the current backdrop feel to you, especially in private equity, and especially with US pension plans feeling the domino effect? And then how much of this is offset by new strength from sovereign wealth funds given their stronger cash flows from higher energy prices?

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

Hey, Craig, I'm going to start and just kind of level set a little bit, and then Kew will add some color. So let's just kind of recall where we were. 2021 was a great year for us. We raised $51 billion. Two thirds of that came in credit, real estate, our solutions business, infrastructure, renewables. So really diverse in terms of our capital raise. And this year is kind of the same. We expect to have 20 or more strategies in the market this year, again, emphasizing the diversity of the platform. And we're off to a good start. $19 billion raised in the first half, $10 billion in this quarter. And what we're seeing from LPs is, they're continuing to entrust us with an increasing amount of capital, which is really important in the current environment. Kew?

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

Thanks, Curt. And hi, Craig. Look, no doubt, the fundraising market is challenging right now, and this could persist for a bit as LPs adjust to market dynamics, and it's most challenging in the Corporate Private Equity segment of the market. But I want to refer you to something that Curt just said. We've got 20 or more strategies in the market, and it's important – and let me refer you to my opening remarks about the diversity of our platform and the benefits of that. Over half of our fundraising now is coming from Global Credit, infrastructure, renewables and solutions, where we're continuing to see strong and healthy demand.

And I want to broaden the conversation to that of capital formation, and you just heard us talk about it. Just this quarter, we added $50 billion in perpetual capital from Fortitude. And so I think, the point being that there are multiple ways we raise capital to drive the growth of Carlyle. We are now at about $260 billion of FEAUM, which is a record. And while there are some challenges in the private equity markets, which we expect to continue for a bit, the breadth and the diversity of our platform gives us a lot of fundraising opportunities, especially when you broaden the lens to think about capital formation across all of our strategies.

Craig Siegenthaler  
Analyst, Bank of America Merrill Lynch

Thank you, guys.

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

Thanks, Craig.

Operator: Thank you. Our next question comes from Chris Kotowski with Oppenheimer. Your line is now open.

Chris Kotowski  
Analyst, Oppenheimer & Co., Inc.

Yeah. Good morning and thank you. I wanted to get a bit more color
on what Curt said about fees in private equity coming down in the second half versus first half or second quarter. Is that a function of just a lower catch-up fees, or is that the function of realizations coming from funds, or what's driving that?

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

Hey Chris. Good morning and thanks for the question. So to be specific on what I called out was, fee-related performance revenues. So we're really talking about in Global Private Equity and CP in particular, I should say, real estate in particular, is our Core Plus real estate fund. This has nothing to do with performance. I mean, the fund has done really well, continues to do really well both in terms of size, attractiveness, et cetera. But what we see just based on how it's constructed that it essentially generates incentive fees based upon capital when it was deployed. So three years ago, in second half of the year or three years ago, lower amounts of deployment then, and so the incentive fees that crystallized off of that are going to be a little bit lower, we expect, here in the second half. And so I wanted to call that out for everybody. But I think that all solves itself over time.

And I would point you to a tiny footnote. If I come back on page 25 of our earnings release, that shows that there's $64 million of net accrued incentive fees related to this strategy. And interestingly, that's about the same number last quarter even though we had about $12 million or so net of compensation realized here in the current quarter. So it's essentially flat and strong. And so we've got good visibility in terms of how that particular product will perform going forward. With respect to catch-up management fees, yeah, they'll dip here probably in the third quarter. Hard to predict exactly kind of how it plays out over the balance of the year, more broadly outside of the GP segment. We do have some transaction fees that were good in this quarter, and it's hard to predict exactly when they'll come in. But I feel good about our $850 million of FRE for the full year. And that, I think, is the key that you really want to focus on.

Chris Kotowski  
Analyst, Oppenheimer & Co., Inc.

Okay. So it's not the base management fee, it's not the catch-up fees. And just as a reminder, how long do you have to...

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

Hey, Chris. The catch-up management fees do impact, there's $19 million of catch-up management fees, and based on fundraising that will play out. But in order to be able to say the $850 million here, I'm confident in our growth in core management fees, and management fees make up 90% of our fee revenues, and they're performing really well and incredibly sticky.

Chris Kotowski  
Analyst, Oppenheimer & Co., Inc.

Okay. Great. That's it from me. Thank you.

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

Thanks, Chris.

Operator: Our next question comes from Robert Lee with KBW. Your line is now open.
Robert Lee  
**Analyst, Keefe, Bruyette & Woods, Inc.**

Great. Thanks. Good morning, everyone. Thanks for taking my questions. Maybe the first one, just on Fortitude Re, I think, Curt you called out there's about $4 billion of available capital. Could you kind of – well, maybe two things there; number one, what would that translate into an asset, should we assume something like 10:1 leverage to that potentially? And then what's the current environment? How is that altering or impacting the reinsurance opportunity with Fortitude Re in the marketplace? And maybe there's different businesses that present more opportunities than others. Any color there would be very helpful. Thanks.

Kewsong Lee  
**Chief Executive Officer & Director, The Carlyle Group, Inc.**

Hey, Robert. Thanks for the question. Why don't we do this? Curt, why don't you tackle the first part of the question, then I'll try to tackle the second?

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

Yeah. So Rob, I think you got it right. You picked up on really an important metric. They've got nearly $4 billion of excess capital that Fortitude is going to use to continue to grow its business. And as it does that, you're right, that translates into 10 times to 15 times from a size standpoint. So as we previously said, I think Fortitude is in great position to double its business over the next handful of years. So to say, somewhere over the next five years, they're well positioned without really doing a whole lot else to double the business.

Kewsong Lee  
**Chief Executive Officer & Director, The Carlyle Group, Inc.**

Yeah. And Robert, let me just add on to that. So first, Fortitude is performing very well, and we are exceptionally happy with how that platform has developed. It's got double-digit ROE at the moment, reserves are in great shape. And as Curt mentioned, and you rightly pointed out, it's got about $4 billion excess capital, which is incredible capital base to support future growth. As you know, as Fortitude grows because of our aligned strategic advisories arrangement, as Fortitude grows, Carlyle benefits through our investment platform. With respect to the areas and sources of future growth, the current environment of volatility in higher rates actually leads us to believe there's going to be more deal activity, because what that volatility does is it puts pressure on insurance companies to manage their capital more effectively.

And as a result, they are going to be much more inclined to want to divest and to sell legacy liabilities, portfolios that are capital consumptive, or enter into reinsurance transactions with folks like Fortitude. So at the moment, the pipeline is very busy, very robust. You've seen us announce deals with Prudential, with T&D in Japan, and there are lots of other areas for us to continue to grow via reinsurance, but also scaling up via acquisition. These types of things are not predictable month-to-month or quarter-to-quarter. But as I look out over the next several years, this excess capital and the momentum that Fortitude has, leads me to believe you're going to see real scalable growth coming out of Fortitude in the years to come.

Robert Lee  
**Analyst, Keefe, Bruyette & Woods, Inc.**

Great. Thanks. And maybe a quick follow up, Curt. I think you guys have guided to $850 million of FRE for this year. Can you maybe just update us on your thoughts around that, your comfort level, if that's still a reasonable goal?
Curtis L. Buser  
*Chief Financial Officer, The Carlyle Group, Inc.*

Yeah. I mean, Kew, confirmed that in his prepared remarks, and we feel very comfortable with the $850 million. And again, the business is performing well. And so I think that's a good target and a good expectation for us.

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Robert Lee  
*Analyst, Keefe, Bruyette & Woods, Inc.*

Great. Thanks for taking my questions.

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Operator: Our next question comes from Ken Worthington with JPMorgan.

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Kenneth B. Worthington  
*Analyst, JPMorgan Securities LLC*

Hi. Good morning. Kew, a couple of questions on inorganic growth. Has the environment for inorganic growth changed given market conditions? And then maybe, there had been a gap between public and private market valuations for alternative asset managers presenting a nice arbitrage opportunity for public market buyers, and that arbitrage I think narrowed. Have private market valuations come down with public market alternative asset manager valuations? And ultimately, what is your outlook here today for the second half of 2022 into 2023 for executing the inorganic part of your growth strategy?

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Kewsong Lee  
*Chief Executive Officer & Director, The Carlyle Group, Inc.*

Great. Let me take the first part of that question, and then maybe Curt can jump in and give some color as well on your fulsome question. With respect to inorganic growth, let me take a step back, corporate development done very strategically and thoughtfully is absolutely one very important element as we continue to diversify our platform. You've seen us do this, and it has been done to great success thus far. However, we're going to be very disciplined about it. There is no quota or budget or timetable that we're on. We're going to be very measured and deliberate. And this type of environment may create opportunities. And we are very carefully seeing what the environment has to bring, but also doing it from a perspective of where do we want to build out in our platform.

And I've told you, the areas that most likely would represent areas for continued growth would most likely be in our credit, in our solutions, and our infrastructure platform. But the bigger theme though that needs to be appreciated is the criteria that we're looking for, our strategic adjacencies, FRE intensive, ideally more perpetual capital oriented, highly scalable, big markets, big strategies, where things can move the needle over time for us. So these are the types of criteria we're looking for to the extent that something fits that bill. Yes, we would be willing to move forward. But like I said, no quota time pressure or anything imminent that I want to talk about. Curt?

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

Yeah. Thanks, Kew. And Ken, good morning, and thanks for the thoughtful question. From a valuation perspective, we're talking here about alts and possible opportunities from us from an acquisition standpoint continuing to build inorganically. And similar to what we see kind of in our own portfolio, it really comes down to the quality of the asset that you're looking at, and really good quality assets, those valuation demands are still really high, and those things that are lacking in attributes obviously get a lower value and are under more
pressure now. And so if you think about it in terms of what we're looking at, we like things that have lots of FRE and with great margins.

We like things that have a great growth trajectory. We like to see can they execute this on their own or are they deficient in their ability to execute, are they scaled on what's their infrastructure and technology, et cetera, how was that kind of looked or are they missing. And if they're missing in those things, they get a lower – their ability to ask for an amount is lower than if they're executing all these things. So look, we'll often kind of look at things that only possess some of the attributes, and then the question is, can we supplement it and get an arbitrage advantage on that, kind of as you pointed out, in our own analysis. So look, it's the whole scale, I mean, but it's a continuous discovery process between buyer and seller.

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**Kenneth B. Worthington**
*Analyst, JPMorgan Securities LLC*

Awesome. Thank you.

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

Thanks, Ken.

**Operator:** Our next question comes from Michael Cyprys with Morgan Stanley.

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**Michael J. Cyprys**
*Analyst, Morgan Stanley & Co. LLC*

Hey, good morning. Thanks for taking the question. I just wanted to come back to some of your early commentary on the call here, maybe just for some on the fundraising commentary just around a more challenging backdrop for raising in private equity. Just curious how you see that potentially impacting Carlyle's own outlook for raising in Corporate Private Equity just in terms of magnitude and timing. Does it have an impact there at all? And then to your comments on the strong portfolio appreciation in the quarter, but just given the tougher macro backdrop here, just curious how you see that impacting the realization outlook into the second half of the year as compared to the $390 million that you generated in net realizations in the first half. Thank you.

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**Kewsong Lee**
*Chief Executive Officer & Director, The Carlyle Group, Inc.*

Hey, Mike. It's Kew. Why don't we try this? Curt, you might want to take the first part and I'll take the second?

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

Sure. So Michael, on fundraising, again, there's good momentum as we start this year for all the things I've already said; $19 billion raised, 20 different strategies, and having very good success on a multitude of fronts. You're absolutely right that the world has changed, in particular around some of the traditional private equity strategies, and that's fundamentally going to result in some of those raises taking longer in general, and maybe not raising the same amounts as they would have otherwise in a different environment. Although that said, I still like our play, I still like what we're doing and I still like our momentum.

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**Kewsong Lee**
*Chief Executive Officer & Director, The Carlyle Group, Inc.*
Yeah. And with respect to your second question on exits, look, I mean, the general M&A environment today, the state of the equity capital markets, it would lead one to think that realizations would drop down significantly. But you've got to keep in mind how big our portfolio is, how broad it is, how diversified it is. And we've had $4.3 billion accrued carry in place for several quarters now. And there are lots of transactions that were signed up several quarters ago, three quarters ago, that continue to close as we play out the rest of this year. So number one, that gives us a lot of line of sight, which is why, Curt, in his comments, was fairly comfortable that year-to-year it'll be about $1 billion worth of net realized performance fees, give or take, for market conditions and timing, and the vagaries and then whatnot. But the size and breadth of our portfolio gives us that comfort to say that.

I'd also state, and just want to reaffirm what I said earlier to Alex's question, we have great portfolios that have been constructed. And our investment approach is always to pick out what we believe are great companies with real differentiated plans for value creation driven by fundamental – in fundamental ways, growth and operating improvements. I just want to point out, 80% of the IRRs in Carlyle's Corporate Private Equity portfolio historically are driven by growth and operating improvements, not by leverage and multiple expansion. Just gives you a sense for the nature of our value creation. Because of the way we do things in our investment ethos, we feel very good about the quality of the companies that we have in portfolio, which, of course, then leads to good exit outcomes.

Thus far this year, despite the challenging markets and the market and the valuation multiple contraction that you've referred to, the sales of our private assets have been at very good prices, which reflects the nature of these companies and the quality of these assets. So we feel pretty good about the construction of our portfolio. The realizations to-date indicate good breadth and good quality and good portfolio construction. And longer term, if we can keep this up, I think we are pretty confident in what Curt said, which is, about $1 billion a year in terms of net realized performance fees coming out of our very substantial $4.3 billion of accrued carry.

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

And just to add on that Mike, I mean, you heard the confidence in what Kew was saying about the portfolio. And we've been seeing a lot of activity, a lot of discussions. So good exits here in the quarter. We've got a good pipeline of exits. And sitting here today, my bet is, the second half is actually stronger than the first half, not to the same level it was last year, of course, but I think the second half from a carry production perspective, and I don't have a perfect crystal ball, but I think the second half will be better than the first half.

Michael J. Cyprys  
Analyst, Morgan Stanley & Co. LLC

Great. That's super helpful. I'm hearing a lot of confidence in the pipeline, the portfolio, the receivable. I guess, would you be surprised if you hit the $1 billion this year on the net realized carry?

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

Look, I mean, the portfolio is incredibly well set up. I told you kind of that, I think the second half is going to be better than the first half. So can we do really well? Sure. Can we miss it a little? That's always possible. So it's hard to give you an exact number.

Michael J. Cyprys  
Analyst, Morgan Stanley & Co. LLC

Okay. Thanks so much. I appreciate it.
Operator: Our next question comes from Glenn Schorr with Evercore ISI.

Glenn Schorr  
**Analyst, Evercore ISI**

Hello there. Thanks. So just came out, obviously, but we've been talking about this for years. So quick question on Manchin and Schumer, it seemed like they struck a clean energy deal, and part of the pay for is carried interest. I'm sure I'm not alone when I got a ton of questions already this morning. I know we've talked about in the past, so I think it'd be good for people to hear from you. Two-parter. A, what's it mean for your portfolios, and then most importantly for your stocks right now, what does it mean, if anything, for the shareholder? Like whose issue is it assuming higher carried interest taxes goes through? Thanks.

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

Hey, Glenn. Thanks for the question. Look, I mean, this news kind of just came out last night. There's a long way still to go on it, all of the details aren't yet. Our teams are on it, looking at it and researching it, just like you would expect, but it's really premature for us to comment on it. And look, generally in terms of how our people are taxed, I mean, we have people all over the world subject to all kinds of different tax rates. That's not kind of – changes in local taxation doesn't affect kind of our corporate play, and we're already a full C-corp with a fully-loaded corporate tax provision.

Glenn Schorr  
**Analyst, Evercore ISI**

I know it just came out, but I know we've also talked about it for years. I think that shareholders want to know one thing. No matter what the rules are, is the public shareholder on the hook or a higher carried interest cost, or is that the employee getting paid and carried? That's what I'm getting over.

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

Yeah. I mean, we're already – our carry is already fully taxed on the corporate side. So capital gains rates aren't – it's not kind of – we're paying essentially a fully-loaded ordinary income tax rate on our carry.

Glenn Schorr  
**Analyst, Evercore ISI**

I appreciate that. That's the point I want to get across. Thank you. Last quickie is, you see all these hung deals, some of us cover all the big banks too, and forget that they took marks as the music stopped. They're still holding on to a lot of inventory. There's a lot of leverage loans hung out there. It coincides with the wider bid ask. I'm just curious, just what does that mean to you. Is that fully incorporated in your comments so far on deployment of monetization? Is there any other circumstances that that leads to good or bad things for you? Thank you so much.

Kewsong Lee  
**Chief Executive Officer & Director, The Carlyle Group, Inc.**

Yeah. Hey Glenn, it's Kew. I'll handle that question. I think it's important to take a step back and put the current situation in perspective, and compare that to maybe what we're all remembering with what happened right after the great financial crisis set in. And right now, I think, my best guess is, there's probably $80 billion of hung loans...
or backlog today in the system. But that compares to, if you go back a bit, $325 billion, which was the comparable number back at the time of the great financial crisis.

But I think what's really important to appreciate is that, the entire leveraged finance market is 3 to 4 times bigger. So not only is the absolute amount much smaller, but the total market is much bigger. And on top of that, my view is that, our banks and our partners at all of our banks, if they're well-capitalized, they're well-run. So yes, there is a backlog today that they are trying to move off their books. I have no doubt, that's going to happen in time. It is a much smaller issue and headache now than it was at the GFC, and it's just a matter of time before this clears out, and hopefully activity resumes.

**Glenn Schorr**
*Analyst, Evercore ISI*

Thanks, Kew.

**Operator:** Our next question comes from Rufus Hone with Bank of Montreal.

**Rufus Hone**
*Analyst, BMO Capital Markets Ltd.*

Great. Good morning. Thanks for taking my question. I was hoping you could provide an update on the solutions business, and how do you see activity there developing in the coming quarters, and whether the dislocation you're seeing in the markets translates into potential upside for that business. And can you also update us on potential fundraising opportunities in solutions and the pipeline for new products? Thank you.

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

Rufus, let me start, and maybe Kew will add in. So look, the solutions business, we remain optimistic and bullish there, lots of good things happening. As I've said probably last quarter, there's a couple of things to keep in mind, it is still a little bit of a staircase business. So as cycles of funds come back to market, it grows a little bit more in staircase. Second, that business has made real progress in terms of improving its performance and margins. It got hurt a little bit this quarter in terms of FX. It's one of the places where we're probably a little bit more exposed to FX because most of that business. a lot of it is denominated in euros and the like. And so as the dollar strengthens, it hurt us a little bit on some of that. But overall trajectory is good.

There's also a whitespace there that they're taking advantage of, and the potential to add new product that they're very much focused on. And so looking forward to some of that. That will take some time to really play out. But it gives me a lot of confidence in long-term growth, and I think that's where this business can go. And then last, I'll simply say, that the secondary market, I mean, now is a great time for it. And so they'll continue to take advantage of that and play well. They're a very well-known player. AlpInvest has done a great job. Their knowledge of data and of the market is fabulous. Their performance here in the quarter aided a little bit, here it helps us, it aided a little bit by FX, but still remains very strong, and their knowledge of what's happened is very good. So we're well set up there, especially for the long term.

**Kewsong Lee**
*Chief Executive Officer & Director, The Carlyle Group, Inc.*

Yeah. I don't have much to add, Curt, other than, if you string together a few of these questions, the volatility, the denominator effect that somebody mentioned on a previous question, all of this leads our LPs to want to optimize, reconstruct and tailor their very large alternatives portfolios. And that need, that necessity for the LPs to do that
really runs right into the sweet spot of what AlpInvest is designed to help our LPs do. So whether it's secondaries, whether it's single asset strategies, whether it's co-investment strategies, AlpInvest is very well positioned as a market leader to take advantage of this more broad secular trend, that all this volatility, all of the multiple contractions and the swings you're seeing are LPs needed to optimize and tinker with their portfolio at large levels. And that I think is going to continue for several years to the benefit of our AlpInvest platform.

**Operator:** We have a follow-up question from the line of Alexander Blostein. Your line is now open.

**Alexander Blostein**
*Analyst, Goldman Sachs & Co. LLC*

Hey, thanks so much for the follow up again. I wanted to go back to the FRE dynamics you described for this year, and it's really nice to hear, obviously, the reaffirmation of the $850 million of FRE for 2022. But as you think about Carlyle's growth algorithm for FRE beyond this year, obviously you're going to get the benefit from annualization from some of the deals and kind of the big flagship fundraising. So that will help. But curious how you would think about growth in FRE besides these tailwinds for 2023. I understand it's kind of early. Don't expect you guys to have full guidance out, but just as a framework of how to think about beyond some of these annualization dynamics.

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

Hey, Alex, I'll start and Kew may add in here. So look, we've done really well in terms of growing the business, especially over the last several years. We've taken FRE, and if you think about over the last five years, we've more than tripled fee-related earnings. If you do the math, that's about a 30% CAGR over that time period. At the $850 million, we'll end the year up about 40% over last year. Big market picture, if markets — everything we're reading and what we've experienced would say that, the private markets will go from about a $10 trillion size to about double that over four or five years, which would imply about a 15% CAGR.

If that all happens, we'll be right there with it. I mean, our brand, our diversity, our strengthened performance really sets us up to really benefit from all of those tailwinds. And I think that we can do better, especially as we use our balance sheet and grow new products. There's more things that we can do, but to be determined in terms of kind of how all those things shape up over time, and we'll see how it plays. But I like where we've been and what we've been able to do, and we remain focused on growing the business.

**Kewsong Lee**
*Chief Executive Officer & Director, The Carlyle Group, Inc.*

Yeah. Alex, let me give you a few thoughts, and it ties into the fact that we have deliberately diversified our platform to create meaningful platforms that can continue to scale growth and give us many avenues to drive growth and earnings over time. So just taking a step back, just want to remind you, obviously, we have a world-class dominant Corporate Private Equity business. It's global in scale. It cuts across all industries, and I've got no doubt that business will continue to motor along. In addition to that, we've now supplemented it by organically and with some inorganic help, we've built a great credit business. It's now the fastest growing part of our business. It is a more scalable asset-class than private equity. And even within credit, we see whitespace in areas like infrastructure credit, real estate credit to continue growing.

And just want to remind you, we've had great success in our opportunistic strategy, which we've started from scratch, and our aviation platform has more than doubled since we bought it. So credit is a great platform that we believe still has real secular tailwinds, especially as I've noticed our LPs continue to allocate away from traditional
public fixed income into private credit, and especially since we continue to see inroads of private credit solutions from that of the banking system. The third major business we have set up is now our infrastructure and renewables business which I believe will really benefit from the secular tailwinds of energy transition, but also the significant investment dollars that around the world that have to go to improving infrastructure, whether it's digital infrastructure, hard infrastructure.

Countries are going to have to be rebuilt. You are talking about significant amounts of capital that's going to be required in infrastructure to support energy transition and create resilience on a regional level in our industrial complex. So there's going to be a lot of money and a lot of growth in infrastructure. Then, we just talked about our solutions business. AlpInvest is an industry-leading platform. As the alts industry grows, there's just going to be even more need for AlpInvest to help our LPs with their portfolio management solutions. We talked earlier about Fortitude, $50 billion of assets already. It's got excess capital, that is set up really nicely to scale and grow. And then don't forget, we have set up a capital markets business which, as our deal activity continues to pick up across our platform, will continue to drop incremental fees to our bottom line.

So all of that has been set up over the past few years. It is a much more diversified platform. It creates a much more resilient earnings base. But we have lots of areas by which to grow moving forward. And that's even before we talk about corporate development and inorganic initiatives which, obviously, over the past couple of years, in the selective ways we've done it, have been very successful and additive. So if you marry Curt's thoughts, bigger picture where the industry is going, and then if you marry that with what we've been doing to execute against our strategic priorities and set up a diversified platform for growth, I kind of like the way we're positioned to keep driving this firm moving forward.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Great. Thanks very much again.

Operator: We have a follow-up question from the line of Craig Siegenthaler. Your line is now open.

Craig Siegenthaler
Analyst, Bank of America Merrill Lynch

Thanks for taking my follow-up. I'm assuming this is not an issue just given your commentary on the resilient credit quality in your Global Credit business. But I'm curious in terms of how your CLO management fee deferrals work, and can you help us frame the risk that you might have a decline in management fees if we enter a severe US economic recession.

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

Hey Craig, thanks for the question. Look, we're now the largest player in the CLO space, and that gives us a lot of opportunity and strength. The portfolio is exceptionally well-positioned, and the team has been incredibly active in terms of how to position the portfolio for these challenging times. So they traded about $9 billion, that was all buys and sells across the platform here in the second quarter, and with the goal of reducing exposure to industries that had higher commodity costs or little pricing power. So it was all about making sure that we really kind of positioned it well for some potential rough waters. As a result, risk metrics look really good.

Our exposure is on CCCs, are below industry averages in the index. The quality of the portfolios on all of the basic indexes, they have scored well and are rating really well from a quality perspective. Our defaults continue to
be below market averages. Look, we expect some kind of increase in that, but the underlying cushion and the over collateralization [indiscernible] (59:42) is strong. So we feel like really well-positioned. And as long as that remains so, which we currently expect it to be, there’s not really the risk in terms of any of the sub-fees shutting off, the portfolio is well-positioned and hence the confidence you’ve heard in our tone.

Craig Siegenthaler  
Analyst, Bank of America Merrill Lynch

Thank you, Curt.

Operator: That concludes today’s question-and-answer session. I’d like to turn the call back now for closing remarks.

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

Yeah. Thank you, everyone, for listening on what I know is a very busy day. If you have any other follow-up questions, feel free to reach out to Investor Relations, otherwise, we look forward to talking with you again in the fall. Thank you.

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