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CG.OQ - Q3 2026 Carlyle Group Inc Earnings Call

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OVERVIEW:

Company Summary

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CORPORATE PARTICIPANTS

Daniel Harris *Carlyle Group Inc - Partner & Head of Public Investor Relations*

Harvey Schwartz *Carlyle Group Inc - Chief Executive Officer, Director*

Justin Plouffe *Carlyle Group Inc - Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Alexander Blostein *The Goldman Sachs Group, Inc. - Analyst*

Steven Chubak *Wolfe Research LLC - Equity Analyst*

Brennan Hawken *Bank of Montreal - Analyst*

Michael Brown *UBS AG - Analyst*

Glenn Schorr *Evercore Inc. - Analyst*

Brian Bedell *Deutsche Bank AG - Analyst*

Kenneth Worthington *JPMorgan Chase & Co. - Analyst*

Mason Fleming *Barclays Investment Bank - Analyst*

Daniel Welden *Wells Fargo Securities LLC - Equity Analyst*

William Katz William Katz *TD Cowen - Analyst*

Crispin Love *Piper Jaffray Inc - Analyst*

Michael Cyprys *Morgan Stanley - Analyst*

Patrick Davitt *Bernstein Autonomous LLP - Analyst*

Bart Dziarski *RBC Capital Markets Inc - Equity Analyst*

PRESENTATION

Operator

Good day and welcome to The Carlyle Group's third-quarter 2026 earnings call. At this time, all participants are on a listen-only mode. After the speaker's presentation, there will be a question-and-answer session. (Operator instructions)

Please note this call may be recorded. I would now like to turn the call over to Daniel Harris, Head of Investor Relations. Please go ahead.

Daniel Harris - *Carlyle Group Inc - Partner & Head of Public Investor Relations*

Thank you, Michelle. Good morning and welcome to Carlyle's third-quarter 2026 earnings call. With me on the call this morning is our Chief Executive Officer, Harvey Schwartz and our Chief Financial Officer, Justin Plouff. Earlier this morning, we issued a press release and a detailed earnings presentation, which is available on our Investor Relations website. This call is being webcast and a replay will be available.

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 will have provided reconciliation of these measures to GAAP in our earnings release to the extent reasonably available.

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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 or annual report on Form 10-K that could cause actual results to differ materially from those indicated.

Carlisle assumes no obligation to update any forward-looking statements at any time. In order to ensure participation by everyone on the call today, please limit yourself to one question and return to the queue for any additional follow-ups. And with that, let me turn the call over to our Chief Executive Officer, Harvey Schwartz.

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

Good morning, everyone, and thank you for joining us. We delivered a strong third-quarter for our shareholders with distributable earnings of $1.12 per share, one of our best quarters ever. This is up 17% from a year ago and driven by a five-fold increase in net realized performance revenues. More importantly, we continue to build momentum across the global platform as we execute our strategic plans.

We have a near record level of pending fee earning AUM that resulted in more than $230 million in new management fees when activated. We continue to lead the industry in returning capital with distributions to our clients approaching $100 billion since the beginning of 2024, and we are just in the early stages of a powerful fundraising supercycle that will accelerate growth over the next several years. Before I walk through the highlights, I want to spend a few minutes on the macro environment.

The first observation I'll make is that the underlying economic engine remains quite strong. Our Carlyle economic indicators systematically roll up time series data across all of our portfolio companies, which collectively employ approximately 750,000 people. This gives us a unique perspective on underlying economic activity.

The data shows that annualized revenues grew at 6%, while EBITDA grew at a double-digit rate. This points to a durable and healthy economy, showing resiliency even during periods when market sentiment has been more volatile. The strong economy in combination with sticky inflation reinforces our long-held view that rates will stay higher for longer. That view reflects more than five years of inflation above the Fed's target.

We've been adapting to this higher rate environment for a long time and have found that the more normalized cost of capital towards disciplined underwriting, operational expertise, and global scale, all of which are Carlisle strengths. At the same time, geopolitical dynamics are reshaping the global investment landscape. In nearly every conversation with clients and government officials, new priorities come up: security and economic growth.

Whether it's national security, energy security, or data security, those priorities are driving enormous demand for capital in areas where we have deep expertise. With US midterm elections behind us, the results were more decisive than expected, but the outcome was largely as anticipated. The favorable market reaction is consistent with historical trends as greater clarity on the political landscape helps reduce uncertainty, and as I've said before, confidence is the greatest elixir for markets.

Now a few highlights from the quarter. First in global private equity, we remain a significant outlier in returning capital to our clients. Across our global private equity segment, we returned $24 billion to our clients over the past year and drilling down to corporate private equity, we returned 21% of fair value to investors over the past year. That's nearly double the industry average and represents the levels not seen since 2021.

As a firm, we made a strategic decision to monetize assets and return capital to investors. The substantial liquidity we've delivered over the past several years has addressed investors' needs and contributed directly to our success in attracting new capital. Second, we continue to see real operating momentum in global credit. During the quarter, we brought in more than $7 billion of inflows into global credit.

Fortitude's reinsurance transaction with Unum Group, which closed earlier this week, will add more than $5 billion to our AUM in the fourth-quarter. More recently, we announced a $7.7 billion asset-backed finance transaction with Truvis Financial Corporation, which shows

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how we're helping banks manage their balance sheets while giving our investors access to an attractive set of investment opportunities. These transactions underscore the accelerating demand for the strategy we built in private credit and insurance.

We have systematically diversified our revenue stream over the last three years. Transaction fees over the past year are a record $264 million, more than three times the 2023 level. We've also delivered record year-to-date fee-related performance revenue, driven by record AUM in our global wealth platform.

Looking ahead, we're seeing strong momentum across our businesses, and we expect the fourth-quarter to be one of our strongest ever for inflows, which Justin will discuss shortly. To wrap up, the forward momentum across our global platform is exceptional. We're delivering for our shareholders and are well positioned to build on that success in 2027 and beyond. With that, let me turn the call over to Justin.

Justin Plouffe - *Carlyle Group Inc - Chief Financial Officer*

Thanks, Harvey, and good morning, everyone. We delivered a strong third-quarter with a step-up in realizations and healthy net realized performance revenue. We generated distributable earnings of $433 million in the third-quarter or $1.12 per share, that's up 17% from a year ago. Year-to-date, distributable earnings were $1.2 billion worth $3.08 per share. P-related earnings were $293 million at a 47% margin. And year-to-date, FRE was a record $950 million.

As we look forward, we expect full year FRE to be the highest in our firm's history. Fund management fees were $1.65 billion year-to-date and were $547 million in the quarter. We expect management fees to step up meaningfully in 2027 as we activate the next generation of our flagship funds.

Transaction fees were a record $197 million year-to-date, up 25% compared to the same period last year and $33 million in the quarter. Fee-related performance revenues were also a record at $184 million year-to-date, up 46% compared to the same period last year and worth $50 million in the quarter.

Net realized performance revenues were $235 million year-to-date and our third-quarter result of $100 million increased fivefold from a year ago. This increase was driven by a diverse set of strategies in private equity and our global energy platform. Realized proceeds from our carry funds were $28 billion year-to-date, up 25% from the prior period and were $9 billion in the third-quarter.

Net accrued performance revenues were $2.1 billion. On a per share basis, this equates to over $6 per share in future earnings power. Turning now to inflows, we raised $41 billion year-to-date and $11 billion in the quarter, and we expect to close out the year with one of our best ever inflow quarters in Q4, with at least $20 billion of inflows expected, including the $5 billion transaction with Unum Group that Harvey mentioned earlier.

That is expected to bring full year inflows to about $60 billion, more than 10% above last year's level. As of the third-quarter, total AUM was $479 billion. And even more importantly, pending fee earning AUM rose to $28 billion, up almost 50% year-over-year and nearly the highest level in the firm's history.

That pending amount reflects a diverse set of strategies that have raised capital but have not yet activated fees, and it will give us more than $230 million of annualized management fees once fully activated. We expect this capital to be a key driver of our top-line growth in 2027. Again, and this is important to note, we remain at the very beginning of our multi-year fundraising supercycle.

We ended the quarter with $94 billion of available capital for investment, also approaching the highest level in firm history. This capital is spread across all three segments with $40 billion in global private equity, $32 billion in Carlyle Alpha Invest and $22 billion in global credit. Now let me turn to the individual segments, starting with global credit.

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Fee-related earnings were a record $324 million year-to-date, up 8% compared to the same period last year. For the third-quarter, fee-related earnings were $93 million, 11% higher than a year ago, driven by a 10% increase in management fees. Fee-related performance revenues and global credit continued to build with $120 million year-to-date, up 40% compared to last year.

Total AUM ended the quarter at $207 billion, which was supported by $7 billion of inflows, including a strong first close in our latest Vinge opportunistic credit fund. Deployment was $5 billion in the quarter, led by our liquid credit, aviation, and opportunistic credit strategies. Carlyle Alfinvest delivered record year-to-date FRE of $222 million, including $68 million in Q3.

Run rate management fees increased 16% year-to-date after adjusting for catch-up fees. Total AUM was $110 billion, up 8% year-over-year with $15 billion of inflows over the last 12 months. This strong momentum reflects the broad array of investment solutions that Alpha Invest has introduced over the past several years.

AlphaVest has historically invested largely through closed-end carry funds and institutional SMAs, but we have systematically introduced new evergreen strategies for the wealth channel and new verticals like portfolio finance and credit secondaries, which have allowed AlphaVest to expand its investor base and its universe of investable assets. Shifting to global private equity, third-quarter distributable earnings were $237 million, up more than 60% year-over-year on higher net realized performance revenue.

Fee-related earnings were $131 million in the quarter and fee-earning AUM was $96 billion. GPE realized proceeds were $5.7 billion in the quarter and $24 billion for the last 12 months, with notable exits including Rigaku, Kamino Natural Resources and Tescan Group. Deployment was nearly $4 billion, including Sectorian, first transaction from our new defense and industrials platform.

Finally, let me turn to Capital Management. We ended the quarter with over $7 billion of balance sheet assets or almost $20 per share. We declared a quarterly dividend of $0.35 per common share consistent with our dividend policy. We repurchased or withheld a record 15 million shares year-to-date, including 4.5 million shares in the quarter. Our share count is down about 2% thus far this year as we continue to actively manage dilution and see value in our share price.

We have $1.4 billion remaining on our $2 billion share repurchase authorization, giving us ample ability to continue managing share count. As RV noted, the underpinnings of our platform continue to show strong momentum. We remain on track for our three-year plan and are confident that growth will accelerate as we move through our fundraising super cycle. With that, let me turn it back to the operator to take your questions.

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator instructions)

Alexander Blostein, Goldman Sachs.

Alexander Blostein - *The Goldman Sachs Group, Inc. - Analyst*

Hey, Harvey, Justin, good morning, everybody. So I wanted to ask you guys around the growth outlook for the rest of the year and also into 2027, just given your comments around accelerating momentum that you expect in the business. You highlighted a number of times now that 2026 is a bit of a transition year, which we're obviously seeing play out. So maybe a couple of questions. One, should we still expect FRE growth to be in mid-single-digits for 2026?

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And then secondly, maybe you could speak to the budgeting of management to growth into 2027 and kind of some of the key building blocks.

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

Thanks, Doug. Appreciate the question. So yes, I think at the end of the year, we told you guys this would be more of a muted year for growth. It's more or less exactly on plan, give or take, I'd say, mid-single-digits. Might fall a little bit short of that as we come to the end of the year. It really depends on how the flow is, but we're talking 1% or 2% either side of that. So we're not talking meaningful numbers.

So again, it's more or less on plan. In terms of where we're really feeling quite good about the plan is the momentum in the aggregate franchise around the build-up in the beginning of the supercycle. So as Justin mentioned, and we really wanted to give you some sense of this, obviously, as we come into the end of the year, we're also one month. Into the quarter, the fund flows feel quite good coming into the fourth-quarter. Who knows if the world will feel some weird curveball and some things will move into the first-quarter, but that's irrelevant. So fund flows feel, inflows feel quite good.

I think the momentum going into '27 all feels quite good. I think the question marks really are more about the macro environment. What plays out over the next three to six months, we're seeing good momentum in the wealth channel. And we expect that to keep growing.

But I would say that's probably the only thing that's been a bit of a headwind for the industry and obviously in credit, and we've experienced a bit of that as well. But otherwise, everything feels more or less on plan exactly as we described you guys, give or take a percent or two. Now where we're really outperforming, obviously, is on the realization side. That continues. The pipeline on realizations actually feels quite good still. So in that sense, the momentum and the flows feel quite good across the whole platform.

All right. Thank you. Sure.

Operator

Steven Chubak, Wolf Research.

Steven Chubak - *Wolfe Research LLC - Equity Analyst*

Hi. Good morning, Harvey and Justin. Thanks for taking my question. So I was hoping to double-click into some of the comments you just made, Harvey, on the monetization outlook. Despite the challenged environment for some of the public holdings, you managed to realize a good chunk of the book this quarter.

Rigaku, among others. I was hoping you could speak to how you're thinking about the monetization pipeline over the next three to six months. It sounds like you guys are still seeing some good momentum there. And what's your line of sight on monetizations in early '27 and beyond? And how is that informed by the midterm outcome, if you can speak to that too?

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

I'll let Justin walk you through. But in terms of how we think about it, what we generally do is we give you insight into things that we actually know are in queue. So we don't really speculate beyond that, just so everybody has a sense of how we frame the numbers every time. So when we talk about it, absent market disruptions, we talk about it with a very high degree of confidence. But a lot has obviously happened. I would say, stepping back before Justin walks into the details, I think the market reaction to the midterms is consistent with history.

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The market, broadly speaking, tends to like something that approaches more of a gridlock situation in the second half of an administration. I think what we saw yesterday, less specifically around private markets, but public markets, I think what we saw was really the reaction to the degree to which the outcome, though expected directionally, actually ended up being more significant. Obviously, some of this is around.

The whole anticipation and thought process about capital flowing into data centers and AI, as strategically as a firm. We've approached this in a more diversified, I would say on a relative basis, more cautious, if you want to say, approach to allocating capital. And so particularly in credit, we've stayed very diversified around that. I actually think as we come into '27 and '28, this will give us a good resolution in terms of how people should think about AI in the data center.

I actually think it's going to open up more opportunities for folks like us as we get more clarity around the processes. And how this will play. But in terms of like the near-term outlook and things that we're seeing, let me have Justin walk you through.

Justin Plouffe - *Carlyle Group Inc - Chief Financial Officer*

Yes, and Steve, as realizations have been a strength for us for a while. We're actually approaching $100 billion of realizations now over the past three years. So it's been a consistent theme for us. Right now, we've got almost $6 billion of deals already signed up for exits that will come through in Q4 and some of those will be in 2027, but we continue to see momentum on the realizations.

It's been a strength for us, and we're continuing to return capital to LPs, which obviously they like. And to Harvey's point, I think the market for realizations is going to react well to stability and having one more thing taken off the table in terms of uncertainty. So I expect the market for realizations will continue to be strong for us.

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

On the public positions, obviously, you guys track all the public positions. They were a little muted for a while. Obviously, more recently, I don't know. What are the current numbers, Justin?

Justin Plouffe - *Carlyle Group Inc - Chief Financial Officer*

Well, yes, they were a bit more muted in Q3, but they're up 17% since the end of the quarter, which is $1 billion, actually a little more than $1 billion in value for our investors just in the last month. So we don't focus on the day-to-day movements of public stocks. We focus on whether or not we own good companies and we think we do, but since the end of the quarter, we've really seen momentum there.

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

That's great.

Justin Plouffe - *Carlyle Group Inc - Chief Financial Officer*

Thanks for taking my question. Sure.

Operator

Brendan Hawkins, BMO Capital Markets.

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Brennan Hawken - *Bank of Montreal - Analyst*

Good morning.

Justin Plouffe - *Carlyle Group Inc - Chief Financial Officer*

Hey, Brendan.

Brennan Hawken - *Bank of Montreal - Analyst*

Hey, so, was curious, looked at the AUM roll forward and saw that within credit, there was a $5.7 billion headwind from market and other to the fee-paying AUM line. The carry fund performance doesn't seem to reflect that. So I was guessing maybe it was SMAs. Could you maybe unpack what might have caused that and how we should think about that going forward?

Justin Plouffe - *Carlyle Group Inc - Chief Financial Officer*

Yeah, that's actually sort of a simple one, Brendan, although it doesn't is an obvious. And jump off the page. Rates went up during the quarter, and what that means is that the fair value of assets at our Fortitude affiliate go down doesn't mean it changes really the amount that we're managing. It doesn't change anything about performance. It's not outflows.

That $5 billion is really just the impact of higher rates on the Fortitude fair value mark. Overall, look, we're returning capital to investors at a high rate, which we said, which is a good thing, and that's. You want us to do. So there's some AUM impact to that, but the particular one you mentioned is really just the math on higher rates.

Brennan Hawken - *Bank of Montreal - Analyst*

Yes, that makes sense. Give me September. Thanks, Justin.

Justin Plouffe - *Carlyle Group Inc - Chief Financial Officer*

Sure, no problem.

Operator

Mike Brown, UBS.

Michael Brown - *UBS AG - Analyst*

Great. Good morning. Thanks for taking my question. Hey, Harvey. Hey, Justin. Can you just, if you could touch on the fundraising and the wealth channel, how have the infos been into drawdown and evergreens here? And is it, can you talk about, is it kind of a challenge raising in both types currently? And then on the evergreens specifically, can you maybe just provide a pulse check on the gross sales by major fund and then how redemptions could transfer CTAC based on some of your real-time conversations in the channel?

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Justin Plouffe - *Carlyle Group Inc - Chief Financial Officer*

Yeah, sure. Look, we continue to have really strong momentum in the wealth channel. Our inflows are 24% up, LTM. Our AUM is 30% up year-over-year. So wealth continues to be a growth engine for us. I'd particularly call out our products in Alpinvest, which continue to take in strong inflows. And then our CPEP product, which is our Carlyle-wide private equity product, that actually just as of yesterday crossed $1 billion in AUM. So we're seeing. Momentum there.

At a high level, obviously, the entire market in private credit started to have some noise around it back in the spring. We're starting to see redemption levels stabilize and come down. So if those products continue to perform across the industry, I think you'll see that turnaround as well. So look, wealth for us continues to be a growth driver. We've got a great momentum and we expect it to be key for us in '27 and beyond.

Michael Brown - *UBS AG - Analyst*

And sorry, are you also seeing some capital flowing through to CP9 from the wealth channel?

Justin Plouffe - *Carlyle Group Inc - Chief Financial Officer*

So we haven't had a first close there. Whether or not the wealth channel will be a part of that, I'm sure it will be part of all of our major fundraisers. But what we tried to do in the wealth channel is be really thoughtful about the products that we're bringing to that channel and make sure they're really designed well for that channel. PPEP is a great example of that. We spent a lot of time designing that product as a private equity product that made sense for individual wealth investors. We intentionally rolled it out slowly last year, and now we're getting on the big platforms. And I think because it was designed well for that channel, that's one of the reasons we're seeing so much momentum there.

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

Mike, I think this is at the core of your question or the way you asked it, but I think Justin's covered virtually all of it is. I think sort of like the mix of drawdown versus Evergreen virtually, and the team will confirm all these numbers with you offline in detail if you want, but it's really been all driven by Evergreen, which has been our focus. We really haven't been in a market with drawdown. As the supercycle begins, there will be a component of drawdown for funds that make sense for drawdown.

But what we were just really walking you through is the evergreen mix, which, as there wasn't much of an evergreen strategy a couple of years ago, but the team has really done a remarkable job of bringing things to market. But there really hasn't been drawdown activity. But that's in Q for '27, '28.

Michael Brown - *UBS AG - Analyst*

Okay, great. Thank you for that clarification on that comment.

Operator

Glenn Score, Evercore.

Glenn Schorr - *Evercore Inc. - Analyst*

Hi, thanks so much.

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Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

Hey, Glenn.

Glenn Schorr - *Evercore Inc. - Analyst*

Hello there. So I wonder if you could help us on even just conceptually on the FRE RAM through 27 and 28. You have a ton of dry powder. I'm curious on in a normal-ish backdrop, whatever that means, is that a one or two year deployment or two or three year deployment? What I'm trying to get at is.

How much of that FRE ramp from this like low single-digit number is within your control in terms of deploying capital that you already have? And how much do we have to rely on the supercycle happening and, the market could or could not help or take it that away? So you get what I'm getting at? What's within your?

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

Yeah, no, we got it. You got it. So, yeah, I understand my question. We're not going to unpack that completely for you. S, I only tell you that so that you can be prepared to be dissatisfied. But let me give you that sort of theoretical framing and thinking about it. So when the way we think about the supercycle, and we have a good feel for the supercycle in terms of, again, barring unforeseen macro factors, what's in queue, what the momentum build looks like. And obviously, in many cases, as we raise those funds, you immediately get fees in those drawdown vehicles, et cetera.

In terms of the backlog of the deployment, I think you're just seeing sort of the transition of very large monetization period, certainly relative to the industry group, and then the buildup in new capital. So we're in this transition mode, again, which going back to the plan we walked you through earlier this year, it's more or less spot on with the plan with a couple of give and takes. And so you should expect FRE.

Build as we come through '27. And I think where you can draw confidence from all this is because we have these different levers. We have capital markets activity, which again flywheels off of the fundraising, actually having all the funds in a position where they can drive capital markets activity. So we're feeling pretty confident about all that collective momentum, hard to unbundle.

Precise deployment because we put no pressure on the teams to deploy. What we really demand from the teams is that they price the risk correctly, and we're seeing some pretty attractive opportunities out there. I think as we come into '27, we're going to continue to see great opportunities to price marginal risk, but that's how the teams are thinking about deployment. We obviously control more of the factors around the fundraising. So really, it only ends up being really a factor of timing.

What we'll try and do is at some point in '27, we'll give you a more detailed update so you can wrap your brain around it. I hope that was helpful.

Glenn Schorr - *Evercore Inc. - Analyst*

Yeah. Thanks, Harvey.

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

Thanks, Glenn.

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Operator

Brian Bedell, Deutsche Bank.

Brian Bedell - *Deutsche Bank AG - Analyst*

Great. Thanks. Thanks. Good morning. Thanks for taking the question. Let me just to go back to the monetization cycle, to what extent do you expect this pace to accelerate your fundraising plans as we come into '27? And in terms of that return or capital, which areas could it help influence the fundraising? Clearly, CP9 is one of them. But maybe if you can comment on what other types of strategies in Global PE and maybe even in credit would benefit from the acceleration of return of capital?

Justin Plouffe - *Carlyle Group Inc - Chief Financial Officer*

Look, I think they all benefit from return of capital because it's probably the number one issue on LP's minds. So it's particularly pronounced in PE. The PE industry has been challenged in terms of return of capital. Obviously, we have not. We've been one of the outliers in that space. Certainly, CP9, our defense and industrial strategy. But even in credit, I would say the realizations we've had in CCOF returning capital showing improving out that strategy have really helped us with the fundraise there. We had a great set of first closings in Q3 with over $3.3 billion in that strategy.

So it's top of LP Minds. Returning capital is going to benefit every one of our strategies, particularly in private equity, but that's why we're going to continue to do it and we've always done this and I can't emphasize that enough. Our teams think about exits at the moment that we make the investment. So for us to say we're doing $100 billion, that's an outlier over three years for the industry, but for us, I mean, this is what we plan to do, this is right on track and LPs greatly appreciate that. Thank you.

Operator

Ken Worthington, JP Morgan.

Kenneth Worthington - *JPMorgan Chase & Co. - Analyst*

Hi, good morning. Thanks for taking the question. 42 has been active in recent quarters buying blocks of business. Does the change in the interest rate outlook alter the opportunity or appetite to buy and execute on these blocks and maybe talk a little bit about how dialogue is going to continue to expand that business?

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

So the short answer to that is no. Obviously, interest rates have an impact on the overall environment everywhere, every asset class. I think that.

What the team has been quite focused on is the integrated approach to managing insurance capital around the globe. And what Fortitude does, obviously, gives us the ability to provide total. But if you think of the entire insurance space globally, where we're getting the collective momentum as a solution provider, as a fiduciary.

Because obviously, we're not in the annuity business, is the ability to be a third-party provider of capital but also an asset manager at the same time. So if an insurer has a capital need, obviously, Fortitude can be that capital provider. But more broadly across the insurance base, the types of transactions, we're doing an asset-based finance, aviation finance, some of those solutions that we're putting together in Carl Alvinvest, all of these are.

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Very valuable solutions in private investment. And so this is all about completing out that aspect of the platform so that we can be a solution provider for any insurer, whether they desire capital or risk transfer or whether they're in an excess capital position and then want to deploy capital for us to manage. But that's how it fits.

Kenneth Worthington - *JPMorgan Chase & Co. - Analyst*

Interesting. Thank you very much.

Operator

Mason Fleming, Barclays Capital.

Mason Fleming - *Barclays Investment Bank - Analyst*

Hi. This is actually Ben Boudish from Barclays. Thanks for taking the question. You talked about the realization cycle being supportive of flows. I was wondering if you could just click in more to CP9 specifically. That's obviously kind of your largest flagship fund in the market. We've seen, I think, $5 billion come in so far. So curious if you could update on that one. Any kind of changing your term expectations and your confidence on being able to raise more than the predecessor funds? Thank you.

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

So the specifics on the narrative around the fundraising, we're really constrained about what we can talk about, but obviously we'll be having our first close coming up in the next couple of months. So you'll more insight into that. I think, to add to what Justin was saying before on a prior question, so in terms of fund flows and returning capital.

In private equity, broadly, where we've been the most significant outlier, we get the most significant benefit. So in a sector where clients are feeling that they're not getting adequate return of capital, if you're one of the outliers that's actually returning capital, obviously, that resonates with them. And so, again, this was a strategic decision we made a couple of years ago. We liked the market environment. We knew we had the right companies. We had very little.

Exposure to software or areas where very high multiple positions were struggling to come through the marketplace. I think it's still going to take the industry a bit of time to digest the capital that is a bit trapped.

But for us, we've seen a unique window relative to the industry group. And so we've obviously been monetizing a lot of assets and will continue. I think that just sets us up better for fundraising over time and speaks to the breadth and diversification of the business. So in particular for private equity, when you can return capital to any sector where others aren't, it's a differentiating factor. So it's a plus. All right, great. Thanks, Harvey.

Operator

Dan Weldon, Wells Fargo.

Daniel Welden - *Wells Fargo Securities LLC - Equity Analyst*

Good morning. I want to follow-up on your comments on AI credit and data center investments where you've been more cautious. It sounds like you might see better risk-adjusted returns in this new backdrop. How do you think about approaching that market? Are we talking about

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sort of maybe more deployment. From existing funds raising new special purpose funds, or is it more of a capital markets focus? Like, how do you think about wading into that area?

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

Yeah. So, we put out Mark Jenkins, co-President, head of credit insurance, and Jason Thomas put out a paper not too long without a lot of attention, which, I think for some of the media was a little misunderstood, but the core of it really reflected our investment thesis as it relates to the space broadly, which is, one, we are very strong believers in the impact of AI, the technology, what it will do over time. What we were a little more cautious about were some of the uncertainties around structures, collateral, the rush of capital.

And just not repeating some of the mistakes that were made just a couple of years ago by parts of the marketplace in the saskapolas, right? So we didn't want to be over-allocated and particularly this relates to credit where we felt like the strategy that Mark and the team have been driving for a long time of success is, look, there's.

A lot of value in diversification. And so this is about not being over allocated and the same as it relates to equity. Now, I think as we move through this part of the cycle, my own personal view is data centers are going to get built. This is a problem that is not going to be an inability to have data centers. I think actually what we're going to do is we're going to end up getting to a place where we have actually more certainty around this. And I think as we get more clarity.

The risk-adjusted returns will actually even get better as a deployer of capital. So I see it as an opportunity set. In terms of the ability to raise special purpose vehicles or things like that, that's always an opportunity set. But I was really talking about the framework over the next 18 months.

I actually think the opportunities to deploy capital become more attractive. We are not ever going to violate the first principle about diversification here because I think we think it makes it just. Better doable returns for our clients and more doable returns for the firm. We're big believers in the thesis, and as we get more clarity and work through support of the cycle, I actually think you'll see some pretty attractive risk-adjusted returns with more certainty.

Daniel Welden - *Wells Fargo Securities LLC - Equity Analyst*

Thank you.

Operator

Bill Katz, TD Cowen.

William Katz William Katz - *TD Cowen - Analyst*

Good morning. This is Robin Holby on for Bill Katz, and thank you for taking the question. We wanted to ask about the $8 billion loan acquisition from Truist. Are there any puts and takes to the timing of how you bring this into fee paying AUM? And are there any balance sheet considerations from Carlisle, and what are the expected fee economics to Carlisle from the transaction?

Justin Plouffe - *Carlyle Group Inc - Chief Financial Officer*

Yes, so that was a Q4 transaction, and so you'll see it flow through next quarter. There's nothing particularly unusual about it, not a balance sheet commitment, just a transaction done by our asset-backed finance team, one of the teams I think that has had some of the best

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deployment for us over the course of the past year. So I think it's just another example of the capabilities we have in asset-backed finance, a growing business for us, but nothing in particular unusual about it in terms of fees or balance sheet.

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

Yeah, I think the only takeaway you should have is you've emphasized this business for a couple of years now. Team's done an amazing job. They've been very disciplined about how they've built the business, designed the business, deployed the capital, grown the business. But this wasn't something the business was capable of doing three years ago. But clearly, you've seen a number of large transactions, and they're front and center in a lot of these important flows.

William Katz William Katz - *TD Cowen - Analyst*

Thank you for taking the questions.

Operator

Kristen Love, Piper Sandler.

Crispin Love - *Piper Jaffray Inc - Analyst*

Thank you. Good morning. I appreciate taking the question. Can you share some of the drivers in the transaction and advisory fee line in the quarter? It was a little lighter compared to recent quarters. Some peers had more elevated levels. And I understand these can be lumpier, but just curious on the drivers in the third-quarter and perhaps more importantly, the outlook, just longer-term growth opportunity in this line?

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

Quarter to quarter, it's going to periodically be lumpy. I think the underscoring point you have to remember is we're not really. Any balance sheet here. So the quality of the revenue stream here is as high-quality as you would like and it's all going to flow off of activity levels. So sometimes you'll see an announcement, then you'll see fees come in the next quarter, the subsequent two quarters, but it's all about the integrated flywheel effect of building.

A higher quality revenue stream without committing balance sheet or de minimis balance sheet when needed to drive those fees. And so I guess if we were deploying lots of balance sheet, we could probably smooth out that activity. It's just not the lower quality earnings that we want to drive for right now. This is really just all about the franchise and what the franchise is able to drive.

Again, as we come through the supercycle of fundraising, that creates more activity, more deployment, more fees, but it's not going to be linear quarter to quarter, but you've seen the growth we've had over the last couple of years, and we expect it to continue to build.

Crispin Love - *Piper Jaffray Inc - Analyst*

Great. Thank you. I appreciate taking the question.

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

Sure.

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Operator

Michael Cypress, Morgan Stanley.

Michael Cyprys - *Morgan Stanley - Analyst*

Hey, good morning. Thanks for taking the question. So you've talked about entering a significant fundraising cycle here with a number of flagships coming to the market. I was just hoping you could speak to what you're seeing in terms of institutional demand trends, how that's evolving in the context of just the broader industry backdrop being a bit lighter from realizations, understanding that you guys have been a bit more active, so that should be helpful. And as we look to '27, I guess how much visibility do you have on a more meaningful acceleration in fundraising and how should we be. Think about the timing of fund activations.

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

So I think at the highest level, the easiest way to do it is to just break down the industry segments. From an institutional perspective, I would say that secondary co-invest solutions business right in the center of a huge amount of institutional interest in activity. And. That has to do with a lot of things, not just the fact that the flip side of that coin is that the industry has been slow to monetize on the private equity side, but portfolio structuring and being a real solution provider has proved to be a really unique advantage. So it may just be reallocating across asset classes or how to think about funds. And so the momentum there.

Feels quite sticky and persistent right now. I would say in credit, it feels quite good also for the wealth channel, which in credit obviously has had some challenges for the industry. I think institutional activities continue to pick up, and they're seeing value across credit. And when I say that, I'm not really just talking about a narrow slice. I'm talking fully across the cap stack from investment grade all the way through. You've seen also.

Great sale of activity for us. And so I'd say that the institutional level of activity in credit is quite good. And then in private equity, I would say institutional activity, hard to say. I would say in terms of, again, the big problem for the industry is that the peer group is not returning enough capital, broadly speaking, across the industry.

But I think that that has likely sort of hit a bottom now, whether or not we see a huge uptick. But clearly for our asset classes, aerospace, defense, government services, things we do in diversified energy, health care, those are in vogue. I think if you just ended up in the unfortunate position where you had a technology disruption with very high multiple and a lot of SaaS exposure, it's a little more difficult. But it feels like institutional interest, particularly around those asset classes, is picking up somewhat.

But I wouldn't say it's a hockey stick at this stage. But the rest of the, across the rest of the industry, at the institutional, feels quite good.

Michael Cyprys - *Morgan Stanley - Analyst*

And then just on the visibility into 27 for acceleration and fundraising, how are you thinking about that?

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

As we talk about, we're in the beginning of the supercycle. I think Justin was pretty specific. It feels like the fourth-quarter will be one of our best inflow quarters ever. And then we'll really be in the thick of things in '27 and '28. So, but I can't, we don't really think about it like accelerating from Q2 to Q1 or anything like that. I understand the models that you guys have to build. It's just not the way we think through the fundraising.

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Michael Cyprys - *Morgan Stanley - Analyst*

Great. Thank you.

Operator

Patrick Davis, Autonomous Research.

Patrick Davitt - *Bernstein Autonomous LLP - Analyst*

Good morning, everyone. Most of mine have been asked. I got a clarification on the CP9 point. It sounds like you see a first close in 4Q. So on that, I want to confirm that you already reported the $5 billion structured commitment in 2Q, right? So the first close will just be the amount above that $5 billion. Is that the right way to think about it?

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

I think whether or not it's Q4 or the beginning of Q1, I wasn't specific about that, but in the next couple of months. But yeah, I think you should do that. And that will likely be, as you've seen, I don't want to get stapled to a wall here on this. I would say that probably feels more like a 1A followed by a 1B. And this is really just a question of timing for. Institutional investors to get docs done and seasonality and things like that. But yeah, that'll be a subcomponent of the first close would be the $5 billion.

Patrick Davitt - *Bernstein Autonomous LLP - Analyst*

But the $5 billion aren't even reported, is my question. Like it's not whenever you... Yeah.

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

Oh, correct, sorry. We think it closes, but yeah, that's reported. Obviously, we have to report that. But I view that as sort of like just a cornerstone. Part of the capital raise. That's not really the first close. That's part of the first close, obviously, in the vernacular.

Patrick Davitt - *Bernstein Autonomous LLP - Analyst*

And it's already run through the AUM flow forward. I'm just, yeah, I'm trying to figure out like how big of a policy. Yeah 100%. Thank you.

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

That's the right way to think about it.

Patrick Davitt - *Bernstein Autonomous LLP - Analyst*

Great. Thanks, guys.

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

Thank you.

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Operator

Bart Dziarski, RBC Capital Markets.

Bart Dziarski - *RBC Capital Markets Inc - Equity Analyst*

Hi, good morning. Thanks for taking the question. Wanted to ask, given the higher rate environment, how are you evolving or adapting the value creation plans to ensure performance in private equity is not impacted? I presume there's more focus on operational value-add. So anything you can help us understand through that would be great.

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

So one of the great things I stepped into when I arrived at Carlisle among the many great things, one was a. I would say, very conservative approach to liability management at the portfolio companies and a great capital markets team. Now, we didn't have a capital markets fee business, which actually we built over that time, but we had a great liability management team, which has now extended all the work they do at Carlyle. But we've always taken a conservative approach to interest rates. One of the reasons, in part, we've been able to have monetizations is.

I remember when I first got here three years ago when rates started to go up, we had really the most conservative liability structures. And so we haven't relied as much on interest rates or refinancings. When you actually go through the portfolio monetizations and the history of Carlyle, it's not interest rates per se that's driving value. Now, sometimes you get cycles where obviously there was a long cycle where rates were lower and you could refinance and that was a value contributor to certain assets, but that hasn't been the driver of value creation.

We certainly, every time we acquire a company, the team is working with all of our economists to best understand how much risk they want to take from that perspective, but we're not aggressive risk-takers when it comes to liability structures in those companies. Where we point our energy is on if it's a carve-out, the expertise it requires to take a carve-out, whether it's a roll-up strategy.

How are we doing marketing? What are we doing in terms of AI? These are much more critical components or data science, much more critical components to value creation than interest rates themselves. But we generally, as a firm, take a pretty conservative view to liability management, and that's just the history that Bill Conway and the founders ran the company with for 40 years.

Bart Dziarski - *RBC Capital Markets Inc - Equity Analyst*

Great. That's very helpful. Thanks for the color.

Operator

Brian Bedell, Deutsche Bank.

Brian Bedell - *Deutsche Bank AG - Analyst*

Great. Just a couple of quick follow-ups. Just on transaction fees, is the truest ADF? Is that something that will materially impact the fourth-quarter transaction fees? And then just maybe just some perspective on the timing of $230 million of pending fee earning AUM fees to come into the fee stream. I know it's always hard to predict, but maybe on the credit side, how would you think about timing of that later on again?

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Justin Plouffe - *Carlyle Group Inc - Chief Financial Officer*

Yeah, sure. On the pending/fearing AUM, very broad-based where that's coming from, so hard to say blanket statement. I would say historically, it's kind of a 12 to 24-month type of number, but that will depend on credit deployment.

Truist was a fourth-quarter deal, so you'll see that come through the fourth-quarter numbers. We've got a number of things coming through in transaction fees in the fourth-quarter, so I expect it will be a good quarter for us in that regard. But obviously, we've got two months left, so we'll to see how that goes. But yes, for the pending fee earning AUM, you're going to see that come through in '27 and '28. And as I said before, that's going to be a driver of our top-line.

Operator

Thank you. This concludes the question-and-answer session. I'd like to turn the call back over to Daniel Harris for any closing remarks.U

Daniel Harris - *Carlyle Group Inc - Partner & Head of Public Investor Relations*

Thank you, everyone, for your time today. Should you have any questions after the call, follow-up with investor relations, and we look forward to talking to you again next quarter.

Operator

Thank you for your participation. You may now disconnect. Good day.

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