The Carlyle Group

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Michael Cyprys: All right. For important disclosures, please see the Morgan Stanley research disclosure website at morganstanley.com/researchdisclosures. The taking of photographs and the use of recording devices is also not allowed. If you have any questions, please reach out to your Morgan Stanley sales representative.

All right, with that out of the way, good morning, everyone. Thanks for joining us here on Day 3 of the Morgan Stanley Financials Conference. I'm Mike Cyprys, equity analyst covering brokers, asset managers, and exchanges for Morgan Stanley Research. And for our next session, I'm excited to welcome John Redett, the CFO at Carlyle. As many of you know, Carlyle is a global alternative asset manager with over $400 billion of assets under management across private equity, real assets, credit, and solutions.

John, thank you so much for joining us here this morning.

John Redett: Mike, thanks for having us here today, and it's good to be with all of you. And as for historical, we've had a very good relationship with Morgan Stanley, so thanks for inviting us.

Michael Cyprys: And we appreciate it. So why don't we kick off with a little bit of an introduction of your background and your transition to the CFO role? You've been at the firm, at Carlyle for many years. You stepped into the CFO role, I think it was about a year ago, actually, this time. How's the transition been and how are you allocating your time these days?

John Redett: Yes, so I've been at Carlyle for 17 years. Up until I became CFO around 12 months ago--I think it was officially 9 months--but when I transitioned 12 months ago, my last job in private equity was I ran financial services private equity globally for Carlyle. And of the 17 years at Carlyle, 16 of those have been on the private equity side of the business. So I've been at the firm a long time.

And being a public company CFO was not on my list of things I wanted to do in life. But when we had some turnover at the CEO level, we hired Harvey, and I spent a lot of time with Harvey when he joined. I was the financial services expert in Carlyle, so I spent a lot of time with him. And the banking crisis, mini-banking crisis we had hit right when he started, so I spent an extraordinary amount of time with him. And I really liked the way he thought about the business. And it was really, in my opinion, the first time we had had a real world-class operator running the business. So when he asked me to be CFO, I jumped at the opportunity. I was quite excited about it.

So 12 months in, I think the transition's been pretty good. I think what has enabled that to be quite smooth was, A, I've been at Carlyle for 17 years; I know the firm exceedingly well. I know all the senior people at Carlyle. And 2, I've spent my entire Carlyle career and my career before Carlyle in financial services. So this is just a sector I know exceptionally well.

Michael Cyprys: Great. Maybe you can give us a little bit of an update on the strategy that Harvey has laid out. Talk about some of the progress that you've made so far.

John Redett: Yes, so I think you just need to take a step back and more at a high level. We have made some organizational changes that I think create better alignment to drive growth within the organization. If you look at the management team in place, it's entirely new. Harvey has been here 15 months. I've been CFO for 12 months. We have a new COO, we have a new Chief Technology Officer, we have a new Head of Distribution, we have a new Head of Wealth Distribution, we have a new Head of Communications. So the entire management team is new, and I would say we've been incredibly fortunate because this team works incredibly well together, and that's not always the case when you make that amount of changes.

So we have a new team in place. Some of the, I think, the big changes we made in the last 12 months, and Harvey led a lot of this, was the first thing I tackled when I became CFO was our compensation. And our compensation structure really had not changed much since we went public 12-odd years ago. And most of our competitors have altered their compensation structure. So we spent a lot of time internally, very carefully thinking through a compensation construct that created better alignment among our stakeholders, our stakeholders being our employees, our shareholders, and our LPs. And I think we put forward something in the fourth quarter that really reflects that hard work. Any time you adjust compensation in a human capital business, you have to be careful. I think that change was incredibly successful, very well received, and there's an additional component to that in terms of how we granted stock to people that are actually driving the growth in the business. And that stock is tied to our stock price, which is the first time we've ever done that. So those were some big changes.

We completely rethought how we think about capital as a firm. I don't think Carlyle as a whole really was all that analytical in terms of the allocation of capital, so that's completely changed. And lastly, expenses--I think the firm had just gotten a little fat, and it was pretty easy to find opportunities to where we were not spending money wisely. This was not an exercise about cutting to the bone. This was just, "Let's make the firm more efficient," because I do think more efficient firms are better able to respond to market changes and grow. And I saw that in the 35 investments I made in the private equity space.

So it's a lot of change in 12 months, and I think that when you look at the financial results, you're starting to see that change happen. So fourth quarter FRE was a record.

Last year, 2023 FRE was a record. First quarter FRE was a record. Our margin is in the mid-40s, our FRE margin. If you go back 10 years, it's probably averaged 20% to 25%. So these are some pretty big movements.

So as I sit here and look at the business today, I feel very good about the momentum the firm has. And when I just take a step back and I look at the platform, I like the collection of businesses we have. I like our credit business, I like our PE business, I like our solutions business. I don't see any real gaping holes.

Michael Cyprys: So you mentioned margin, you mentioned expenses, so why don't we just dive into that angle? I'm going to jump ahead to my margin and expense question here and instead, we'll come back to some other topics in a moment. So you have a 40% to 50% margin target for this year. Maybe just talk about some of the underlying contributors to get there. Clearly, you've made some changes on the compensation side, but as you look ahead on a multiyear outlook, maybe you can help unpack some of the building blocks, whether it's around the fee activations and give us a flavor for the type of expense cuts. You mentioned some expense cuts you've put through. Is there scope for more? Is there scope for more efficiency add?

John Redett: Yes, look, this is never going to be an expense story. This is going to be a growth story, and we're completely focused on growth. That said, I'm running the firm like I would expect a CFO of a portfolio company to run the firm. Let's spend the money wisely like it's our money, let's operate the business efficiently. So when I look at the margin going forward, it's going to be a combination of the comp change we made, running the business efficiently, and driving growth across our three main businesses.

We put that 40% to 50% range out there, and I realize it's a pretty large range, and we're operating already at the midpoint of that range, 45%. I know our margin was 47% in the first quarter. I think it was 43% in the fourth quarter. I think we can operate the business in the mid-40s for the near term. It would be my hope and intention that we could run the business at the high end of that range down the road, and I'm pretty confident we can get there.

Michael Cyprys: So that's more like a medium-term, couple of years type timeframe to get there?

John Redett: We're going to do it in a way that makes sense for the business.

Michael Cyprys: Fair enough. Why don't we tick it up a notch, big picture, and maybe we could talk about some of the macro trends that you're seeing across the world through the lens of your portfolio, whether it's inflation, high interest rate backdrop. Just curious of what you're seeing and how that's impacting some of the portfolio company trends in terms of revenue and earnings growth.

John Redett: Yes, so we're certainly operating in a different rate environment than most of us have been operating in for a long time. The time these rates went up was incredibly swift and quick. In terms of our capital structure, I would say we were very forward-leaning and aggressive at the beginning of this rate hike cycle, so I feel very good about our capital structures. I don't think we have a meaningful refinancing until '26 or '27, so I sleep very good at night on that front.

In terms of looking at our portfolio, and I'll start with private equity, I would say our portfolio is performing a lot better today than I would have expected a year ago. And you can see the dilemma that [indiscernible] faces when you look at the data. And we have unbelievable data. We have companies we own all over the world. We employ through our portfolio companies, I think, 1.3 million employees. So we have unbelievable data. And in the US in our PE portfolio, our EBITDA's growing 10-plus percent, our revenues are growing 7.5%, our margins improved the last 12 months 150 to 250 basis points. So our portfolios are performing really well.

When you look at our credit business, it's a very similar story. Admittedly, we probably go a little more higher up on the credit spectrum, but our asset quality metrics are at historic lows. So across the portfolio, our performance is better than I thought it would have been.

Michael Cyprys: And related to that, you guys have about $75 billion of dry powder. So maybe with that backdrop that you outlined there from a macro standpoint and some of the portfolio trends, where are you seeing some of the interesting opportunities for capital to work? Any areas that you're avoiding today?

John Redett: Yes, so we have $75 billion of dry powder. I think roughly half of that is in our private equity business. I like having a lot of dry powder as we sit here today. I think it's a good thing to have.

We see opportunities across the platform. I would say in private equity, we just closed a Japanese buyout fund which was meaningfully larger than our last one. They've been very active. They've been in the news recently with some deals. We see a lot of opportunity there. I would say in the United States, our pipeline of opportunity has picked up in the last couple of months, so I'm pretty optimistic there.

Outside of private equity, our solutions business, which is a fantastic business, unbelievable organic growth, they've been very active. We continue to see opportunity in our solutions business with secondaries, co-investment as well as NAP financing.

And really in our credit platform, we're seeing opportunity across the platform. The asset-backed space continues to have a lot of tailwinds. I think that continues for quite a bit of time. I think there are some exciting things going on there. Our insurance business continues to have a lot of opportunities. The CLO market really opened up in the first quarter. We were very active. So I see a lot of opportunities across the platform.

There's pockets where the pipeline's not as good as you would like it to be, but generally speaking, there's a lot of opportunity across the platform.

Michael Cyprys: That's encouraging to hear that the private equity pipeline is picking up.

John Redett: Yes, it is encouraging. A couple of months ago it was a little slow. I think we're close on a couple of things, so I feel pretty good. But that's very dependent on markets, and I'd say the DEP markets are open. The IPO market is not as open as investment bankers tell you it's open, but it's getting better.

Michael Cyprys: Okay. Maybe shifting over to the exit backdrop, you had a very meaningful, large exit already this year. And when you look at the overall portfolio today, particularly on the private equity side, how much of that would you say is exit ready and you're just waiting for a better macro backdrop for pulling the trigger in realizations. Do you need the IPO market to come back in order to see meaningful exits?

John Redett: So in our private equity business, I would say roughly half of the investments are 4 years or older, so we have a lot of good companies that we're ready to exit. And we have $2.2 billion of accrued carry on our balance sheet, which is a huge number. So if the markets continue on their current trajectory, I think you'll see a lot of realization activity. And in particular in the US, we have more than a handful of companies that we're ready to exit, and these are good companies. So I'm optimistic, but we need these markets to continue to improve.

Having the IPO market openly available, accessible, is very helpful in terms of how we think about exits. Oftentimes, we like to run a dual-track process. And with the IPO markets closed, you can't really do that.

Michael Cyprys: And how's the pipeline today of exits as you look out?

John Redett: It's pretty full. It's full. I feel good about it. It's full of some high-quality companies that I think will have some real interest. So I'm pretty optimistic for the year. It's really hard for me to think about it quarter to quarter, but over a longer-term trend, assuming the markets continue to improve, I feel pretty good about it.

Michael Cyprys: Do you think the election could have any impact on the realization exit pipeline or the deployment?

John Redett: The election's probably a multi-hour conversation.

Michael Cyprys: What's the 30-second takeaway?

John Redett: It's entirely possible that a lot of things slow down in and around the election.

Michael Cyprys: Okay. Maybe shifting gears to fundraising, you have suggested that you could raise $40 billion of capital this year. Maybe talk a little bit about the building blocks to get there and what gives you the confidence in $40 billion.

John Redett: So when we put the $40 billion target out there last year, we obviously had pretty good clarity into it to put that out there, and we still feel very good about that number. I know our first quarter was lower than some people expected, but that followed a huge fourth quarter, so we expected it to be light. And actually, it ended up coming in exactly as expected, almost to the dollar. The second quarter will be meaningfully higher, so I feel good about that, and we still feel very good about the $40 billion number.

So what also gives me comfort about the number is it's spread across our three businesses. We're not really dependent on one particular fund to drive us to that $40 billion, $40 billion plus. So it's spread across solutions, it's spread across credit, and it's spread across our private equity business--our private equity business, including our real estate business.

Michael Cyprys: Great. Maybe digging into some of the businesses, starting with private credit, maybe just give us a sense of the capability set today. You guys have been building out the private credit business for a number of years. Maybe talk about the progress that you've seen so far. Where do you see incremental opportunities to continue to build out the private career business?

John Redett: The private credit business for us is a very important business. We've been very vocal. We want to grow this business, we want to scale this business. It's a business we're very pleased with how it's performed. If you look out over the last 4 years, our FRE's up 3x, our AUM's up 3x. So this is a business that's growing. We're very happy with this business in terms of how it's performed. But we also want to further grow and further scale the business.

So I think when you look at the spectrum of products you want to have on the credit platform, we have all the credit products we need. Now there are some areas where I think we need to scale more, and we're focusing on those businesses. But we have an insurance business, we have Fortitude. We have one of the largest CLO businesses in the world. We have a very good opportunistic credit business. We have a direct lending business. We have an infrastructure credit business. And we're rapidly building a high-growth asset-backed business which I think is going to be a big driver of that growth going forward. So we have all the pieces. There are certain areas where I think we need to better scale, and we're very focused on that. But I think our credit platform will be a key contributor to our growth drivers going forward.

Michael Cyprys: Which would be some of the areas that you're more focused on scaling, would you say?

John Redett: I think we can better further scale our direct lending business. I think we can better scale our infrastructure credit business. And I would say our asset-backed business is scaling quite rapidly. We've gone from zero to $7 billion in 18 months, and I would expect that kind of acceleration and growth to continue.

Another key driver of our credit growth is our wealth product, CTAC, which has very good performance. And that is a mix of what we have across the credit platform. We're very pleased with how that product is performing and also starting to scale. And that's on all the major platforms you want to be on.

Michael Cyprys: When you think about scaling infrastructure credit, direct lending, the asset-based finance business, what are some of the steps that come to mind as you look out over the next 2 years, some of the action items that you would envision taking? And would any of this be inorganic?

John Redett: Inorganic gets into the whole capital allocation conversation, and we can probably hit that right now if you want. As I said earlier, I don't think we as a firm historically had been all that disciplined in terms of how utilized capital, and you could argue particularly on the M&A front. So we've taken a whole different approach in terms of how we think about allocating capital.

And I think about capital simply on a spectrum of really, there's four things I could do. I can buy back my stock, I can give you a dividend, I can invest in businesses for growth, or I can go do something inorganic or M&A. And where I sit today, I'm happy with where our dividend is. I'm more than happy to invest in the businesses for growth. But when I look at returns, I think I'm getting a better return buying back stock than I am going to buy something inorganically.

Now that could change. We might find something on the M&A front that is highly attractive and financially attractive, and we could pivot and do that. But we are very focused right now on the stock buyback. But I'm not ruling out M&A. But you should rest assured that if we did something on the M&A front, we will be incredibly disciplined and rigorous in terms of the analytics as to whether or not that works.

Michael Cyprys: Since you brought up buybacks, first quarter was very strong in terms of buyback activity. What can we expect going forward, particularly here into the second quarter and the back half of this year?

John Redett: Yes, so the first quarter we bought back roughly $150 million of stock. And just to put that into context, I don't believe we've ever bought back more than $200 million in any given year. So it was a significant size of a buyback for one quarter. We announced a large buyback in the fourth quarter. You should assume we're still going to continue to buy back stock.

In the 12 years we've been public, we've actually increased our share count every year. Last year was the first year that we have actually shrunk our share count. And you should assume that we're very focused on managing dilution going forward. But I like buying back our stock. You should assume we're in the market, and we will continue to buy back stock.

Michael Cyprys: Maybe bringing it back to the credit part of the business, want to talk about CLOs. You guys have a leading global CLO business.

John Redett: We do.

Michael Cyprys: There's been some--well, a big recovery this year, clearly, in CLOs. But there's also been a little bit of noise in some parts of the marketplace that's impacting some credits and some portfolios. Maybe just give us an update on how this business is performing and how you're seeing the overall credit landscape today.

John Redett: Yes, so this is a very large business for us. I think at any given time, we're number one or number two in the world, so it's a very large business. It's a very high-margin business. I like this business. We've been at this business for 20 years, so this is not a new business for us. We have an unbelievable track record in this space. I think our default rates are roughly half the industry average, so it's a good business for us. We have a 20-year track record. We have a very experienced team. So I like this business a lot.

We were very active in the first quarter. Quite frankly, the industry was active. We priced, I think, roughly seven CLOs in the first quarter, so it's been very active. And where I sit today, I think the risk of management fee deferral to us is immaterial. So it's not something I worry about.

Michael Cyprys: That's encouraging. Maybe sticking with the credit side of the business, insurance. You have the partnership with Fortitude. Maybe just talk a little bit about how that partnership is evolving. Maybe just remind us around that arrangement, how that works, some of the key areas of growth that you see ahead. Because that's a closed block, are there opportunities to drive any new origination there, and how the pipeline is for M&A.

John Redett: Yes, so we're very pleased with where Fortitude is. It's performing extremely well. We closed the Lincoln transaction in the fourth quarter, which is a pretty important milestone for us. That business, Fortitude business is up to roughly $80 billion of assets so we're very pleased with how it's growing. It's a unique platform. It's different than what others have done. We have chosen to date to go the balance-sheet-light approach. And to date, we've done that. Could we pivot down the road? Sure, we could pivot.

Fortitude, to us, is a closed block business. But we could do something outside of that space, outside of Fortitude. So nothing locks us into doing everything within Fortitude, and we look at a lot of stuff in the insurance space. I spent a lot of time in the insurance space. So I think Fortitude will continue to be a key driver of our growth going forward.

And I want to take a step back and look at the pipeline of just insurance broadly. I just look at insurance as another source of funding. I can go to the wealth market, I can go to the institutional market, and then I have the insurance channel, which I like a lot because it's more long-dated, so it's an important channel for us.

But when I look at the pipeline of insurance opportunities, it's as robust as it's ever been. It's different, particularly when you look at the closed block side of the business that Fortitude focuses on. Historically, it's always been a pretty attractive pipeline, but it's been a little more centered around US opportunities. And I would say today our pipeline is probably more weighted towards opportunities outside the United States, which is great for us because we've done a couple of deals outside the United States.

So the pipeline feels good, I like the trajectory of Fortitude, and we look at a lot of other insurance opportunities inside and outside of Fortitude.

Michael Cyprys: And what might lead you to pivot to a different type of arrangement? How do you think about that?

John Redett: Well, we talk about balance-sheet-light versus balance-sheet-heavy all the time. But I'd say we're very happy where we are today with the balance-sheet-light approach. But there's a lot to like about having an insurance business that provides flow to you, and we do look at those opportunities and will continue to look at those opportunities.

Michael Cyprys: Are there any meaningful ones left in the marketplace?

John Redett: Oh yes, oh yes. I know there's some commentary out there that the market's completely picked over. I'm not so sure I'd agree with that. There are opportunities.

Michael Cyprys: Okay, fair enough. Maybe shifting gears over to capital markets, you've mentioned aspirations to bolster your capital markets capabilities. Maybe talk about the progress there. Where would you like to get to as you look out over the next couple of years and what the roadmap looks like to get there?

John Redett: So to me, this is like--I would describe it as low-hanging fruit. Having spent my career at Carlyle in private equity, I never once thought about capital markets, and that's how disjointed the capital markets effort was at Carlyle. Harvey came in and really emphasized to people that capital markets revenue is critically important. It's part of our strategy. It's part of our growth. We are compensating people differently based on those sources of revenue. It's incredibly high margin. And I would expect that business--it's fully embraced internally. I never hear questions about it. Everyone's onboard. We compensated people at year end for that, and I think that was an eye-opener to people in a good way. I think our capital markets revenues were up 50% to 60% quarter over quarter.

So we get the message. We're delivering. I would expect that revenue to continue to accelerate as markets improve, and I think it could be meaningfully higher than it is today in a better market environment.

Michael Cyprys: And as you're building out the credit businesses, there are also opportunities as well. How do you think about that?

John Redett: Infrastructure, asset-backed, big capital market fee generators, parts of Fortitude. So I do expect, assuming markets continue to stay where they are or improve, I do expect to see a pretty meaningful uplift in that number over time. And again, it's very high margin to us, and it's more of a non-balance sheet approach to it versus some of our peers.

Michael Cyprys: Okay. Private wealth channel represents significant opportunity for the industry and for Carlyle, and you guys have a few products in the marketplace. CTAC you mentioned earlier, and CAPM, another one on the solution side. Maybe just talk about the traction that you're seeing, how you're thinking about scaling this from here as well as the distribution resources that you're putting up against the opportunity.

John Redett: Yes, so I think the wealth opportunity is enormous for our industry, and I think it's an enormous opportunity for Carlyle. I still think it's very early days. I think this plays out over a long period of time, and the market opportunity is massive. The wealth market is massive. There's a generational change in wealth that's going to be massive, and the penetration of alternative products in the wealth space is minimal. So there's a lot to like about the market. And we've been focused on the market for years. We've raised $50 billion in the wealth market over the last 10 years.

So we have two products in the market. We have CAPM, which is our secondaries product, and we have CTAC, which is our credit product, and we'll have a private equity product in the market at some point next year. So CTAC's been in the wealth channel the longest of all our products. It's really starting to ramp. It's on all the right platforms.

CAPM, which is our AlpInvest solutions product, really is just going live on the large platforms real time. And we learned a lot in terms of how we distributed CTAC in the wealth space. And we've taken that knowledge and applied it to how we distributed the

CAPM product. So I'm pretty optimistic that will ramp up quite quickly. And I think the secondary product in particular is a great wealth product. If you look at the net returns, the diversification, the lack of a J-curve, I think it's going to really have a lot of interest from the wealth channel. So I'm pretty happy about that.

And I said earlier we'll have a private equity product on the market next year. We're probably going to take a different approach to where we're not just going to flood the market with products. We're going to focus on making sure we have the right products in the market and focus on making sure we have good performance in these products. And over time, we might add products where we see demand. But this time, hopefully this time next year, we'll have all three products in the market.

I think brand is really important in this channel. And I don't know how you could argue against that. One of your competitors just did a study on the alternative asset managers' brands, and Carlyle is ranked second in terms of reputation. And I think that is going to enable us to really accelerate our growth in this channel. It's just maintaining that strong brand.

Michael Cyprys: Maybe talk about the distribution resources that you're putting against this opportunity. How do you think about that? What are some of the steps you're taking, and do you feel you have enough at this point?

John Redett: Yes, so we have a new Head of Wealth. He started, I want to say probably about a year ago. I think he started roughly the same time I started as CFO. And he's done a lot to accelerate our presence in that space. It is certainly, when I look at adding headcount across the platform, it is certainly an area where I am very open to adding headcount. I think a lot of people don't really understand the sales process for these products. It's people-intensive. And you have to go out there and educate the Morgan Stanley sales forces of the world about the product, and that just requires boots on the ground. So it's an area where we've added headcount to, and I would expect we will continue to be adding headcount to that wealth distribution team for the foreseeable future. I'm happy to do that.

Michael Cyprys: And you mentioned a private equity product coming next year. Maybe just talk a little bit about how you envision that product working versus, say, the CAPM product that you have as a secondary solution and how your private equity product might compare versus some of the others that have come to the marketplace of late.

John Redett: Yes, I think we're still in design mode on the private equity product, and it's good to be in design mode when there's other products out there. But it will be a product that basically gets allocations from our various private equity businesses across the globe, so Japan, Asia, Europe, US. It will probably be a little bit US heavy because that's where our biggest private equity business is. But exactly what it looks like, TBD. It could even have a component of a solutions product in there.

Michael Cyprys: And as you look out on the 5-year view, how do you think about the broader product roadmap into the private wealth channel? You have a broad range of capabilities at Carlyle. What else could make sense over time?

John Redett: I think there's a lot of products that we have that are in the institutional channel that could make sense to the wealth channel. I think an infrastructure product could make sense. I think a real estate product could make sense for us. Our real estate business, not many people like to talk about their real estate business in today's world, but we have incredible performance. We have not owned office since I think 2017, so the performance is exceptionally good.

I think down the road, you could see demand for specific geographies. Could there be a demand for a European-specific private equity product, a Japan-specific private equity product? Could there be a demand down the road for a healthcare-specific PE product? We have all these capabilities. You just might have to package them differently based on demand down the road.

Michael Cyprys: Great. Final topic, AI transcending many industries today in terms of topic of interest. Maybe just talk about how you're thinking about it at Carlyle. What does it mean for the private markets, and how are you experimenting with AI today?

John Redett: Yes, so I barely can turn on my iPhone, so I'm probably the least technology person in the room. But AI is something that we as a firm have been investing people, money, time in for years. We didn't just start investing in this last year when we read an AI article. This has been top of mind for a long time. I would imagine we were at the forefront years ago compared to the industry.

I think initially when we started investing in AI, we were thinking about can we make our portfolio companies better, can we make the customer retention experience better, can we make our portfolio companies more efficient? And that's what we were spending the time initially on. Now I think it's gone more broad than that, and we have many test case examples of using AI in our portfolio companies where we are saving money, we're making companies more efficient. And I do think that will have a profound impact on businesses in almost any industry over time.

We're also thinking about AI just from the corporate level. Can we use AI to change the way we process anything, whether it's a trade or processing how we look at our account statements monthly? Can we make the firm more efficiently? And lastly, can we use AI-- we know we have a massive data lake, one of the biggest data lakes in the world. Can we better harvest that information to enhance the way we invest? Can it enhance the way we diligence companies, whether that's looking at a company's IT capabilities, IT stack, IT staff. And we're spending a lot of time and a lot of money on all three fronts. I think there's real opportunity to make our portfolio companies better, stronger. I think we can create efficiencies at the Carlyle corporate level with AI. And I think access to a lot of data, harnessing that data, will make us better investors.

Michael Cyprys: How much efficiency do you think you might be able to extract?

John Redett: I don't know. It's early days. But in portfolio companies, we've seen pretty big numbers.

Michael Cyprys: Like 20%, sort of?

John Redett: I wouldn't say 20%. I think over a long period of time you could get to those kind of numbers, but this isn't going to happen overnight. It's going to take time.

Michael Cyprys: Okay. I'm afraid we're out of time. Thank you so much, John. Appreciate it.