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The Carlyle Group, Inc. (CG)

Q3 2021 Earnings Call

CORPORATE PARTICIPANTS

Daniel F. Harris

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

Kewsong Lee

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

Curtis L. Buser

Chief Financial Officer, The Carlyle Group, Inc.

OTHER PARTICIPANTS

Glenn Schorr

Analyst, Evercore ISI

William Raymond Katz

Analyst, Citigroup Global Markets, Inc.

Alexander Blostein

Analyst, Goldman Sachs & Co. LLC

Chris Kotowski

Analyst, Oppenheimer & Co., Inc.

Rufus Hone

Analyst, BMO Capital Markets Ltd.

Gerald Edward O'Hara

Analyst, Jefferies LLC

MANAGEMENT DISCUSSION SECTION

Operator: Thank you for standing by, and welcome to the Third Quarter 2021 Carlyle Group Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] As a reminder, today's program may be recorded.

I would now like to introduce your host for today's program, Daniel Harris, Head of Investor Relations. Please go ahead, sir.

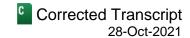
Daniel F. Harris

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

Thank you, Jonathan. Good morning, and welcome to Carlyle's third quarter 2021 earnings call. With me on the call this morning is our Chief Executive Officer, Kewsong Lee; and our Chief Financial Officer, Curt Buser. This call is being webcast and a replay will be available on our website.

We will refer to certain non-GAAP financial measures during today's call. These measures should not be considered in isolation from or as a substitute for measures prepared in accordance with Generally Accepted Accounting Principles. We have provided reconciliations of these measures to GAAP in our earnings release. Any forward-looking statements made today do not guarantee future performance and undue reliance should not be placed on them. These statements are based on current management expectations and involve inherent risks and uncertainties including those identified in the Risk Factors section of our Annual Report on Form 10-K that could cause actual results to differ materially from those indicated. Carlyle assumes no obligation to update any forward-looking statements at any time.

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Earlier this morning, we issued a press release and a detailed earnings presentation, which is also available on our IR website. It updates the progress we've made and the momentum we're building on our strategic plan to think bigger, move faster, and perform better, that we announced at the beginning of the year. For the third quarter, we generated \$151 million in fee-related earnings and \$731 million in Distributable Earnings, with DE per common share of \$1.54. We declared a quarterly dividend of \$0.25 per common share.

I know it's a busy morning, so to ensure participation by all those on the call, 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. We're excited to have another opportunity to update you on the great progress we're making against our strategic plan and a record firm-wide earnings performance we delivered this quarter. Our third quarter results are exceptional across all three of our businesses with continued and sustainable progress in FRE, the highest production of quarterly Distributable Earnings ever and strong fundraising momentum. These results build upon a great first half of the year and illustrate the powerful upward long-term growth trajectory our diversified platform can deliver.

As an update, let me start with three important points. First, we're ahead of schedule on our strategic plan across all of our businesses. Second, our focus on FRE and investment performance is paying off for all stakeholders. And finally, one critical factor in the success is that we have built an aligned, diverse and experienced leadership team who are running our global firm.

Thinking bigger, moving faster and performing better is our mantra. It is helping us deliver on our priorities. Our strategic plan is already leading to strong results right out of the gate, and more importantly, we believe it positions us to deliver continued earnings growth and strong investment performance over the long-term.

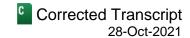
The second and third quarters were record breakers for us, and we see continued growth from here. Just this quarter, we achieved record AUM of \$293 billion; and year-to-date, we invested a record \$20 billion and realized a record \$29 billion. What we'll describe to you today reflects our progress, and we remain laser-focused on continuing to execute our longer-term goals. We have line of sight into how our strategic plan will generate growth and believe we can continue our momentum to deliver attractive results for our stakeholders.

As we generate an increasing level of retained earnings from strong DE over the next several quarters, we are actively assessing opportunities to invest in our platform to drive more sustainable FRE growth that expands on our strengths. We continue to build the team and infrastructure to ensure we are best positioned to pursue the right growth opportunities for Carlyle. I am confident that we can grow both organically and through strategic acquisitions to diversify our businesses, build new drivers for future growth and increase our sustainable level of FRE.

Today, as you listen and analyze our results and commentary, please pay close attention to the accelerating activity across all three of our global businesses. We are investing, creating value, returning capital through realizations and fundraising at levels that drive line of sight to accelerating growth in earnings.

In regard to our investing, we see significant growth opportunities ahead. The reason is this, massive change is impacting industries and asset classes around the world and generating exceptional investment opportunities for

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private markets, which is the backdrop for our record investment pace. And our industry continues to deliver investment outperformance as demonstrated by Carlyle's Carry Fund Appreciation of 33% year-to-date.

Furthermore, we are better competitively positioned than ever before. As a global and diversified investment firm operating at scale, our platform approach enables us to capture opportunities by deploying capital to the sectors and regions of the global economy that are the most attractive. Businesses in these sectors are benefiting from the acceleration of disruptive change, and we are capturing these opportunities across all of our investment strategies and investing capital more efficiently.

We're especially focused on trends that are converging, namely in key sectors of the economy, like healthcare, where technology continues to generate growth and societal advances. We are also leaning into more traditional power allies like industrials and consumer, but we are bringing a modern approach to incumbent businesses in enabling faster growth for newer, disruptive companies.

Furthermore, secular trends like sustainability offer us the opportunity to invest in the future of renewables, while also taking part in the massive transition that is underway. Demographic shifts like growing domestic consumption in China presents significant investment opportunities, as do economies in transition like India and Japan. And the potential for increased market volatility or higher interest rates is likely to create attractive investment opportunities across our Global Credit platform, where we have grown to a record AUM of \$66 billion, which is more than 2 times larger than it was less than four years ago.

Now, in regard to fundraising, I want to underscore we are communicating and working with our limited partners better than ever before and have reached \$40 billion to-date in 2021, an increase of 124% year-to-date over 2020. We will seek to continue this momentum over the next few years. And if we are successful, this would provide substantial upside potential to our four-year \$130 billion-plus fundraising target and drive results beyond our FRE target.

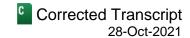
We recently hosted our Annual Global Investor Conference with a 1,000 LPs joining around the world in a hybrid format. It was great to spend time in person with people in New York City and Hong Kong. We're encouraged by their feedback, and the headline is this: investors clearly want the strategies and solutions we have to offer across all three of our global businesses.

Our Global Credit segment's broad spectrum of credit strategies positions it well to grow as the market continues to shift away from traditional fixed income to private credit. Our Global Investment Solutions segment has the scale, global reach and data to provide portfolio optimization strategies that are more important than ever in a world where private capital has become mainstream and a significant portion of our investors' portfolios. And in Global Private Equity, we're a modern-day builder of businesses with more value creation levers than ever before to drive performance, which is critical in a market where competition is fierce and valuations are high.

In the top of all of this, we believe we are an industry leader in integrating ESG throughout our firm, in our investment processes and throughout our value creation processes for the benefit of all stakeholders. This is all about making everything we touch better, including putting as much focus into how we run Carlyle as we do our portfolio companies. Ultimately, we are driving improvements and change across our entire business, resulting in better decisions, outcomes and performance for all stakeholders.

Curt will now walk you through the financial highlights for the quarter and provide more details on what drove our record results. So, I'll wrap up with this. The firm is in great shape. We are more global, more diverse, and in the

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midst of a generational evolution at a new Carlyle, where our focus is on continuously improving how we drive value and generating attractive returns.

We are ahead of schedule on our strategic plan. Our focus on FRE and investment performance is paying off and our platform is benefiting from the growth initiatives to diversify our earnings. I am proud of our team who are doing a terrific job of executing and delivering on our priorities. I appreciate the hard work as we accelerate our activity through the balance of this year and into 2022. Thank you.

Over to you, Curt.

Curtis L. Buser

Chief Financial Officer, The Carlyle Group, Inc.

Thanks, Kew and good morning, everyone. As Kew said, this quarter's standout performance is the result of a clear focus on executing on our strategic plan. To set the stage, our strong momentum and fundraising, record pace of capital deployment and string of successful realizations are driving a significant increase in the scale of our earnings. These results are underpinned by attractive investment performance and are fortifying our balance sheet to help us deliver long-term sustainable growth in our global platform and Fee Related Earnings.

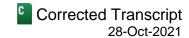
Now, let's dig deeper into our record third quarter earnings. I want to underscore the broad-based strength across all components of Distributable Earnings: Fee Related Earnings, realized performance revenue and investment income. We delivered record pre-tax Distributable Earnings of \$731 million this quarter. To put that in perspective, that is more than the entirety of the first half of 2021 is more than 50% larger than any prior quarter. Our results are bigger, faster and better than they have ever been. Year-to-date, Distributable Earnings of \$1.3 billion outpaces our full year performance in any year since our IPO by nearly 40%.

And this is without even accounting for what is shaping up to be a strong fourth quarter. On an after-tax basis, we generated a record \$1.54 in DE per share for the quarter. Moving on to the components of Distributable Earnings. Let's start with Fee Related Earnings which was \$151 million in the quarter and \$424 million year-to-date, up 23% compared to 2020, excluding the impact of litigation cost recoveries in the first quarter of last year. We expect management fees and Fee Related Earnings to move higher next quarter as we activate fees on our latest generation US real estate fund and our new US buyout and growth funds. Overall, we expect strong FRE growth over the next several years and are on track to hit our 2024, \$800 million FRE goal earlier than previously anticipated.

The Global Investment Solutions segment nearly doubled year-to-date FRE to \$64 million. A strong fundraising and deployment drove a 22% increase in year-to-date management fees, with high incremental margin, the year-to-date FRE margins expanded to 37%, nearly 13 percentage points higher year-over-year. Global Credit grew fee revenues by \$13 million and FRE by \$8 million just since last quarter. A 30% sequential increase in FRE, driven by strong capital raising and active deployment across the platform, including record levels of direct lending origination and record levels of CLO issuance. In Carlyle Aviation, we completed the FLY acquisition, our largest fleet acquisition ever.

Turning to Global Private Equity, we expect FRE to accelerate next quarter and continue to grow throughout 2022 as we benefit from strong fundraising momentum, by activating fees later in the fourth quarter on newly raised capital. The positive impact from our capital market strategy is becoming increasingly visible as it further integrates with all our global investment teams. That transaction and advisory revenue of almost \$60 million year-to-date was nearly double last year, and we expect fourth quarter underwriting activity to again drive significant transaction fee generation.

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Overall, our operating margin of 33% year-to-date is up about 500 basis points over the past couple of years and is solidly on path towards our 40% target, which we are also likely to reach earlier than previously expected.

Net realized performance revenue of \$534 million is far and away our record quarter and was driven by \$14 billion in realized proceeds. Importantly, we continue to have \$204 billion remaining fair value across our portfolio, which positions us to generate a high volume of realization activity over the next few years.

In the third quarter, we completed private sales across a variety of funds and geographies with realizations of large buyout investments like Novetta and Bountiful, and growth strategies like [ph] NetMotion (00:14:55) and Newport Healthcare, and the continued activity across our US real estate platform. We also took advantage of strong markets and exceptional investment performance with public secondaries, including ZoomInfo, Ortho-Clinical, and SBI Card.

We have a significant backlog of realizations that just closed over the next few quarters, and we expect to generate at least \$450 million in net realized performance revenue over the next two quarters just from already announced sales with potentially significant upside from further realizations from our \$19 billion public equity portfolio. We continue to have confidence in our ability to generate a high level of annual net realized performance revenues over the next several years. Accrued performance revenue remains near our record level at \$3.9 billion, down modestly compared to last quarter, despite record realizations, as our funds continue to perform and appreciate. At this level, the net accrual represents more than \$11 per share in future pre-tax earnings. We continue to have strong fund performance in a complex environment. Our Global Private Equity portfolio appreciated 5% in the quarter and 31% year-to-date.

This quarter, we saw the strongest performance in real estate, which increased 9% and the natural resources up 7%. Our broad CP portfolio was up 4%, strong outperformance against the 1.5% decline for the MSCI All Country World Index. Global Investment Solutions had a great quarter once again with 10% appreciation across their portfolio and is now up 39% year-to-date. This quarter strength was led by secondaries and fund investments. And in Global Credit, we continue to thrive, providing an attractive risk reward across the investment spectrum where our assets under management of \$66 million have more than doubled over the past several years.

Realized investment income of \$71 million in the third quarter reflects the strong returns and growing size of our own balance sheet investments which totaled \$2 billion at the end of the quarter. Year-to-date, realized investment income of \$139 million has nearly tripled the same period in 2020, and we are on track to exceed our 2024 target this year.

Our strong earnings have fortified our balance sheet at a great time as we see multiple opportunities deploy our growing capital base to accelerate our FRE growth by investing in larger funds, seeking new investment strategies, supporting new business activities and taking advantage of accretive M&A over time.

Given exceptional earnings and our opportunistic debt issuance last quarter, we expect to prepay \$250 million in the remaining 2023 bonds in the fourth quarter. This will further improve leverage and boost our financial strength. To wrap up, we are excited to be delivering on our plan, and what that means for our shareholders. We are in fact outperforming our own expectations and believe we are well positioned to do so for the next several years.

Our strong momentum is allowing us to grow our FRE and our DE and invest in Carlyle's longer-term growth. We are creating exceptional value for shareholders, so we continue to deliver on this growth. Now, let me turn the call over to the operator, so we can take your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from the line of Glenn Schorr from Evercore. Your question please.

Glenn Schorr

Analyst, Evercore ISI

Hi. Thanks very much. Kew, it's only been a few quarters, but as you guys littered throughout the conversation, a lot of your numbers are bumping up on the targets. And here we are in the end of 2021 and their 2024 target. So, how do you – how do we think about it's great that the markets and your performance have gotten there. How do we think about – does that mean that we've plateaued for a little while or how do you think about the momentum going in and going through these 2024 targets in like 2021 and 2022?

Kewsong Lee

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

Hey, Glenn. Thanks for the question, and nice to hear from you. Look, we had a record quarter. We're well ahead of our strategic plan. And I really do think this momentum is sustainable because we're seeing great activity, great energy across the entire firm, across all of our businesses. We're making a big deal of we're thinking bigger. Our funds are growing organically. We're – our initiatives in Global Credit and our new platforms for growth are really taking hold. We're really moving faster. Not only our [indiscernible] (00:20:02) happening faster, but you're seeing the results come in faster.

And I think this quarter talks to the results. We're performing better. It's not only at a corporate level with FRE, which has accelerated, and I think will continue that path. But all the hard work over the years of putting together these – our investments, constructing our portfolios and working with our companies to create value is really paying off. So, yeah, the markets are robust and strong right now. But really, the realization activity is a testament to all the hard work that's gone into the ground to do great investing. And I think all that performance just continues. So, across the firm, we see great energy, great momentum, and quite frankly, very confident that this momentum is sustainable.

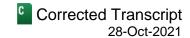
Curtis L. Buser

Chief Financial Officer, The Carlyle Group, Inc.

Hey, Glenn, it's Curt. And from my perspective, I don't think I've ever been in a place where I have greater confidence in what I'm seeing going forward, and that's really continued sustainable growth. And let me just give you a few points of what I'm seeing. So, first, right now, we're sitting on \$30 billion of AUM that hasn't activated. Half to two-thirds of that's going to turn on in the fourth quarter and that'll take our \$150 million of FRE that we just posted or a run rate of \$600 million higher into 2022. So, that's a great place to be sitting in from my place.

Second, from a net realized performance revenue standpoint, \$3.9 billion of net accrued carry plus \$116 billion of remaining fair value in the ground across our traditional carry funds really supports growth in net realized performance revenue and the sustainability that we have there. And third, you can't underscore the diversity of the platform, the strength that's occurred in Global Credit and Investment Solutions really gets a diversified business out and going. And last, I'm sitting on a much better balance sheet than we ever had, which really gives us the firepower to grow sustainable FRE over time. And so, the place [ph] that they're going to (00:22:07) look forward, this is a great position right now to be able to have confidence in what we can do going forward.

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Glenn Schorr

Analyst, Evercore ISI

Okay. I really appreciate that. Maybe I could squeeze in a follow-up on just – your capital raising has been great. You mentioned about targets. Can you talk about what you're currently doing in the wealth management channels and what you would like that to be in the future? Thanks.

Curtis L. Buser

Chief Financial Officer, The Carlyle Group, Inc.

So, let me take that, Glenn. So, first, our fundraising were on a record pace. So, \$40 billion year-to-date, \$50 billion over the last 12 months. And on that \$50 billion, \$14 billion in Global Credit, which is [ph] really just been clicking (00:22:48) every quarter, very nicely, very diversified record CLO pace. But not just the CLOs, it's across the platform. Second, in Investment Solutions, Global Investment Solutions, \$11 billion over the last 12 months. You see the growth in that platform. If you go back in time, I mean, Global Investment Solutions was like a third of what it is today. The growth that we've had there has really been significant. And then obviously, \$25 billion in Global Private Equity over the last 12 months, really setting that business also up for further growth.

So, let me be clear in terms of what we are in terms of the retail channel. Our plan is really built on remain focused on our institutional channel. It's long-term capital, it's extremely attractive. It's driving our top-line growth. If we execute our plan, our FRE is going to grow rapidly over the next few years, and we have plans to have that grow thereafter. And today, we largely target retail through our high net worth channel through feeder funds that's been very successful over time. That channel has generally been very successful because of our strong brand, drives 10% to 15% of our capital raising through those channels.

But let's be clear, our focus on FRE has really produced results, has been growing 20% on a CAGR perspective over the last five years and remain so today. And the fundraising momentum that we have will continue to allow us to grow our FRE and the business.

Glenn Schorr

Analyst, Evercore ISI

Thank you very much.

Operator: Thank you. Our next question comes from the line of Bill Katz from Citigroup. Your question, please?

William Raymond Katz

Analyst, Citigroup Global Markets, Inc.

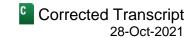
Okay. Thank you very much for taking the question this morning and the abbreviated comments. Just coming back to maybe capital deployment, it sounds like you might be gearing up to be a bit more acquisitive. And you mentioned things like sustainable and further FRE growth. So, that sounds to me like maybe some potential permanent capital opportunities. I was wondering if you could talk a little bit about, so, where you see the opportunity. And then related to Curt's last commentary that you [indiscernible] (00:24:57) here at the institutional, might there be an opportunity here to expand the retail as well? Thank you.

Kewsong Lee

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

Hey, Bill. It's Kew. Big picture, we're going to be generating a lot of cash onto our balance sheet over the next several years as our realizations materialize. We are going to take that cash and look for ways to invest in FRE-

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generative businesses. So, we purpose that balance sheet capital into sustainable growth businesses that drive FRE. So, big picture, that's what we're looking to do. I want to remind you that none of the targets that we've laid out in our strategic plan takes into account for any strategic activity. So, all of that would just be in addition to.

And finally, I think I said this in the past, the likely areas are more in the Global Credit areas or in Solutions as opposed to Private Equity in terms of where we think the opportunities would be. We're thinking about it very globally and we'll be in touch when something happens. And with that, I'll pass over to the second part of the question to Curt.

Curtis L. Buser

Chief Financial Officer, The Carlyle Group, Inc.

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So, along the capital markets piece, Bill, our capital markets business is doing real well, really underpinned by the greater balance sheet capacity that we have to support that business. You can see in the transaction revenue, about \$60 million year-to-date double last year's number. Two thirds of that revenue is really coming out of the capital markets business which is up from almost nothing a year ago. So, that's really what's causing that growth there. It's working very nicely. And again, because of the balance sheet strength allows us to continue to grow. And so, I'm very confident in our ability to get that up over \$100 million in the next couple of years.

William Raymond Katz

Analyst, Citigroup Global Markets, Inc.



Okay. Thank you.

Operator: Thank you. Our next question comes from the line of Alex Blostein from Goldman Sachs. Your question, please.

Alexander Blostein

Analyst, Goldman Sachs & Co. LLC



Great. Good morning, thanks, everybody. I'll try to squeeze a two-parter in, but all related to the same topic which is fundraising. So, I guess Kew big picture for you. Obviously, the flagship fundraising are going incredibly well. But as you look at the business over the next kind of two to three years, what are the strategies that you expect to be kind of fundraising on a more continuous momentum just to kind of give us a sense that this is a new baseline and then we're going to grow for that baseline. And then just a numbers clarification question for Curt, can you just give us an update on the final close of the US buyout fund? And I think I heard you say kind of how that's going to translate into FRE for the fourth quarter. But maybe just give us the pieces kind of like what's the – what's revenue, what's expenses kind of how we think about the contribution from the recent raise into the fourth quarter. Thanks.

Curtis L. Buser

Chief Financial Officer, The Carlyle Group, Inc.



So, let me start, and then Kew will take. So, we'll probably handle this a little bit in reverse order [ph] to (00:28:00) the way you ask it. So, first, as we've kind of laid out, our fundraising momentum is fantastic and we're tracking to record levels and we'll probably be able to exceed our \$130 billion target or deliver upon that earlier than we thought. We're seeing exceptional fundraising in Global Credit and in Global Investment Solutions and also in Private Equity, as you point out. And we're seeing larger raises. So, we're seeing the credit opportunities fund coming in stronger, we're seeing our real estate funds coming in stronger. The secondaries business within Investment Solutions coming in stronger. So, all of that has led to the doubling of year-to-date fundraising.

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With respect to specific funds that remain in fundraising, we can't really comment on those. And so, with respect to US buyout, et cetera, I can't really go into detail. Other than, our overall fundraising momentum is good. We will be activating fees here in the fourth quarter that will have a pick up. But, things that remain in fundraising, I can't give you all of those specifics on the details. But again, things are looking really well.

Kewsong Lee

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



Yeah. Hey. And Alex, look just a few higher-level commentary first. The secular trends towards private markets just continues in [indiscernible] (00:29:21) September conference, but also recent road shows with LPs. The interest level and the desire to allocate into alternatives into private markets continues around the world across all strategies. Second, LPs are looking to deepen their relationships with their largest and most strategic GPs, and that trend positions Carlyle exceptionally well. Third, we are seeing tremendous benefit in cross-selling from one strategy into another with our LPs. And as our platform broadens and diversifies, we're seeing more and more opportunity to do that.

Finally, let me just say with respect to Credit and in Solutions. In Credit, there really is a shift happening where flows are moving away from traditional public fixed income securities, where yields are virtually zero into private credit solutions. And I think that is a secular trend with real tailwinds that we're going to benefit from. And in Solutions, as I said in my opening remarks, alternatives are not alternative anymore. They're mainstream. It's a big portion of our LPs portfolios and they need portfolio optimization strategies as it relates to secondary solutions or co-investment strategies to help with deployment, and all of that plays to our advantage with our very strong Solutions segment.

So, I'm seeing very good tailwinds and secular forces which are going to be a good – good momentum for our fundraising continuing. And finally, I just want to say one last thing. You cannot do this without great investment performance and we've got great investment performance. Our portfolios are in great shape. They're well-constructed. Our teams are working very hard. And I suspect when you marry that great performance with the types of trends I've just mentioned, it bodes well over the longer-term for our fundraising momentum to continue.

Alexander Blostein

Analyst, Goldman Sachs & Co. LLC



Thank you.

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

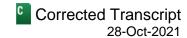
Chris Kotowski



Analyst, Oppenheimer & Co., Inc.

Yeah. Good morning. Thanks for taking my question. I guess I want to go back to Kew's comment about how, as you realize these gains, the gains in the portfolio, cash is going to build up on Carlyle's balance sheet. And historically, Carlyle paid that all out to shareholders. And obviously, you've been retaining it all and you've pointed to the fact that you want to do acquisitions. I guess how do you weigh that against the kind of easier and — how do you weigh making acquisitions against the easier and more certain path of doing share buybacks and really shrinking your float? I mean just my back of the math suggested that just this quarter's overage versus your dividend would have retired — would have been enough to retire about 2% of your stock. And that would be 2% FRE growth with 100% certainty forever. So, how do you weigh acquiring other people's companies versus acquiring your own?

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Curtis L. Buser

Chief Financial Officer, The Carlyle Group, Inc.

Chris, it's Curt. Let me start and thank you for that insightful question. Look, I – it's really great in terms of where we are today. The balance sheet is much, much stronger than where it had been before. And so, the growth in a very short period of time has really been remarkable, which allows questions like you're asking to really even be on the table. So, let me start with a few basics of kind of where we are. First, you saw we just increased our authorization to buy back shares. So, on January 1, there'll be a \$400 million authorization in place to buy back shares. To be clear, we're planning to use that to make sure that our dilution does not exceed 1% per year, and we'll be aggressive where that makes sense in terms of buying back shares.

Second, we are going to – with this exceptional earnings that we have, I've got to pay some taxes. And so, we're going to pay a little bit of taxes. We're going to pay back some debt, but that's kind of just clean up and just kind of leaving us really still on a really great financial place. But how we compare, it's really about driving value for shareholders, and growth is really being rewarded very significantly in the marketplace. So, I want to use capital to drive growth, so that we're driving value. And how do we do that?

Well, we're raising larger funds and so that requires more capital off the balance sheet to cover our share to raise larger funds. We're looking at newer strategies. Initially, the stuff that's aligned with kind of what we're doing, so our capital markets business, the insurance business, all of that needs more capital as well. And so, we need to have that to be able to grow.

The newer strategies like infrastructure that while we have, we think can really take advantage and grow that much larger. That will require some capital. And then, there is M&A opportunities that Kew already spoke about. But in the end, all of this is about driving sustainable FRE growth, and I believe that that gets rewarded in the marketplace.

Kewsong Lee

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

Hey, Chris. It's a great question. And how we repurpose that cash and invest it to grow strategically to drive FRE and drive growth is absolutely the bigger picture for what we need to do, obviously, while investing well and running the firm well. Let me just add to what Curt said. It's all about being incredibly strategic and incredibly thoughtful with these acquisitions, and what we're looking to do. But I'll just point you to Fortitude, Carlyle Aviation, our CLO business, AlpInvest. These are all examples of really good uses of our balance sheet money to develop businesses which are scaling and growing. So, what are the types of things that we're looking for, go back to our strategic plan. We've been very clear from the beginning. We're looking for big markets that are scalable, that generate recurring and sustainable FRE that we can grow.

And that's my criteria and as our balance sheet gets stronger in a very purposeful and thoughtful way, we do intend to look for strategic adjacencies that will extend our platform.

Chris Kotowski

Analyst, Oppenheimer & Co., Inc.

Okay. That's it for me, thank you.

Curtis L. Buser

Chief Financial Officer, The Carlyle Group, Inc.

Thanks, Chris.

Operator: Thank you. Our next question comes from the line of Michael Cyprys from Morgan Stanley. Your question please.

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Hey, good morning. This is [indiscernible] (00:36:30) standing in for Mike Cyprys. Just on comp restructuring, we've seen some peers make changes to their comp accruals, shifting more comp to carry and reducing the comp that comes from FRE. Just curious on what kind of scenario environment would it make sense for Carlyle to do this? What maybe some challenges or drawbacks for making those sort of changes? Thank you.

Curtis L. Buser

Chief Financial Officer, The Carlyle Group, Inc.

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Hey, thanks for your question. Look, we have a really good plan in place. We're comfortable with our plan. We're executing against the plan. The plans resulted in growing FRE and growing earnings. Everything seems to be clicking just right. What I also like is our financial reporting is clear, transparent, easy to understand. We continue to obviously look at different ways to improve FRE and take advantage of different opportunities. But there's nothing in our plans to do a major comp restructure as you're suggesting. And – we would only be interested in one that's really substantive in nature as opposed to just changing geography on the P&L. So, when and if there's ever something for us to do, we'll obviously report that to you. But at the present time, [indiscernible] (00:37:39) it's kind of running pursuant to our existing strategies.

Thanks for taking my question.

Operator: Thank you. [Operator Instructions] Our next question comes from line of Rufus Hone from Bank of Montreal. Your question, please.

Rufus Hone

Analyst, BMO Capital Markets Ltd.

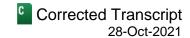
Great. Good morning. Thanks for taking my question. I was hoping you could touch on asset origination and the opportunity you see in private credit. I know you already have some established origination channels, but we're seeing some of your peers really double down on this and start to acquire platforms and initiate asset sourcing partnerships. Should we expect to see more of this from Carlyle and would you go down the acquisition or the partnership route? Thanks.

Curtis L. Buser

Chief Financial Officer, The Carlyle Group, Inc.

Hey. Thanks for the question. First, the credit business has been doing really well. The growth there has been significant. We've doubled AUM over the past couple of years. The annual rate of growth in AUM has generally been around 20%. If you look at the fundraising, very consistent. We're coming off of a really – a record setting pace in terms of CLO issuance. The demand there has been fantastic. But we continue to look really kind of other areas to continue to build on our platform. And let me be clear. Our – two things that are – or couple of things that are clear. One, taking a platform approach in terms of how we're building the business. Two, very much focus at

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the present time on investment grade credit. And three, we're looking at cash yield for our investors and generally been successful on all those levels.

So, just to remind people, our credit opportunities business is going very well, raising its next fund. It's been deployment grade. The performance there has been very strong. CLO business, already talked about. Aviation, great business, just did a very large transaction. Again performing exceptionally well. Expanding in both infrastructure credit, real estate credit that provides further opportunities. And let's not forget the direct lending business that just had a record origination here in the quarter. So, again, platform approach to deliver the results.

Operator: Thank you. Our next question comes from the line of Gerry O'Hara from Jefferies. Your question, please.

Gerald Edward O'Hara

Analyst, Jefferies LLC

Great. Thanks. Maybe just one on kind of the trajectory of FRE margin from here. You clearly heard the kind of continued focus to build team, infrastructure, as well as obviously some very strong, I guess, forward-looking Fee Related Earnings coming online. Can you help us kind of balance the two? And I would assume some level of, I just heard increased spend as we move kind of into this post-pandemic world. But how we should think about the pace between here, and as, Curt you mentioned, the ahead of schedule as it relates to the 40% target? Thank you.

Curtis L. Buser

Chief Financial Officer, The Carlyle Group, Inc.

Gerry, thanks. Look, as I've said before, I care much more about FRE dollars than FRE margin. And so, we're going to, first and foremost, chase increase in FRE dollars. Margin is a way to get there. But it's not the end all by itself. It all comes down to dollars in the door. So, that's our number one goal. From a margin perspective, we've been growing very nicely, so 34% here in the quarter, 33% year-to-date. You can see in the Global Investment Solutions business already up to 37%. So, a lot of things are really coming together nicely. Probably my lowest margin business right now is, it's still in Credit, but that's because we've been investing and building our platform. That should be our leading piece. Just as we said at the beginning of the year, that's going to grow and really drive a lot of FRE margin expansion as we go forward.

And so, look, I think we're on track to hit the 40% earlier than 2024. And the exact when we hit it, I don't know, but it's going to be sooner than 2024, and we're going to have a nice growth year coming in next year for all the reasons that I've already said. And the business is shaping up real nicely. We are focused obviously on cost, but more importantly, on growing top-line revenue.

Gerald Edward O'Hara

Analyst, Jefferies LLC

That's it for me. Thanks for taking the questions [ph] this morning (00:42:17).

Curtis L. Buser

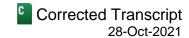
Chief Financial Officer, The Carlyle Group, Inc.

Thanks, Gerry.

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Kewsong Lee

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

Thanks, Gerry.



Operator: Thank you. This does conclude the guestion-and-answer session of today's program. I'd like to hand the program back to Daniel Harris for any [indiscernible] (00:42:26).

Daniel F. Harris

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

Thank you very much for your time today. We know it's a busy period. We'll look forward to speaking with you on next quarter's call and we'll be at several conferences during the fourth quarter. So, we'll look forward to that as well. Have a great day.

Operator: Thank you, ladies and gentlemen, for your participation at today's conference. This does conclude the program. You may now disconnect. Good day.

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