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# The Carlyle Group, Inc. (CG)

## Q3 2023 Earnings Call

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# MANAGEMENT DISCUSSION SECTION

**Operator**: Good day and thank you for standing by. Welcome to The Carlyle Group Third Quarter 2023 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] Please be advised that today's conference is being recorded.

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

## Daniel Harris

*Head, Public Investor Relations, The Carlyle Group, Inc.*

Thank you, Josh. Good morning and welcome to Carlyle's third quarter 2023 earnings call. With me on the call this morning is our Chief Executive Officer, Harvey Schwartz, and Chief Financial Officer, John Redett. Earlier this morning, we issued a press release and a detailed earnings presentation, which is also available on our Investor Relations website. 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 reconciliation of these measures to GAAP in our earnings release to the extent reasonably available. Any forward-looking statements made today do not guarantee future performance and undue reliance should not be placed on them. These statements are based on current management expectations and involve inherent risks and uncertainties, including those identified in the Risk Factors section of our 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.

So, turning to our results. For the third quarter, we generated $205 million in fee-related earnings and $367 million in distributable earnings with PE per common share of $0.87. Our net accrued carry balance was $3.5 billion as of the end of the quarter and we declared a quarterly dividend of $0.35 per common share. In order to ensure participation by all those 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 Mitchell Schwartz

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

Thanks, Dan. And good morning, everyone, and thanks for joining us. Today, I'll update you on the areas where we have strong momentum and where we are focused on accelerating growth. Before getting into that, let me touch on the macro. An already complex environment has become increasingly uncertain with the tragic events unfolding in the Middle East. Multiple wars, along with higher rates and economic uncertainty, has increased volatility and reduced confidence levels. We all know sentiment is the greatest market elixir and negative sentiment has slowed transaction activity over the past year.

That said, despite the challenging market backdrop, deal activity has shown signs of improvement as third quarter buyout activity was at the highest pace in over a year. However, my own opinion is that lower activity levels and reduced confidence will likely persist for a bit longer. As we said in the past, our view is that rates will stay higher for longer. After 20 years of declining rates and Central Bank market intervention, the overall cost of capital has shifted higher and may remain so for some time. Market participants have reluctantly accepted this reality and begun repricing assets [audio gap] (00:02:21) this outcome. However, as is often the case in market regime shifts, this process of market digestion will take time. Ultimately, higher rates could dampen economic activity.

Complex and uncertain environments don't necessarily mean a lack of opportunity, as we've seen over decades navigating through all market cycles. Our goal investment teams continue to stay focused on generating excess alpha in this market environment. And with over $70 billion of dry powder across our platform, we have the flexibility to deploy capital and build on strategic partnerships.

Now, let me shift to areas of focus as we position them for growth. First, our insurance strategy has very strong underlying momentum. Fortitude's announced transaction with Lincoln Financial has met all closing conditions and is expected to close later this month. We will pick up approximately $24 billion in new AUM from the increase in Fortitude's general account assets, as well as additional capital that rotates into Carlyle funds. In addition to this transaction, our team is developing new investment and distribution strategies that target the needs of insurance investors and our private credit business. We see substantial growth and potential new transactions across the insurance vertical.

Next, private wealth. The Carlyle brand has always been received well in the private wealth channel and we're building on that momentum. We have raised over $45 billion through this channel over time, and this year, we've raised more than $3 billion. I feel good about this channel, given the strength of our brand. Over the coming quarters and years, we expect to accelerate product development and see further growth in sales and distribution. There's a lot of upside in private wealth, and we expect our footprint to be significantly larger in coming years.

Moving on, we are seeing momentum across several of our investment strategies in the market today. Few examples include Japan buyout, US real estate, and secondaries. Each of these strategies are on track to grow meaningfully due to strong investment performance, our deep client relationships, and an attractive set of deployment opportunities. During the quarter, we raised $6.3 billion in new capital, bringing year-to-date fundraising to $20 billion.

Overall, we've not been pleased with our pace of fundraising, thus far, in 2023, but our current expectation is for a step higher in new capital raised throughout the fourth quarter. With the final close of our latest US buyout strategy, we now have $105 billion of corporate private equity assets under management, including $21 billion in dry powder across our CP funds that allow us to pursue deals of any size around the globe. We continue to raise capital for our next vintage Asia, Europe and Japan buyout strategies, which should further add to this amount in the coming quarters.

Moving to credit. This is an area we are focused on accelerating our growth and expect to be significantly larger over time. But while credit has built a diverse set of strategies to serve an increasing number of institutional and private wealth LPs, we manage over $150 billion in assets today, nearly triple the level of just three years ago, including the world's largest CLO business. Our team is focused on the significant opportunity ahead to attract assets that migrate from bank balance sheets to private capital strategies, a trend we expect to play out over the next several years.

Finally, let me focus on expense management. We have made faster progress in this area than I originally expected. I give a lot of credit to the team for driving this process. We've identified several areas that have already led to a lower run rate of expenses. As a result, we delivered better-than-expected third quarter FRE. I expect an even larger impact in 2024. The changes we are making across the firm are improving our organizational structure, emphasizing our areas of strength, enhancing our ability to grow, and helping to maintain best-in-class talent across our platform.

In closing, our leadership team is focused on taking meaningful actions to drive long-term value for our investors and shareholders. With that, let me now turn the call over to John.

## John C. Redett

*Chief Financial Officer and Head of Corporate Strategy, Vantage Group Ltd.*

Thanks, Harvey. Good morning, everyone. As Harvey highlighted, we delivered better-than-expected results this quarter, supported by our focus on expense management and our diversified global platform. We produced $367 million in distributable earnings or $0.87 in DE per share. Year to date, we have generated over $1 billion of DE or $2.38 in DE per share. We finished the third quarter with $382 billion of assets under management, up 4% year-over-year.

AUM is poised to increase upon the closing of the Fortitude transaction with Lincoln, which should occur in late November. We expect this transaction to add $40 million in incremental FRE. Across our global platform, we deployed $4.1 billion of capital this quarter with nearly a third in our solution strategies and over $1 billion in real estate, infrastructure, and natural resources. Despite investment headwinds, we deployed $12.6 billion of capital year-to-date 2023.

We realized $5.6 billion of proceeds this quarter for our LPs, largely across our energy, power, solutions, and credit strategies. Year to date, we have returned over $15 billion in cash to our LPs, a higher level than we deployed. Carlyle is one of the few firms that has been able to deliver this outcome. We raised $6.3 billion in capital in the quarter, generally split between each of our segments. And as Harvey said, we expect a stronger fourth quarter of fundraising.

In solutions, we raised $2.4 billion largely for our secondaries and co-investment strategies, which will continue to raise capital and finalize their fundraising in 2024. In Global Credit, we attracted new capital for opportunistic credit, direct lending, and our private wealth fund, CTAC. And year to date, we have raised nearly $1 billion for Carlyle's strategic solutions, our asset-based finance strategy. In Global Private Equity, we closed our eighth US buyout fund, and along with our growth lead, raised over $16 billion of committed capital. In addition, we raised capital across the latest vintage NGP strategy, Asia buyout, and renewables.

Shifting to fee-related earnings, management fees totaled $518 million in the third quarter, up modestly compared to the prior year. We have $10 billion of pending fee earning AUM that will activate fees largely as we deploy additional capital. Capital markets activity remains slow and transaction and advisory fees of $11 million declined sharply from last year. That said, we expect Q4 transaction revenue to grow as we have good visibility into near-term fee generation.

Fee-related performance revenue of $23 million were higher than the third quarter of last year, but as we previously signaled, it declined sequentially. Global Credit [ph] FRPR (00:10:48) continue to move higher with good asset flows and strong performance in our evergreen products, while Global Private Equity declined sequentially, a trend that is likely to persist in Q4. Cash compensation and benefits of $256 million declined more than $30 million compared to the second quarter due to lower fee-related performance revenue compensation, as well as our efforts to operate the firm more efficiently. To date, we have actioned approximately $40 million in annual run rate expense savings. Our work here remains in the early innings.

G&A expenses were also lower as we benefited from expense discipline and lower fundraising cost. We expect G&A expense to modestly increase in Q4 due to year-end seasonality, though we remain focused on controlling annual expense growth in 2024. Overall, third quarter fee-related earnings of $205 million were relatively flat to the last quarter. We now expect to deliver a higher level of FRE in the second half of 2023 relative to the first half. FRE margin in the third quarter was 37%, and we remain focused on driving this margin higher over time. Our net accrued carry balance totaled $3.5 billion, with a small decline from Q2 due to realizations. Our global carry fund portfolio appreciated 2% in the quarter, with relative strength in infrastructure, natural resources, and credit, and our real estate portfolio continue to be pressured by higher rates despite strong underlying asset performance.

Wrapping up, despite the challenging backdrop, we are executing across the firm and see good opportunities across our global platform to create value for both investors and shareholders.

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

# QUESTION AND ANSWER SECTION

**Operator**: Thank you. [Operator Instructions] Our first question comes from Patrick Davitt with Autonomous Research. You may proceed.

**Patrick Davitt**
*Analyst, Autonomous Research LLP*

Q

Hey. Good morning, everyone. You hinted at this [indiscernible] (00:13:17).

**Harvey Mitchell Schwartz**
*Chief Executive Officer & Director, The Carlyle Group, Inc.*

A

Hey. Good morning, Patrick.

**Patrick Davitt**
*Analyst, Autonomous Research LLP*

Q

Hey. Could you better frame any potential timing dynamic in 3Q and 4Q gross flows? Maybe a better idea of how much AUM has already closed so far in 4Q? And then, more broadly perhaps, update us on your thoughts on the potential sizing of remaining large funds in the market over the next 6 to 12 months. Thank you.

**Harvey Mitchell Schwartz**
*Chief Executive Officer & Director, The Carlyle Group, Inc.*

A

So, I think, as I said, Patrick, and thanks for the question. As I said in my prepared remarks, we aren't particularly pleased with the year-to-date fundraising. I think, we've talked about this a bit. With my arrival, one of the things that I really wanted to focus on as a new CEO in a new company was really spend a lot of time internally having my people get to know me and then a lot of time externally. I've now met with, I think, over 200 of our investors globally and with about nine months, and I can really feel the momentum building. And so, we would expect a meaningful step up in fourth quarter fundraising. I can't promise these things. Market environments can be delayed, but it feels quite good.

And then, when you think about the funds we have in the marketplace now, real estate, secondaries, Japan, I think as we come into 2024, as I said, the momentum feels quite positive now and we'll see how fourth quarter shakes out, but we're feeling pretty optimistic.

**Operator**: Thank you.

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

Thanks.

**Operator**: One moment for questions. Our next question comes from Alex Blostein with Goldman Sachs. You may proceed.

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

Hi. Good morning. Thanks, everybody. [indiscernible] (00:14:56).

**Harvey Mitchell Schwartz**
*Chief Executive Officer & Director, The Carlyle Group, Inc.*
A

Hey, Alex.

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

...just a little bit more. Hey. Hey, Harvey. So, nice progress in expenses so far this quarter. You alluded to run rate savings and there is more to go from there. So maybe help us frame kind of what's really run rate in the third quarter. How do you expect that to shake out into the end of the year? And then, more importantly, what are your early thoughts on FRE growth and expense trajectory for next year?

**John C. Redett**
*Chief Financial Officer and Head of Corporate Strategy, Vantage Group Ltd.*
A

Yeah. Alex, it's John. As we said on our second quarter earnings call, we really want to drive our FRE margin higher. It's a key focus area for the firm. In the third quarter, we saw a slight uptick in the margin. But we – look, we've been really focused on our expense base. I think we've made some progress. As I said earlier, we've already actioned $40 million run rate and I expect this number, quite frankly, to grow as we continue to focus on expenses.

And I would say overall, we've gotten at the expenses faster than we thought we would. I've been in the CFO seat for five weeks, and I'm pretty pleased with the pace of which we're – in terms of what we're getting at. Look, every single expense is on the table, I'd tell you. There is no such thing as a sacred expense, but this is very much a process. And I would just describe it as very, very early days. But overall, we are pleased with the progress we've made in the third quarter.

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

Thanks, Alex.

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

Thank you.

**Harvey Mitchell Schwartz**
*Chief Executive Officer & Director, The Carlyle Group, Inc.*
A

Thanks, Alex.

**Operator**: One moment for questions. Our next question comes from Craig Siegenthaler with Bank of America. You may proceed.

**Craig Siegenthaler**
*Analyst, BofA Securities, Inc.*
Q

Thanks. Good morning, everyone.

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

Hey, Craig.

**Harvey Mitchell Schwartz**
*Chief Executive Officer & Director, The Carlyle Group, Inc.*
A

Good morning.

**Craig Siegenthaler**
*Analyst, BofA Securities, Inc.*
Q

So, my question is on the CLO business. And just given that you just did the CBAM deal and you're the largest CLO manager in the world now. We thought you'd have unique perspective on this. But, as you noted, defaults are picking up off a very, very low base. I wanted your perspective on where you see them trending over the next year. And also, given the subordination inherent in a CLO, what are you thinking in terms of lost translation with the equity first loss tranches? And also, I remember this issue came up a few years ago. But, are there scenarios where there could be triggers where management fees could turn off the CLO vehicles?

**Harvey Mitchell Schwartz**
*Chief Executive Officer & Director, The Carlyle Group, Inc.*
A

Let me just comment on the broader nature of our CLO business. So, the team has done actually an excellent job. We have an over 20-year history here in managing that business. We're quite proud of the fact that the team has taken the mantle of largest in the world. Our expectation, as has been implied by our comments, is that we think we've been in a very benign credit environment and would expect credit to deteriorate on average from here.

Having said that, from the standpoint of putting capital to work, I think it's a fantastic time to be putting capital to work. If you look at default rates over the past couple of years and even today, they're running low relative to average points in history. And so, our full expectation is that credit would be – that credit defaults across the industry, whether it's in banking, private markets, et cetera, that you're going to see this pick up, particularly as you come into refinancing walls and no later 2024, 2025 and 2026, as long as rates stay high, markets stay where they are, which again, is our expectation. So, the team is doing a really very, very good job of managing this.

To give you a little detail strategically about how we're thinking about it, we're in the process right now investing in the business. We have a fund that's in the process of being raised, should close in November, December, which would be a captive equity fund, which will help really support the business to growth.

In terms of any specific triggers or anything like that, why don't we just take that offline, and then we'll have Dan follow up with you on those level details?

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

A

I'm happy to. So, Craig, I'll give you a call.

**Harvey Mitchell Schwartz**
*Chief Executive Officer & Director, The Carlyle Group, Inc.*

A

Thanks, Craig.

**Operator**: Thank you. One moment for questions. Our next question comes from Ken Worthington with JPMorgan. You may proceed.

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

Q

Hi. Good morning and thanks for taking the question. As we think about fundraising in energy, NGP XIII seems to have had a strong start and the performance of prior vintages seems to be quite good. I think NGP XII was a smaller fund. Could XIII be a record sized natural resource fund for Carlyle? And then, you had good realizations in energy this past quarter. How does the pipeline look for energy realizations as we look out over the next few quarters? Thanks.

**Harvey Mitchell Schwartz**
*Chief Executive Officer & Director, The Carlyle Group, Inc.*

A

I think the teams have done an excellent job. Our Europe-based team, I think in particular, has done an excellent job in terms of monetizations and the opportunity set. This area, when you look across our entire complex of energy infrastructure, renewables, I really think we have sort of a unique team and the sort of our capability set. So, I think broadly speaking, this is an opportunity for growth. I'm not going to get into specifics about particular monetizations, because obviously that's subject to market environment. But I can tell you, we feel quite confident with the team and their performance and they continue to do an excellent job. But too difficult for me point specifically to individual asset monetizations, but the pipeline feels pretty good.

I think more importantly, the breadth of the team and we think about the opportunity set and trends over the next 5, 10, 15, 20 years, we feel really, really well positioned and I think you could broadly discuss this in terms of energy transition and climate. I think we have some very talented folks on the ground.

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

Q

Great. Thank you.

**Operator**: Thank you. One moment for questions. Our next question comes from Glenn Schorr with Evercore ISI. You may proceed.

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

Q

Hi. Thanks very much. So...

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

A

Good morning, Glenn.

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

Q

Good morning. So, appreciate the – I think you dangled some optimistic comments about some products being developed in both insurance and private wealth. And you gave us some – a lot to chew on in terms of all your dry powder and seeking investments. My question is just more strategic. Do the individual businesses have plans that it targets goals that they're working on? And the question is, when do we, outsiders, get a glimpse of you bringing that all together and how to think about the next couple of years? I appreciate that you get in midstream in this, Harvey, but it's been a long wait for investors. Thanks.

**Harvey Mitchell Schwartz**
*Chief Executive Officer & Director, The Carlyle Group, Inc.*

A

It's fine. It's my responsibility, Glenn. I appreciate the question. So, let's just go back to sort of how I think about it and how the team thinks about it. And our approach really is, what I'll call, and not that I'm boring or textbook-ish, principles based. And by that, I mean, there's a very methodical process that we're going through the ranges from business reviews, interactions with LPs, making sure we have all the adjacencies where we think we can provide the most value to our investors, how we can drive growth, how we can manage expenses, and how we want to create operating flexibility across the entire platform. So, all those things are in process.

In terms of specific areas of growth and progress we've made to date, I feel really good about the momentum. If you and I were catching up back in February and you had said, hey, Harvey, where do you think the team would be with you in November? I don't think we would have made as much progress. I don't – nobody – I'm not patting anybody in the back here, but I don't know that we would have transitioned the CFO, put in a new Head of Technology, brought in a new Head of Distribution, brought in a new Head of Wealth, and really began to shape the architecture of the firm in a way, which I think really allows the firm and the entire leadership team to mobilize the firm. So, I feel really good about that.

In terms of update, would you call yourself an outsider, update for outsiders? As I've said before, that's really a – to me, that's an output and we have to run this very sort of surgically methodical process. But the foundation is really coming together quite well. And so, we'll come back to you as soon as we're ready. But to me, that's an output. And the last thing I'll say is, I truly appreciate your urgency around this. I can promise you, John, myself, the whole leadership team, folks in the business that we have way more urgency than you do. So, as soon as we're in a position to do all that, we will. I know it's not a great answer for you, but that's our process.

**Operator**: Thank you. One moment for questions. Our next question comes from Michael Cyprys with Morgan Stanley. You may proceed.

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

Good morning. Thanks for taking the question. I wanted to ask on private credit. Just curious how you see the impact of the new proposed bank capital rules on the opportunity set for private credit? And in particular, which product areas do you anticipate banks pulling back from the most and which areas and which opportunities do you think are most attractive for Carlyle versus which areas may be less attractive? And maybe you could talk to some of the steps you may need to take in order to capture the opportunity set. Are there any areas you need to fill in a bit more?

**Harvey Mitchell Schwartz**
*Chief Executive Officer & Director, The Carlyle Group, Inc.*
A

So, I think, as you all know, I was the Chief Financial Officer with Goldman from 2012 to 2017. And so, that was really the first significant wave of regulatory change that came through the banking system. And so, I saw that process up close. I would expect this process to be similar across the entire banking system, particularly on the back of Silicon Valley Bank, [ph] Republic Bank (00:25:18), et cetera. And so, my expectation and I'd say there's a very wide distribution of potential outcomes here, but I'll give you my personal expectation.

My personal expectation is there'll be sort of a flurry of activity, maybe one-off transactions. We're involved in several dialogues on our side, but I think you'll see a flurry of activity, but I really think this is a process that really plays out two, three, four or five years. I think it really is as simple as the regulatory community doing their job to identify where they feel their systemic risk and really not the best viability asset management, which we've seen already in a number of cases and in private markets, as you know, we have long-term capital and ability to deploy that capital.

So, I think there's sort of two phases. There's like a quick phase. We see maybe a flurry of transactions over the next year and then you see a longer term settling in where we, as Carlyle and other market participants, we can provide – we provide very valuable capital to borrowers and to the economy. Where that plays out, I think that's in the full gamut. I mean, we've already seen it sort of in leverage loans and sponsor lending. That's a multiyear. That's an old process. And I think it will continue to extend to those most heavily weighted, risk-weighted assets, could be in the asset-backed market. You could see things in consumer loans. Certainly, this is going to take multiple years, but we're going to have to work through as an economy and as a system, the real estate debt that exists out there. So, I think it's going to be very broad based. But I actually think again, the longer term opportunity is going to end up playing out over multiple years.

**Operator**: Thank you.

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

Great. Thanks.

**Operator**: One moment for questions. Our next question comes from Brennan Hawken with UBS. You may proceed.

**Brennan Hawken**
*Analyst, UBS Securities LLC*
Q

Good morning. Thanks for taking my questions.

**Harvey Mitchell Schwartz**
*Chief Executive Officer & Director, The Carlyle Group, Inc.*
A

Brennan.

**Brennan Hawken**
*Analyst, UBS Securities LLC*
Q

He, Harvey. So, appreciate the focus on expenses and definitely encouraging to hear your messaging there. So, curious how will you strike a balance in between discipline and efficiency? And I believe there were some one-time items in Private Equity in the quarter. Could you maybe help us size those, so we can understand what the right base is to think about moving forward?

**John C. Redett**
*Chief Financial Officer and Head of Corporate Strategy, Vantage Group Ltd.*
A

Yeah. Brennan, it's John. Look, we're very focused on expenses, but we're more focused on growth. We do see more opportunity for some expense savings. We're not going to be cutting anywhere near the point to where it impacts growth. We're very focused on growth. In terms of the G&A, I would describe the beat of kind of $20 million-ish as roughly $5 million was more a result of our focus and work around G&A expenses. The rest of the $20 million beat, the $15 million-ish, was really more one-off items that likely won't occur again in the fourth quarter. And as I said in my remarks, we do expect the fourth quarter G&A to trend higher than the third quarter. But we're very focused on managing our G&A number in the fourth quarter and 2024.

**Harvey Mitchell Schwartz**
*Chief Executive Officer & Director, The Carlyle Group, Inc.*
A

Yeah. I think, John said it perfectly. I think this is about two things. High level, one is about operational excellence. And as John said earlier, there's nothing sacred. And so, we're going to be exceptionally disciplined. I think the other thing is it just creates a lot of operational flexibility to invest in growth. And growth areas like wealth, parts of credit insurance, those are areas where we're going to make sure that we have the resources to participate. But it gives us a lot of operating flexibility.

**Brennan Hawken**
*Analyst, UBS Securities LLC*
Q

Great.

**Harvey Mitchell Schwartz**
*Chief Executive Officer & Director, The Carlyle Group, Inc.*
A

I'm really pleased what the team has done in a short period of time to come up with $40 million of run rate savings, which we'll keep building on, I think is, again, I give them a lot of credit.

**Operator**: Thank you. One moment for questions. Our next question comes from Brian Bedell with Deutsche Bank. You may proceed.

**Brian Bedell**
*Analyst, Deutsche Bank Securities, Inc.*
Q

Great. Thanks. Good morning, folks.

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

Thanks. Good morning, Brian.

**Brian Bedell**
*Analyst, Deutsche Bank Securities, Inc.*
Q

Good morning. And yeah, thanks for the – just moving on, I guess, on the last answer on the expense side. Thanks for the non-recurring disclosure there. The $40 million run rate savings, if you can just talk about, is that starting in the fourth quarter or is that partially in the third quarter? And then, just as more structurally as we move into 2024, I think you mentioned you think you're in the early innings in this regard. Any sense of whether that – you think that you can keep that line either flat or down? I know you did definitely want to invest for growth. And then, just any commentary around that $40 million between G&A and any compensation and whether any change to the compensation structure is contemplated for 2024, or is being worked on at this stage?

**John C. Redett**
*Chief Financial Officer and Head of Corporate Strategy, Vantage Group Ltd.*
A

Yeah. Brian, it's John. I would think of this more as a 2024 run rate number. I mean, look, I've been in the seat five weeks, as I said earlier, and we really just started this process. That's why, I kind of referred to it as the early innings of this kind of expense review process. In terms of competition, I mean, look, we're a human capital business. Our largest expense is obviously compensation. It's certainly something where we're very focused on. We're very aware of what our competitors have done on the compensation front, and I would just say it's part of the overall expense review going forward. And again, look, I think in overall, the $40 million number is largely comp driven, compensation driven, and I would say, 15% of it's roughly G&A.

**Brian Bedell**
*Analyst, Deutsche Bank Securities, Inc.*
Q

Great. Perfect. Great. Thank you so much.

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

Thank you.

**Operator**: Thank you. One moment for questions. Our next question comes from Brian McKenna with JMP Securities. You may proceed.

**Brian McKenna**
*Analyst, JMP Securities LLC*
Q

Thanks. Good morning, everyone. So, Investment Solutions is in the middle of a strong fundraising cycle and we should see some nice expansion into 2024. But how should we think about growth here longer term? And are there any other strategic opportunities within this business away from the core strategies that could drive some incremental growth over time?

**Harvey Mitchell Schwartz**
*Chief Executive Officer & Director, The Carlyle Group, Inc.*
A

Look, so the short answer to that is yes. So, it's a – look, it's a fantastic team. It's a great business. It's kind of where the puck is, right? Primary across the industry is a little slower. Secondary activity is a lot higher. Our expectation is that all – this is staying for a while. There are a number of different business adjacencies that fit nicely here, that the team is growing and building. So, I would expect to see this as an area of growth over the next several years. And we have a fantastic team.

**Brian McKenna**
*Analyst, JMP Securities LLC*
Q

Thanks, Harvey.

**Harvey Mitchell Schwartz**
*Chief Executive Officer & Director, The Carlyle Group, Inc.*
A

Thanks.

**Operator**: Thank you. One moment for questions. Our next question comes from Steven Chubak with Wolfe Research. You may proceed.

**Steven Chubak**
*Analyst, Wolfe Research LLC*
Q

Hi. Good morning.

**Harvey Mitchell Schwartz**
*Chief Executive Officer & Director, The Carlyle Group, Inc.*
A

Hey, Steven. It's been a long time.

**Steven Chubak**
*Analyst, Wolfe Research LLC*
Q

Yeah, it's been too long, Harvey. I hope you're well.

**Harvey Mitchell Schwartz**
*Chief Executive Officer & Director, The Carlyle Group, Inc.*
A

Yeah. Nice to hear your voice.

**Steven Chubak**
*Analyst, Wolfe Research LLC*
Q

Yeah. Yours, too. I wanted to ask on the FRE margin outlook. And maybe just at the risk of beating a dead horse, they want to ask on expenses and dig in a bit further. Whether the $40 million of run rate cost savings contemplates any incremental investments or whether it's a gross versus net savings figure, given you do have a lot of growth priorities as well, Harvey, that you outlined? And how we should think about the trajectory for FRE margins in 2024 versus this quarter's jumping off point, given the realization of some of those efficiency benefits?

**Harvey Mitchell Schwartz**
*Chief Executive Officer & Director, The Carlyle Group, Inc.*
A

Yeah. So, John's touched on a fair bit of this. I think, I don't want to disappoint you, but we're not going to give you real specifics on 2024. I would tell you that there's a couple of levers that we're working on, which when we're ready, we'll dig into a little bit more. But I would say there's sort of three very, very big high level things happening. One is the run rate savings and while that's meaningful, and I'm really proud, this is not just about cutting expenses. When you look at the transaction that the team has completed in insurance, as you look at that transaction over the next two years, that'll drive about $40 million of incremental FRE just in that transaction. In the undrawn capital that John talked about, that'll drive about $90 million of top line fees, the $10 billion.

So, there's a lot happening in terms of FRE growth. And then, of course, you have the fundraising that we've talked about. And as I said, I feel really good about the momentum, better than I thought I would nine months in. But there's work to do. There's a lot of work to do.

**Operator**: Thank you. One moment for questions. Our next question comes from Dan Fannon with Jefferies. You may proceed.

**Daniel T. Fannon**
*Analyst, Jefferies LLC*

Q

Thanks. Good morning.

**Harvey Mitchell Schwartz**
*Chief Executive Officer & Director, The Carlyle Group, Inc.*

A

Good morning.

**Daniel T. Fannon**
*Analyst, Jefferies LLC*

Q

Harvey, you mentioned private wealth as an area that you can be much larger in, $3 billion year-to-date in flows. Can you talk about what's in the market today and then how you see that evolving from a product perspective and what do you think is a reasonable goal in terms of organic growth from that channel?

**Harvey Mitchell Schwartz**
*Chief Executive Officer & Director, The Carlyle Group, Inc.*

A

So, I'm really enthusiastic about this as a long-term area of growth for Carlyle. We've had products in the market for a long time. As I mentioned, we've raised $45 billion across closed and evergreen funds. The wealth team has grown pretty substantially, but there is more work to do on product development, growth of the team. We're investing quite heavily. I'm personally spending a fair bit of time in this space and we really became a big initiative for me and I don't know, month six or month seven. And I feel very optimistic here.

I think as an industry, we have to be really thoughtful as capital continues to migrate into the sector. I think, if you look at the wealth assets around the world, which we all expect will continue to grow, it's a very small percentage in alternatives. So, this is going to play out over a decade. But as this growth happens, I think Carlyle, the brand recognition, the history of the firm, the historic presence of the founders, David Rubenstein is a brand in and of itself. I think these are all really, really additive powerful things that provide momentum for Carlyle, but it's going to play out over years. I think most importantly, we just have to have the right products to ensure that the wealth investor gets really high performance. And that's what we're focused on.

**Operator**: Thank you. One moment for questions. Our next question comes from Ben Budish with Barclays. You may proceed.

**Benjamin Budish**
*Analyst, Barclays Capital, Inc.*

Q

Hi. Good morning and thanks for taking the question. I wanted to follow up sort of on the discussion of investing for growth versus kind of cost savings. Harvey, you mentioned a number of sort of growth areas, private credit and the asset-backed opportunity. Insurance, you talked about developing new investment and distribution strategies. And earlier, you talked about the kind of the progress you made in terms of hiring. So, can we – just kind of circling back to all of that, in terms of the future hiring, future growth, do you feel like you have the capabilities you need to sort of go after those opportunity sets or where might you need to kind of increase hiring? Is it on the investment side, the distribution side, or do you feel like you can kind of do what you want to do with what you have? Thanks.

**Harvey Mitchell Schwartz**
*Chief Executive Officer & Director, The Carlyle Group, Inc.*

A

So, well, first of all, I think the team is amazing. Broadly speaking, I've been so impressed since I got here with the business leaders. World-class organizations, they know how to redeploy resources and how to effectively tap the brakes, hit the gas. We're not creating new science over here in terms of how we think about expense management and reinvestment. And as I said, the key here is to create operational flexibility. We're not just trying to drive the cost structure down. We want to make sure that we have the best people, retain the best people, attract the best people. So, all of this is about creating that operational flexibility.

The insurance team is really vastly built out through our partners in Fortitude. I think over time, as wealth scales, we'll continue to scale, but we made meaningful investment there. I think the investing engine in credit is broadly built now. Some of this will be more about at the margin. But I don't see as much investments or big gaping holes at this stage or certainly things will build and the world is going to be dynamic. And so, we'll pivot towards dynamic. But the – but we're certainly very focused on growth, but we're equally focused on running this business in the most disciplined possible way.

**Operator**: Thank you.

**Benjamin Budish**
*Analyst, Barclays Capital, Inc.*

Q

Harvey, thank you.

**Operator**: One moment for questions. Our next question comes from Brian Bedell with Deutsche Bank. You may proceed.

**Brian Bedell**
*Analyst, Deutsche Bank Securities, Inc.*

Q

Great. Thanks very much for the follow-up. Maybe, Harvey, if you can just give us an update on the capital markets business. I know that's an area you didn't focused on where you think there's a lot of opportunity for Carlyle and the product set that you have and the talent you have, right, currently. Maybe as we move into 2024, is that an area where you think you can significantly build the revenue stream on a year-over-year basis provided, of course, that we have a fairly normal market environment? Or is that more of a little bit of a longer term build?

**Harvey Mitchell Schwartz**
*Chief Executive Officer & Director, The Carlyle Group, Inc.*

A

I don't think it's a longer term build. We don't want to be the biggest in the world here in capital markets. And that's really more my feeling for the strategy. But we're coming from such a low base that incremental growth in a normalized market environment should be pretty easy. If we don't deliver that for you, then we're not doing our job. So, I think, John mentioned, it's a pretty muted quarter, but fourth quarter pipeline feels pretty good, coming into 2024 in a more normalized environment.

I think we have the team now positioned in a way, aligned with the businesses, in terms of resources and incentives and degree of focus that – I think that the opportunity set should be much better coming into 2024, again, subject to market conditions. Now, I would describe it as version 1.0. When we get to a version 2.0, we'll come back to you in terms of how we build that out. But a lot of this, as I've said before, we have all the raw material. We just need to leverage all the adjacencies we have internally, have the right incentives, stay focused, and then we can drive value through this.

**Brian Bedell**
*Analyst, Deutsche Bank Securities, Inc.*

Q

That's great color. Can I ask one more or should I get back in the queue?

**Harvey Mitchell Schwartz**
*Chief Executive Officer & Director, The Carlyle Group, Inc.*

A

You got to talk to Dan Harris about that. How about you ask [indiscernible] (00:41:41) about that. But I will. That's the kind of guy I am.

**Brian Bedell**
*Analyst, Deutsche Bank Securities, Inc.*

Q

Sure. Thanks. Thanks. It'll be a quick one. Just on the fundraising side, obviously optimistic on 4Q. Are we still on the camp for fundraising in 2023 to exceed that of 2022? Or do you think the timing could be sort of squishy around the December-January timeframe where that might bump into 2024 a little bit?

**Harvey Mitchell Schwartz**
*Chief Executive Officer & Director, The Carlyle Group, Inc.*

A

No, our expectations will exceed 2022, subject to market conditions and some stuff slipping. And the other thing I'll say is, we're trying to give you as much insights, but we're not running the place for November, December, right? So, we're running it for the long term. But I understand your focus on the quarter.

**Brian Bedell**
*Analyst, Deutsche Bank Securities, Inc.*

Q

No, no, that's good. That's good. Great. Thanks so much for taking my questions.

**Harvey Mitchell Schwartz**
*Chief Executive Officer & Director, The Carlyle Group, Inc.*

A

Of course.

**Operator**: Thank you. One moment for questions. And our last question comes from Patrick Davitt with Autonomous Research. You may proceed.

**Patrick Davitt**
*Analyst, Autonomous Research LLP*

Q

Hey. Thanks for the follow-up. Harvey, you mentioned, the still uncertain environment. So, could you maybe better frame how the 4Q realization pipeline looks versus 3Q? Thank you.

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**John C. Redett**
*Chief Financial Officer and Head of Corporate Strategy, Vantage Group Ltd.*

A

Yeah. I mean, Patrick, this is obviously a difficult question to answer, in the sense, we're in some challenging markets. But, look, I would say confidence is low today. Uncertainty is elevated. And as Harvey said, we have a lot of dry powder. I like the fact that we have a lot of dry powder. Some of the better investments we've made at Carlyle had been in markets where uncertainty is elevated like today. So, I think we feel good about that. But looking forward, projecting that realizations is something that's very difficult us to do.

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**Harvey Mitchell Schwartz**
*Chief Executive Officer & Director, The Carlyle Group, Inc.*

A

Thanks, Patrick.

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**Operator**: Thank you. And I'd now like to turn the call back over to Daniel Harris for any closing remarks.

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

Yeah. Thanks, everybody. We appreciate your time this morning and your interest in Carlyle. If you have any further questions or follow-ups, please reach out to Investor Relations. We look forward to talk to you again next quarter.

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