Patrick Davitt:  
Good morning, everyone. For those of you that don't know me, I'm Patrick Davitt, the US Asset Managers Analyst here at Autonomous. As a reminder, if you'd like to submit a question to pigeonhole, you can scan the QR code in your pamphlet, and we'll try to get to those at the end, or maybe fit them in if it fits the topic we're on.  
It's my pleasure to welcome Carlyle CEO Kewsong Lee. As many of you know, Carlyle is a 375 billion AUM alternative asset manager, historically more weighted to private equity, but more recently with significant growth and real assets and credit, starting to look a lot more balanced. And I'm sure we'll get into all that today.  
Thanks for coming, Kew. It's a pleasure to have you this morning.  

Kewsong Lee:  
I appreciate you having me.  

Patrick Davitt:  
We've had, I think, almost every large alternative CEO here at the conference. So I think it's helpful to compare and contrast the macro outlooks from each. The Federal Reserve has never been able to tackle inflation like this without causing recession. Your Chairman, David Rubenstein, I think, sounded a little bit more negative on the economy at Davos last week. But your fee earnings and realization guidance on last earnings call would suggest you're a little bit more optimistic. Could you square the guidance with David's tone last week? And then, through that lens, walk us through what you're seeing in real-time macro trends in the portfolio.  

Kewsong Lee:  
Sure. Well, look, I break this down into three different parts: what's happening in the real economy, what's happening in financial markets, and what I call what's happening in the deal economy. And sometimes it's easy when there's all this uncertainty in the air and complexion in the air to conflate all three. If you break it down, look, in the real economy, no doubt inflation, rising rates, geopolitical uncertainty.  

But let me tell you what we're seeing through our portfolio. Okay, look, we have 200 P companies, hundreds, if not thousands, of credits. We have a broad-based view of what's happening around the world, across all industry sectors, and when you boil down and look at actually the data, our companies are still growing. But importantly, margins are still expanding through the first quarter, which tells me that there's a lot more resilience out there than maybe people give credit to.  

Consumers are strong. We're seeing companies that have made a lot of changes and using technology to drive margin and to increase productivity. Yeah, there's a lot of uncertainty. You can't help but to think there will be demand destruction with all that's going on. But I think there's more resilience in the real economy than people might suspect.
Then, turning to financial markets, look, clearly volatility, a lot of agita. I think it's healthy. Corrections are healthy. Over the past decade, liquidity drove valuations. Everybody was chasing growth, chasing yield, because you had no other move. But I think what's happening now is something that's very good, which is you have to focus on real sustainable growth. You have to focus on cash flow and profitability. It's about fundamentals, and there's a new thing called risk that has to be properly priced. And as all that recalibrates, I think that's very healthy for the system, and it's great for our business.

Finally, turn to the deal economy. There are lots of changes and disruptions and dislocations going on, but remember, we're not a macro hedge fund. We are long-term investors. We have a long view. And when you look at it through that lens, I can't help but to think a lot of these changes are actually great opportunities, especially with the recalibration of valuations that are starting to happen.

You have an energy transition going on. That is going to fuel enormous investment opportunity into infrastructure, into renewables, but also into traditional businesses that need to decarbonize. You've got geopolitical conditions creating more regional resilience and decoupling. That's going to have enormous implications to capital needs, not only in working capital, but also to make your supply chains more resilient. That's going to require capital. It's going to require investment.

And then finally, we're in a period, for probably a longer period of time than people think, with volatility. Volatility drives opportunities in private credit markets, and it drives opportunities in the secondaries business of the alternative markets. All of that's great for the platforms that we've built.

So I take a step back. Yes, eyes wide open, managing through uncertainty, but there's probably more resilience than people think. I think enormous opportunities are being created. And if you have a diversified platform across all asset classes around the world, we have the platform to navigate through this type of environment.

Patrick Davitt:
Helpful. We've seen some big negative margin surprises already the last few weeks. It sounds like you aren't currently seeing that in your own portfolio.

Kewsong Lee:
We're continuing to see some strength and productivity. Now, it's going to be a grind. We recently had a CEO conference, and we have prepared ourselves, prepared our companies for the fact that the next two years are going to be a grind. We're aware of these conditions. But I want to make sure folks understand we've, for the past two, three years now, we've been preparing for the fact that there could be economic softness, and there could be contraction of multiples, which is why through our IC committees, we've been repositioning into the types of businesses that we think will be able to get through these types of conditions. And we've been preparing for the fact that valuations could come down. Most of our scenario planning, when we run cases through our ICs, have multiple contraction, and that's the way we've been doing deals for several years now. So I think our portfolios are pretty well constructed, pretty resilient to what we're about to go through.

Patrick Davitt:
Thank you. You hit on this a bit in your opening statement, but another topic that's more top of mind, given the war in Ukraine and all the supply chain chaos, is de-globalization. How do you see this issue
playing out, and is it a problem or opportunity you think for your portfolio and maybe even from the investment side?

Kewsong Lee:
Well, look, it's hard not to say that all of the divisiveness and the conflict is not an issue, because I think engagement, I think working together is the better solution. Having said that, you're going to see more regional strength needing to be created in ecosystems because the just-in-time mentality has got to move to a just-in-case mentality, given geopolitics of the world. That's going to create more needs for working capital to support inventory, to create redundancy in your supply chain, to improve local ability, to have your logistics more under your control. You're going to need to bring in more manufacturing in-house or in areas that are closer to you, that you can control or have more direct influence over. All of that requires capital. It's going to require money and investment to repurpose and make more redundant and more resilient your entire supply chain. We've only just started to begin that whole transition. And you're going to see, I think, a real capital consumptiveness that's going to occur in order to create that resilience region by region.

Patrick Davitt:
Makes sense. Let's get more into your business. There's a view still in the marketplace that private equity alternatives more broadly are among the most negatively exposed verticals to higher rates, inflation, recession, pick your poison. From my perspective, it makes sense. You get higher rates, you have lower multiples, lower growth, et cetera. What do you think we're missing? What is the market missing? Why do you think the industry and then Carlyle more specifically might surprise us positively through this?

Kewsong Lee:
Yeah. Look, I think what folks are missing, we have several different elements of how our business model works. The most valued element of our earning stream is our fee-related earnings. 95% of our capital is locked into closed-end funds, where we have massive visibility into what those fees are. These are funds that do not have an ability to trigger liquidity based on marks. They're locked in for 10, 12 years. We have real visibility on what our fee revenues are, respective of valuation levels, irrespective of the volatility that you're seeing in the markets. So that's number one.

Number two, we have $4.4 billion of accrued carry. That's not just in one fund or one company or one deal or one strategy. We have 30 broad strategies, roughly speaking, at Carlyle, across all different industries around the world. And that $4.4 billion of accrued carry is very diversified. Just this last quarter, despite significant volatility in the public markets, our appreciation was up 5%, whereas public indices were down 5%. We have only about 10% of our portfolio is in public names.

So when you take a step back and think about that $4.4 billion of accrued carry, for us, it's not a matter of if, but when that gets released into earnings. And keep in mind, our broad portfolio construction that we manage very carefully enables us to have... Eyes are wide open, but we're fairly confident in our portfolio construction. Like I told you, our companies are still, on an operating metric basis, still doing pretty well through the first quarter.

When you take those two things and put that together, that gives me and our team a lot of confidence, which is we just reaffirmed that this year we'll generate $850 million of FRE. That's up 40% from last
We've got tremendous momentum. It's a diversified platform. It is not one company, one deal, one fund. It is broadly diversified across a lot of different strategies. And you have to remember the nature of our capital formation. The 95% in closed-end funds is very important, because that gives us the visibility. And that's maybe what people don't quite appreciate about our industry is the nature of those fees being as locked in as they are over many, many years.

**Patrick Davitt:**

Yeah. You mentioned that the net accrued carry balance. I guess, what environment does it take for you to have a more negative view on the pace of the realizations coming out of that balance? Is it stagflation? Is it an outright recession, because I think you and your comparable companies are all saying the same thing on this front right now.

**Kewsong Lee:**

Yeah. Look, prolonged stagflation is not a good thing for anybody. I'm personally not in the camp. But prolonged recessions are not great from a real economy perspective, and the spillover affects obviously into the financial markets.

But when you're as diversified as you are, and you've got as many different levers, we have an ability to navigate our way through this. And keep in mind, we've been at this for over 30 years, and our limited partners have a lot of trust and confidence in Carlyle and the way we are able to manage our companies and manage our assets and manage our portfolios. And it's why we're so focused on portfolio construction and making sure we're diversified and making sure the portfolios are built to manage through negative scenarios like you've just pointed out. And by the way, we stress test and we do this type of risk management all the time.

Our eyes are wide open right now. We are using every access to every single piece of insight we have across our broad platform to continue to manage our way through. And I'm pretty confident in the way our portfolios are constructed.

**Patrick Davitt:**

Got it. You have a lot of dry powder. Your competitors have a lot of dry powder, and given headlines, it seems like activity's holding up better than we probably would've expected earlier this year. How are you navigating the crowded market? What are the big themes that are guiding your investment process?

**Kewsong Lee:**

Yeah. A lot of conversation is always about the dry powder. How are you going to put all this money to work? I've been at this for three decades now. And I got to tell you, I've never been in a period of time in my career where people aren't saying, "Wow, isn't there too too much dry powder chasing too few deals. But for some reason or another, our asset class, we're delivering consistently outsized rates of return relative to public market indices, and our industry continues to grow. And why is that? Nobody really focuses on as much attention on the opportunity set in private markets. It's expanding. Entrepreneurs want to stay private for longer. Corporates want to be partnering with us with longer term investment projects. You have the beauty of our model, which is we're long term oriented, we're
very aligned with capital and management, and we can influence our outcomes because we have control. Right? So, that model is relatively superior. And it's why the opportunity set just keeps expanding.

So, it's new regions that are opening up to private equity like in Japan. It's new asset classes, the growth in private credit, the growth in solutions. Now you're going to see, I think, tremendous growth in infrastructure. Okay? And strategies all the time. And what we're seeing is, there's a demand for our capital, which is matching up with the supply side of our capital, which is why we're able to keep deploying, keep growing, but importantly, keep driving the types of returns that we do, which is why there continues to be more demand for our asset class. Right? So yeah, there's a lot of dry powder, but I'd be remiss if I didn't just want to make sure everybody appreciates the opportunity set is expanding every day as well.

Patrick Davitt:
So, it's fair to say that the deals that you're doing today you're not underwriting to an IR that's lower than what you would've expected at any time over kind of the last 30 years?

Kewsong Lee:
It's funny. Despite what's happened, rates of return have actually gone up a bit, at least for us. And we're still underwriting to the same standards. Look, at the end of the day, you get great companies and great industries, great business plans and great management teams, and you partner with them, and you're going to create outsized rates of return.

Patrick Davitt:
Got it. While we're on private equity, I wanted to chat quickly about your energy business, which I think is probably one of the biggest of the large public alternatives. Many of your comps have indicated a pretty significant pullback from that business, at least traditional energy investment. So firstly, do you think this view is correct, that people should be pulling back from that investment? And secondly, how do you square this exposure with a client base that's increasingly concerned about ESG?

Kewsong Lee:
So, I'm not going to talk about what my competitors are doing, but let me talk about what we're doing. We have a very strong point of view that we need to invest, not divest, our way through the energy transition.
Okay? It means investing through the full spectrum of opportunities and energy, not only the renewables and alternatives aspect, but also traditional companies, always, though, with an ESG lens, which is how do we help these companies reduce their footprint, reduce their emissions, decarbonize.

So, when you actually look at it through that lens, I think there's enormous potential in this whole thing called energy transition, because it's going to take decades. You're not going to flip a switch and all of a sudden go to clean energy. And I think the conflict in Europe is making that incredibly clear to us.

So, at Carlyle, we have an incredibly strong energy franchise. We have incredibly strong renewables infrastructure alternatives franchise. We recently put them all together under one platform so that in an integrated, coordinated way, the firm can go after this entire opportunity set called energy transition. And the way we square this, we are the leaders in our industry with respect to climate sustainability. We
recently are leading a project with CalPERS, which is the largest data convergence project with respect to climate, which a bunch of LPs and GPs have now joined. We have been pushing for financing facilities that are linked to ESG targets. We as a firm recently announced a net zero commitment. First in their industry to do that. But moreover, we actually implemented short term targets over four, five years to bring 75% of our portfolio companies into scopes 1, scopes 2 emission compliance.

So, we are way out ahead on some of this stuff. And our view is you have to invest your way through and actually use that ESG mindset and capability set that we have in an integrated platform to not only drive great returns, but to drive down emissions while you're doing it.

Patrick Davitt:
Makes sense. And I assume that creates alpha, which is a big debate, right?

Kewsong Lee:
None of this works unless you drive great returns. Right? And the case in point, we have a renewable strategy. I want to be careful because it's raising money in the market right now. It's doing great. And it's already on its second generation fund. You don't grow your funds and do well unless you're driving rates of return.

Patrick Davitt:
Makes sense. Let's move to private credit. Been a key growth area for you. Obviously, everyone's growing like a weed there, as some people have said. But I think there's still a view in the marketplace that this asset class is where some sort of systemic risk is hiding for some reason. It's a hard view to push back on until it's really tested through a real credit cycle. How would you push back on that view? What about these portfolios do you think the market is [inaudible]?

Kewsong Lee:
Look, there is no systemic risk in private credit funds of the type that Carlyle manages. And it's very simple. We don't take depositor insured money, number one. Number two, we're not a bank. We don't operate with the leverage that banks operate at. And number three, we don't have liquidity triggers in our funds. Like I said, they're closed end funds, predominantly, or they're permanent capital vehicles.

And so, sophisticated institutions who invest with us in our private credit strategies, could they incur losses if we don't manage these portfolios correctly? Yes. But that's where it stops. That's where it stops. There is no systemic impact other than some sophisticated institutions incurred losses.

Okay? So, we don't have depositor money. We don't operate at the types of leverage that the regulated banks do. And finally, the liquidity profile of our strategy is very different than what I think some folks are thinking about. So, I think it's a huge misnomer to think that there's systemic risk. That's not to say that we won't drive investment strategies where there's a possibility of loss. Of course there is if you're an investment business. But that's why you have to manage your portfolios well.

That's why, as we sit here today, we're the largest CLO manager. We're a big point of direct lending. We're managing those portfolios very carefully on behalf of our clients. But to compare us to a regulated banking deposit taking entity I think is false.
Patrick Davitt:  
On that point, my sense from investor conversations is there's a perception at least that your credit business is more exposed to CLOs than others, and then that's a problem. You obviously don't think that's a problem. But could you remind us why these structures are safer than the market generally perceives them to be, and has the view of the potential growth of this business, of the CLO business specifically, been impacted by the recent loan dislocation?

Kewsong Lee:  
Right. So, let's just take a step back. We are the largest CLO manager in our industry. We recently completed an acquisition of a portfolio, highly accretive, which cemented that position. As we sit here today, across that portfolio, our default rates are running at about half of that of the industry average. And people have to understand, we are constantly repositioning that portfolio, constantly moving in and moving out of positions, out of names.

And so, right now our stance is more defensive than not, I think appropriately so. And as we look at this portfolio day to day, we don't see anything which is giving us huge concern. That's not to say we're not eyes wide open. Of course we are. But as we sit here today, we're not seeing any huge problems. Okay?

In terms of these structures, they're time tested. I mean, Carlyle has never ever not collected fees on any of the structures that we've managed in the CLO business. Right? And remember, you can reposition your asset base in all of these structures, which is, as I started off my answer, which we're constantly doing. So, I think with the scale and the nature of the platform we have, and our ability to constantly manage these portfolios, and the experience that we have, I'm pretty confident about the better positioning.

Patrick Davitt:  
So, if the risk, or I guess if the excess risk or excess leverage is not in CLOs, if it's not in private credit more broadly, is there anywhere that you do see it? Where do you think that kind of excess leverage is hiding to the extent that we do go through a credit cycle?

Kewsong Lee:  
Yeah, it's interesting. If you break down each of the businesses and look in the private equity business, the banks have been pretty disciplined. It's not like we're receiving terms greater than six, seven times. Right? I mean, if you think about the last big financial crisis we had, if you look through to HoldCo, lots of leverage was being put on these entities. But you're not really seeing that right now.

So, I think on the private equity side, it's not an excess leverage issue. I think there it's just going to be clearly just a matter of how good are your companies, are they going to navigate through the environment, and what are the multiples going to be on the back end, and can you create value in between doing the deal and exiting the deal to earn rates of return? So, I don't think there's excess risk or leverage in the private equity side of the business.

We just talked about the private credit business. And in the solutions business, I mean, I think right now there's more opportunity than anything else because the dislocations we're seeing in the alts... I'm sorry, broadly speaking in the markets are creating needs for CIOs to optimize their alts portfolio. And what do they do? They call folks like AlpInvest, they call Carlyle to ask to help with secondary trades
and/or to put more deployment on through co-invest or through secondary strategy. So, we're actually seeing that volatility create more opportunity as opposed to risk.

Patrick Davitt:
That makes sense. Another one I get while we're on private credit, and we can move on to some other topics, but through the lens of higher rates, how do you think about the salability of private credit? Right? I mean, the pitch for private credit over the last decade has been, [inaudible] zero, so you don't want to be in traditional fixed income. But we could be sitting here a year from now with traditional fixed income having significantly higher yields. How do you think private credit as an asset class sells to your client base with traditional credit suddenly being a little more competitive?

Kewsong Lee:
Sure. The way you asked your question, it tempts me to say ironically, but ironically there's more demand for private credit now than ever before. Because volatility is creating the ability for us to participate in special sits and opportunistic financing, so business is going up on that front. As rates are rising, you have to remember, most of the strategies in private credit are variable rate. And so, we're somewhat insulated from that from a pricing perspective.

And then finally, the big demand for private credit isn't coming from a cannibalization from other private asset classes. It's coming from traditional liquid fixed income. That where the allocation is coming from. And to that end, most CIOs and most CEOs of our large institutional client base are actually looking for ways to deploy more into

Into private credit and taking the allocation away from traditional fixed income. So, I actually see a net add, in terms of demand, coming from other types of allocation, on the public side and the liquid side of things, coming into the private credit asset class.

Patrick Davitt:
All right. So, let's move to the Carlyle growth story, what you're doing right now. A unique part of the story, I think, more recently, has been this idea of transforming performance fees into FRE, which I've hung my hat on. And, I think a lot of people are starting to get, and the idea is basically to reinvest the cash flow you're getting from things like realizations into investments that build more recurring FRE. Correct?

Kewsong Lee:
Yes.

Patrick Davitt:
Yep. So, we've seen some good proof of concept, the recent Fortitude Re transaction, I think, is a good example of this. Could you expand on this reinvestment plan and what you see as the key focus areas for this idea of [crosstalk] realization?

Kewsong Lee:
Yeah, and Patrick, I think it's a central element to our strategic priorities and how we're driving the company moving forward, which is, as we diversify, the way we are doing that, is we are taking cash that's being generated from our carry and our performance fees, and that's at a low multiple, obviously,
in terms of valuation.

And, we’re going to reinvest that to grow, and to acquire, and to build new businesses. But, the characteristics of those new businesses are ones which are FRE generative, scalable, and hopefully more permanent in nature, perpetual nature, in terms of capital base. Right? So, that’s our strategy. So, if you now take a step back and think about what we’ve actually been doing, okay? Take a look at Fortitude. That’s our platform for how we’re playing insurance legacy liabilities, but it’s a new source of capital formation for us, tremendous growth that we’ve been able to achieve.

And, it’s increased our perpetual AUM, from single digits to close to 20% now, of our AUM bases from perpetual capital, in large part, because of that transaction. If you look at the type of acquisitions we’ve been doing, whether it’s CBAM recently, CLO business. Whether it’s Carlyle Aviation, about two, three years ago, very FRE generative. Okay? And then, if you just take a look at all we’re doing to grow credit, either through acquisitions, like iStar, or a lot of the investment management services provided to Fortitude will be driven through our private credit business. Very scalable, very accretive types of growth.

So, taking a step back, what you’re saying is absolutely right on, which is, how do we repurpose cash? Low multiple cash, invest it to drive higher growth, more FRE generative, more sustainable earnings. That’s what our plan is. And, quite frankly, that’s what our [inaudible] is showing that we’re able to do.

Just this year, we’ve added $65 billion of AUM, and about $120 million of FRE, I believe. All incremental, all incredibly accretive to Carlyle. And, in doing that, we are continuing to diversify and make more resilient, our earnings power.

Patrick Davitt:
So, is M&A, you think, still a core part of this strategy? And, if so, what kind of targets would be at the top of the list?

Kewsong Lee:
Sure. It is an important driver, but organic growth is incredibly important too, right? And so, we’re seeing terrific organic growth. I’d say, we have about 30 strategies, 10 are fairly new. And, we’re generating new strategies in-house, as our infrastructure business and our renewable strategy business, where we’re building those up. As well as, through M&A, new strategies that we’re moving into through adjacencies. We don’t have a quota, I think that’s the wrong way to drive an M&A business. We are just going to be very, very eyes wide open to saying, where there’s opportunity, where there’s strategic fit, where there’s cultural fit, where there’s an ability to scale in an accretive FRE way, and where it can help us create more perpetual capital base. Those are the areas that we’re going to really lean into. It’ll probably happen more likely in the credit real estate or solutions asset classes. Those tend to be the areas where you see more opportunities and it could be global for us, given how global we are as a firm.

Patrick Davitt:
Is there a point where you think this strategy will have run its course, and you’ve kind of built out everything and you return to maybe a more traditional kind of cash distribution or repurchase model?
Kewsong Lee:
No, I think for the foreseeable future, we can drive more shareholder value building the firm, growing the firm, driving more profitability from the firm. And, that's where my, and our team's focus is, is to reinvest and to deliver for shareholders over the long term, by enhancing our asset base. And again, diversifying it and making it more resilient, but driving more ways for our firm to grow.

Patrick Davitt:
Makes sense. You mentioned Fortitude Re, and I feel like Carlyle has taken a pretty different tack in covering the insurance theme, than most of the other large alts. Could you briefly compare and contrast how you're tackling this opportunity relative to some of the others?

Kewsong Lee:
Sure. So, taking a step back, Fortitude Re is the platform through which we access and extend investment management services into the insurance space. It's got about $55 billion of AUM, and I think it's very differentiated to your point on three dimensions. First, it's an asset-light approach. Okay? We have about $500, $600 million of our own balance sheet in Fortitude, as a minority significant shareholder, but we do not own nor do we want to be in the business of fully owning an insurance company. We're in the investment management business. We're not in the insurance business. So, it's an asset-light model, and I think an asset-light model is the best thing for our shareholders to drive return on capital.

Second, it's a very aligned model. We recently negotiated a strategic advisory agreement with Fortitude, whereby, as Fortitude's surplus holders and policy holders do well, and as Fortitude drives profitability, Carlyle benefits and Carlyle is aligned in that, in the success of Fortitude. So, it's a very aligned arrangement, whereas Fortitude does well, Carlyle's investment management business will do well. And then, finally, it's a diversified platform that Fortitude has. It's not one monoline product where it is consumer-facing and needs to originate a lot of product.

It is across a broad range of products, it's diversified, and we can grow, through not only acquisition, but also reinsurance arrangements. And, Fortitude's got its head on straight in terms of return on surplus and to do what's best for its policyholders, but as Fortitude scales and grows, Carlyle will benefit because it's very aligned and we've done all this in a very asset-light way.

Patrick Davitt:
In that vein, the transaction you mentioned earlier, came with a unique fee arrangement, where it reads like, at least, Carlyle providing more of a strategy and M&A advisory role, than an asset management role. Could you expand on the kind of services you're providing Fortitude? And, to what extent is there an opportunity to kind of expand these kind of services to other insurance?

Kewsong Lee:
Sure. So, I don't want to get into details that are not public and that are proprietary. But, suffice it to say, it's a comprehensive arrangement that we are providing, both advisory, but also investment management services to Fortitude. So, we're helping Fortitude with its M&A activity, we're helping Fortitude with its portfolio management, we're helping Fortitude with its investment management activities.
And, for that, we have a fee arrangement which enables us to be rewarded as Fortitude is successful. It's incredibly accretive, but it's incredibly aligned and that's what's most important. It's we do well, as Fortitude does well. And, so we're aligned in terms of trying to work together. Again, and I keep mentioning this, in an asset-light way.

Patrick Davitt:
Got it. So, let's sum up everything we've talked about. As you look across all these businesses, what do you see as the biggest drivers of Carlyle's AUM and fee earnings growth in the near term? Longer term? And, given some of the crowd is probably newer to the story, update us on what your major AUM and growth targets are right now.

Kewsong Lee:
Sure, yeah. So, we have about $375 billion of AUM, today. Okay? By the way, that's $150 billion of additional AUM than just a few years ago. So, we've made tremendous progress in our growth. But, I think the biggest sources of growth that you're going to be seeing from Carlyle is going to continue to be global credit, where that team has done terrifically well. We continue to be excited about the prospects to build out our platform, both organically and externally in global credit. Second, and well, before I leave that, I mentioned to our shareholders on a call several years back, please give me the patience to allow us to build this strategy out the right way. And, I think it's worked. And so, we're going to use that exact same mindset in our infrastructure business, where we're asking for some patience, we're going to build that out the right way. We've got a lot of tremendous success already, in alternatives and renewables and in our infrastructure funds. But, we are now targeting energy transition, we've brought everything together in one platform.

And, I think, if we're given the patience to build that out the right way, I think that's going to be tremendous organic growth for us, ahead of us. We talked about Fortitude. It can grow through acquisition, it can go through reinsurance and that's a highly scalable platform. We just completed a multi-billion dollar capital raise for Fortitude, which gives it the gun powder to go out and to grow. And, like I said, because of our arrangement with Fortitude, as Fortitude does well, Carlyle will benefit. And then, finally, we should not ever ignore or forget, we have a dominant global private equity franchise. All regions of the world, all major strategies.

And there, it's just going to be much more about maintaining leadership and continuing to do what we do well, which is buying great companies, invest in them, improve them and realize value. And, we're never going to deviate from the fact that we're really good at that business. But, what we are doing, is diversifying and adding to that private equity business with other areas of growth, and I suspect what you're going to see three, four, five years from now, is if you can continue the progress we're making, a continued diversification, continued FRE generative businesses, and scalability, which will enable us to keep driving growth and adding incremental FRE to the bottom line.

Patrick Davitt:
You mentioned the private equity dominance point, and this touches on a question that's on the pigeonhole, but, I feel like a lot of the other large alternative asset managers will probably say the same thing. So, from your perspective, why does an LP choose Carlyle over Blackstone? Over Apollo? Or, is that not how the decision process works? What's the real differentiator between all these firms, that probably all say the same thing if I was sitting up here?
Kewsong Lee:
Yeah. Look, we all have different styles, different cultures, different approaches, but if you take a look
and think about what sets us apart, we’re the most global, we have really time-tested platform
capabilities to help us create value at all of our companies, whether it's digital capabilities, supply chain,
procurement experts in-house. Whether it's human capital assessment capabilities, whether it's capital
market capabilities, all of that stuff we bring globally to work with companies to improve them. And
that's what we're known for as we meet entrepreneurs and meet potential folks who want to do
business with us.

And finally, we just have a tremendous reputation with our LPs of trust and reliability. We've been at
this for over 30 years, through good times and in bad, and we've proven out an ability to drive
consistent returns in a responsible way as great corporate citizens, which is very important to our LPs.

And so when you take a step back, I really like our positioning. I like our brand. I love all the initiatives
that we've got going. And it's not about one business is better than the other business. It's we've got a
great business. We're going to do more with it. But as you can see, we have done a very good job, the
team has, of diversifying and setting up new pillars of growth, so our shareholders can benefit.

Patrick Davitt:
Makes sense. On that point, there's a concern in the marketplace that in private equity in particular, it's
becoming harder to raise money, given crowded calendars, or the denominator effect at certain LPs.
How are you navigating that issue? And is it an issue?

Kewsong Lee:
Yeah. Listen. No doubt. And I want to be very clear in the private equity segment of fundraising, there is
an overcrowding. And in many ways, it's the success of these funds deploying and going back faster than
the LPs were planning for, which has created that over a bit of what I would call overcrowding as
everything is trying to go through the system.

We're not seeing that in private credit. We're not seeing that in infrastructure. We're not seeing that in
other asset classes. So right now it's limited to the private equity fundraising market. But I think we need
to take a step back and think not about institutional fundraising. We need to think about capital
formation in a much more holistic sense. And it's the capital and the AUM we're adding in from our
platforms like Fortitude, right?

It's obviously capital that's going to be raised increasingly in the future from alternative channels like
retail. It's new permanent capital vehicles, or open-ended structures that are being conceived every day
with respect to the different types of investment strategies that we operate. So, taking a step back, it's
not just institutional LP money, which is of course incredibly important. It's what we're very good at and
very strong at. But we now have expanded our ability to think about capital and capital formation in a
much more holistic sense. And I think that's important, because we need that capital to meet the
demands, as I said earlier, on the opportunity set that's expanding. Right? And so to have that capability
to go after all forms of capital in a much more broader sense, is going to be very important.

Patrick Davitt:
Yeah. Makes sense. So retail's a buzzword for a lot of your competitors, and you guys don't bring it up as
much. Do you kind of address why that is, and to what extent you think that could be an important piece of the pie at some point?

Kewsong Lee:
Yeah. Look. Retail, no doubt, huge opportunity. A lot of time intention at Carlyle focused on retail. We have a tremendous brand. We have a lot of things that we probably don’t get credit for. We already are raising 10 to 15% of our capital from that channel.

And I think the key for us is going to be focusing on continuing to develop out product that fit well with the retail channel. And for instance, we already have a product called CTAC. It’s already generating close to a billion dollars of new AUM a year, and we haven’t even put it on the wirehouses yet. That’s going to happen later on this year. So we've quietly developed that. We're not making-

Patrick Davitt:
What is the strategy?

Kewsong Lee:
It's a balanced credit strategy for that channel. So a lot of work is going into this. Let me just say, we're going to be very focused about it and we’re going to do our work because it's a complicated opportunity set. You have to make sure operationally you’re set up the right way. Technology wise, you’re set up the right way. It's a different type of market segment, so you have to approach it with a different mindset. All of that is going on right now. We're thinking very hard about how to access huge opportunity, but in the right way.

Patrick Davitt:
Makes sense. Thanks. Got a couple on the... We touched on this a little bit, but I guess the... It's around fund performance. The 60/40 portfolio's down and credit spreads have gapped. Can you explain how the portfolio continues to increase in value?

Kewsong Lee:
Sure. Yeah. It's very simple. Look, the valuations are going to be driven by public comps, precedent transactions, and fundamental operating metrics. Right? And yeah, you're seeing multiples on the public side and maybe on the transaction side coming down, but that's being offset right now by the fact that the operating health of our companies continues to improve because of the value creation that we are working on with our management teams.

So I started off this conversation by saying we're still seeing our portfolios growing in operating margins, expanding. If that continues on a fundamental basis, you're creating value. And now the only question is what multiple do you slap on that type of earnings. Right?

And so that's obviously going to be the thing that everyone needs to keep an eye on and we're keeping an eye on. But none of this value creation happens unless it's not fundamentally driven, which is what we pride ourselves on being able to do.

Remember, at Carlyle, in our private equity business, 70 to 80% of our returns are generated through growth and through profitability, not through multiple expansion or leverage. There are only three ways to drive value in private equity. It's you've got to buy low, sell high, which is multiple expansion, all else
equal. You drive through financial leverage, all else equal. Or you've got to create fundamental operational improvements in top line growth at your companies. 70 to 80% of our returns at Carlyle are driven by that third variable.

Patrick Davitt:
Makes sense. Another one in that theme. It sounds like a lot of this view on kind of the portfolio marks and whatnot is predicated on growth holding up and margins holding up. But given how fast the world is moving, is that not a stale way to be thinking about [crosstalk].

Kewsong Lee:
We're not macro. I mean, this is very important to understand. We're long-term investors. We're not macro investors. We pick companies in industries and management teams. And so when you look at our portfolio, they tend to be in higher growth industries. They tend to be in businesses with moats around them, where you have the ability to control margin. They tend to be in companies with business plans where we have a lot of levers we can pull to drive value. Okay?

And so when you do bottoms up that way, you can now start to see why our portfolio is able to perform. Okay? Now, I want to be really, really careful as I say this in the sense that of course there's uncertainty. Of course there are issues that are occurring as the economy transitions from over the past two years, swing towards goods now back into services and experiences. And of course there are supply chain issues and inflationary pressures with input prices, et cetera. But because we've assembled our portfolio bottoms up, picking companies, picking industries, picking management teams that we think will be well-positioned through the future, where we're actually thinking about, well, what if you have a recession? What if you have multiple contraction? Right?

You can see why we feel pretty good with our eyes wide open about navigating through what lies ahead.

Patrick Davitt:
Last one from here.

Kewsong Lee:
Sure.

Patrick Davitt:
I know the answer to this, but I'll let you address it.

Kewsong Lee:
You should answer for me.

Patrick Davitt:
Any update on your approach to S&P 500 inclusion? Is there anything else you can do?

Kewsong Lee:
Yeah. So let's take a step back. We are one share, one boat, one class of common stock. We went directly from a private partnership to a full C status. We didn't go through an intermediate step of a
hybrid or an Up-C. So we are a true C corporation. Our board is independent. More than 50% of our... I'm sorry. More than... All of our comp committee, nominating committee, audit committee, totally independent. You can't do better than that, with respect to the criteria required for index inclusion. Okay?

How those committees vote? We can't control, and it's a black box. And I have very... We have very little if any visibility on it. But in terms of the criteria that needs to be met, we fulfill them right now. Just to remind you, we're already in a bunch of indices. You're just talking about the very big ones.

Patrick Davitt:
A big one.

Kewsong Lee:
Right? But we meet those criteria and those qualifications.

Patrick Davitt:
Makes sense. Thanks. We're about out of time. Thank you very much. That was very helpful.

Kewsong Lee:
Patrick, it was great. Thank you. Take care.