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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to Carlyle's Second Quarter 2020 Earnings Call. (Operator Instructions)

I would now like to hand the conference over to your speaker for today, Mr. Daniel Harris. You may begin, sir.

Daniel F. Harris - The Carlyle Group Inc. - MD & Head of Public IR

Thank you, Demetrius. Good morning, and welcome to Carlyle’s Second Quarter 2020 Earnings Call. With me on the call today is our Co-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 and our other SEC filings that could cause actual results to differ materially from those indicated. Carlyle assumes no obligation to update any forward-looking statements at any time.

Earlier this morning, we issued a press release and detailed earnings presentation, which is also available on our Investor Relations website. For the second quarter, we generated $127 million in fee-related earnings and $198 million in distributable earnings, with DE per common share of $0.53. We’ve declared a quarterly dividend of $0.25 per common share.

To ensure participation by all those on the call, please limit yourself to one question and then return to the queue for any additional follow-ups.
With that, let me turn the call over to our Co-Chief Executive Officer, Kewsong Lee.

**Kewsong Lee - The Carlyle Group Inc. - Co-CEO & Director**

Good morning, everyone, and thank you for joining our call today. We hope you’re doing well and that you and your families are staying safe and healthy.

So before we get started, I want to thank Glenn for his partnership and friendship over the last several years. We accomplished a lot, and I am proud of the work we did together to make Carlyle an even stronger firm. He is a culture carrier and a Class Act. I wish Glenn all the very best as he goes off into a life for public service.

Now on to Carlyle, our priorities and our results. The combined health and economic crisis is a backdrop unlike anything we have lived through. I’m proud of how everyone at Carlyle has come together to do an amazing work and job on behalf of all of our investors, and I would like to thank our entire organization for their focus and commitment during these challenging times. Despite the current environment, we are adapting well, and our business continues to perform. This is evidenced by our solid second quarter results, which includes strong fund appreciation, a substantial increase in our net accrued carry and attractive distributable earnings for our shareholders. These results reflect the hard work of all of our people to deliver on our strategic priorities, which remain on track.

Specifically, we continue to grow our current fund families and will launch new investment strategies with the potential to scale. We continue to drive growth in our global credit business and build upon strong momentum in our Fortitude reinsurance platform, and we continue to prudently manage our operations to further enhance margins. Executing these priorities will enable us to grow sustainable fee-related earnings, increase our dividend on a lag basis to FRE, expand our distributable earnings over the long term underpinned by investment performance and invest further in corporate growth and our shareholder-friendly actions with the excess capital that we generate in the future.

Looking forward in the near term, COVID and other economic and geopolitical issues are likely to create headwinds in the environment, including a material drop in M&A activity, with global announced transactions down more than 50% in the second quarter from a year ago and, notably, large transactions remaining difficult to complete; significant disruptions in certain industries like energy, aviation and travel and certain consumer segments and weakening financial conditions of many municipalities, which could have disruptive effects on the infrastructure sector as development projects slow down, especially where public-private partnership is required, for example, in our terminal rebuilding project at JFK.

While public markets have experienced a strong recovery across all types of assets, we remind ourselves that we remain in the early stages of a global pandemic and are likely facing a multiyear recovery. The potential for an uneven and uncertain recovery leads us to maintain a cautious perspective on the outlook for the real economy as regions, sectors and asset classes are all affected differently. But please do not conflate our tonality and caution on the real economy with our ability to remain active to drive performance in the investment world. It is certainly possible to have a cautious and prudent outlook, while remaining active and successful in our core business, as demonstrated by our second quarter results. The very uneven nature of the recovery is what provides us the opportunity to be selectively aggressive and appropriately circumspect, depending on region, asset class and industry sector.

Turning to our fund performance. Thoughtful construction of our portfolios around the world helped us deliver solid investment performance in the second quarter. Fund appreciation rebounded sharply, with our corporate private equity funds appreciating 13% in the quarter, which was the main driver of our net accrued carry balance increasing by nearly 50% from last quarter. Our portfolio benefited from improved public markets as well as tighter credit spreads and better liquidity in the capital markets.

With respect to investing activities, we have found attractive new investment opportunities, notably in Asia, as well as in global growth areas like technology and health care. We deployed just under $6 billion of new capital in the first half of 2020, but we expect full year deployment to be below that of the past few years. We have $73 billion in dry powder and are well positioned to deploy capital as opportunities emerge in the years to come.
With respect to exit activities, years of hard work led to attractive sales of portfolio companies during the quarter, including, among others, Golden Goose, Eggplant and Dealogic. In addition, improved pricing and market liquidity allowed us to opportunistically complete several secondary trades across corporate private equity and real estate. And we were also able to execute IPOs of several companies in the first half of this year from our U.S. and Asia private equity business.

With respect to fundraising, we have had a good start to the year, raising new capital with approximately $12.4 billion raised across the platform, with particular strength in investment solutions and global credit. While we expect to see the firm’s fundraising slow down later in the year, the fundraising environment, thus far, has remained generally resilient since the onset of the pandemic.

Now a quick note on one of our most important strategic initiatives, Fortitude. In June, we completed a process that started nearly 2 years ago, which has resulted in Carlyle and our partners owning 97% of Fortitude Re. We’re now focused on driving attractive returns on capital, maintaining prudent risk and searching for growth by acquiring additional runoff insurance blocks. Fortitude is performing well, and we expect it will be an important source of growth moving forward.

Finally, as I said when I started, I am proud of our people and the work we are doing. Our people and culture are the most important priority. We are more focused than ever on diversity, equity and inclusion. We are in the judgment business, and diversity of thought and perspectives is what gives us our investment edge. It’s critical that we continue to push forward on cultivating an inclusive culture at Carlyle and incorporating ESG in all that we do. We are committed to drive positive change not only at our firm, but also in the companies that we influence and in the communities where we work.

So in summary, putting all this together, Carlyle is in great shape and very well positioned for the future. While, of course, there will be complications and challenges, I have total confidence in our entire global team, the strength of our platform and our ability to make businesses better and create impact to drive performance with our investment activities.

Let me stop there and hand the call over to our Chief Financial Officer, Curt Buser. Then I’ll come back and offer some final thoughts.

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**Curtis L. Buser - The Carlyle Group Inc. - CFO**

Thanks, Kew, and good morning, everyone. In my remarks, I will briefly discuss second quarter 2020 results and dig further into some key topics of interest to investors. Let’s begin with our results for the quarter.

Fee-related earnings were $127 million in the second quarter of 2020, with a 31% margin, slightly lower than the $133 million in the second quarter of 2019, so that result included $28 million in catch-up management fees as compared to less than $2 million of such catch-up fees in the current quarter. Year-to-date, Fee Related Earnings were $256 million, which also includes the possible effect of the $30 million expense recovery we discussed last quarter and is ahead of the $236 million of fee-related earnings we generated in the first half of 2019.

Fee revenues were mostly in line with the year ago, after adjusting for the decrease in catch-up management fees and the $10 million in transaction fees this quarter as a result of closing the Fortitude transaction. Our net deferral of CLO subordinated management fees was $4 million in the current quarter, resulting in a cumulative deferral of $8 million as of June 30, up from $4 million at March 31. That said, our CLO performance is thus far stronger than we initially thought at the beginning of the pandemic and is trending favorably.

Compensation was $210 million in the second quarter, and first half 2020 cash compensation was approximately 1% higher than the first half of 2019. We continue to closely manage our compensation expense, including equity-based compensation. And the $66 million in first half 2020 is 15% below the first half 2019 level.

G&A expense was $58 million in the second quarter, down from $80 million a year ago, reflecting lower travel and conference expenditures as well as the recovery of certain Fortitude transaction expenses and continued expenditure management.
Net realized performance revenues were positively impacted by several attractive exits during the second quarter, as Kew discussed earlier. We produced $71 million in net realized performance revenues, largely driven by our U.S. real estate and our Europe technology funds. Year-to-date, net realized performance revenue of $119 million is well above the $28 million generated in the first half of 2019. That said, we expect the second half of 2020 will likely be well below the first half level.

Overall, distributable earnings were $198 million in the second quarter, and first half 2020 DE of $373 million was nearly $60 million higher than the first half of 2019. DE per share was $0.53 in the quarter, $1.01 year-to-date, and we declared our quarterly $0.25 per share dividend.

Strong portfolio and fund valuations drove our net accrued performance revenue balance to $1.8 billion, up 49% sequentially, substantially all of the increases attributable to our appreciation in our 6 U.S. bio fund. Remaining fair value in public securities across our carry fund portfolio increased to 14% from 8% of total remaining fair value as we IPO-ed ZoomInfo, and our public securities in total appreciated more than 80% in the quarter. However, we acknowledged that volatility in either direction in the public markets could affect our accrual moving forward.

Let me now shift to a discussion of the impact of Fortitude on our results and our fee-related earnings guidance. As part of the Fortitude transaction this quarter, we raised $2.1 billion of capital, upon which we will earn management fees. Fortitude is already rotated or committed to rotate nearly $4 billion into specific Carlyle funds, and we expect Fortitude to reach its $6 billion rotation target by next year.

Let me now briefly explain the second quarter GAAP loss, which reverses prior GAAP earnings on Fortitude, none of which has been included in FRE or distributable earnings. For U.S. GAAP, we previously accounted for investment in Fortitude by recording our proportionate share of Fortitude’s GAAP earnings, inclusive of unrealized gains and losses resulting from changes in the fair value of embedded derivatives related to certain reinsurance contracts. With the closing of this transaction, we now account for our investment at net asset value, which still reflects a 10% appreciation above our entry price.

Moving to our fee-related earnings outlook. As I mentioned earlier, we have generated $256 million in year-to-date fee-related earnings. Relative to the full year 2020 range we discussed last quarter of $400 million to $450 million. Given the strong first half of the year and incorporating our expectations for the remainder of the year, we are increasing our target 2020 FRE range to $440 million to $475 million. We are incrementally more comfortable than last quarter but still cognizant of the many uncertainties that could impact results in the back half of the year.

Finally, let me summarize where we are following our corporate conversion. Following our transition to a full C corporation, on January 1, 2020, we have seen many of the expected benefits emerge. Our trading liquidity has nearly tripled, our top shareholders include many new high-quality names, and we’ve been added to important indexes at Russell, MSCI and CRSP. Overall, it has been a positive set of developments.

Let me now turn the call back over to Kew for some final thoughts.

Kewsong Lee - The Carlyle Group Inc. - Co-CEO & Director

Thanks, Curt, and again, thank you all for joining us this morning. We are pleased with our firm’s strong results for the second quarter and, more broadly, we are confident we are well positioned to navigate through these uncertain times. We remain focused on delivering attractive returns for our fund investors and growing earnings for our shareholders over the long term, and we’ll do this with one of the best teams in the world. I will say, again, I am proud of how our people have adapted and excelled amidst all that is going on. That is what we do best at Carlyle, and all of us are excited for what’s ahead.

With that, let’s turn the call over to the operator and take your questions.
QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Glenn Schorr with Evercore.

Glenn Paul Schorr - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Research Analyst

Wonder if I could just get a follow up on your comments on Fortitude. You and a couple other players continued to invest in the space. It's a big space, so I wouldn't call it crowded. There's just more people focusing on it. So you had mentioned buying additional runoff portfolios as part of the core growth plan. I'm curious what you see out there and more importantly, how do those deals get priced? I'll leave it general and let you go where you see fit.

Kewsong Lee - The Carlyle Group Inc. - Co-CEO & Director

Glenn, it's Kew. Thanks for your question on Fortitude. So look, we're really pleased how Fortitude is progressing. And just to point out, it's a globally diversified book of liabilities at Fortitude. It's largely B2B, meaning we don't really directly originate anything from the consumer, it's definitely not monoline. And from a financial perspective, we're really pleased with the fact that this capital ratio is higher than our target and regulatory thresholds, is generating an attractive, call it, mid-teens rate of return on equity. And with the recent raising of additional monies from our limited partners and strategic investors, we and them now control approximately 97% of this platform that, like I just mentioned, is performing well. So we're now turning to managing this platform for attractive growth and prudent growth.

So while maintaining an emphasis on policyholder surplus and making sure our risk management policies are appropriate, as you know, Glenn, there are bazillions of dollars of legacy liabilities out there that need to be moved off the balance sheets of the insurance industry because it's not efficient for them to be holding on to these types of liabilities. We are very well positioned with this platform. It's a proven team. It's a diversified book. And now that we've been able to, with our partners, effectively gain control of Fortitude, we do look forward to growing vis-a-vis acquisition of these types of businesses.

In terms of how do you price these books, very carefully. These are complicated books of business. I'm glad we got a incredibly talented management team at this platform, and we're going to be very carefully looking at these books to understand what makes sense to acquire into Fortitude so that we can grow.

Glenn Paul Schorr - Evercore ISI Institutional Equities, Research Division - Senior MD & Senior Research Analyst

I can't spell bazillion, but I appreciate that. Maybe just one quick follow up. One quick follow up. Just -- I don't remember. What's your lockup on Zoominfo?

Kewsong Lee - The Carlyle Group Inc. - Co-CEO & Director

Glenn, it's...
Kewsong Lee - The Carlyle Group Inc. - Co-CEO & Director

Yes. Go ahead.

Curtis L. Buser - The Carlyle Group Inc. - CFO

So just in terms of the public securities in our portfolio, it's not our practice to talk about individual securities. And so -- but as we look -- and our practice has been -- is really to -- as the markets open up and remain liquid and healthy, we obviously look to what's right for our respective funds and stakeholders across and look for attractive opportunities to sell. Remember, we're not forced sellers. We'll look for the right windows. And when the securities are trading well, and we think it's in the best interest of all stakeholders, we'll sell blocks. But no comment on any specific position.

Operator

And our next question comes from Mike Carrier with Bank of America.

Dean M Stephan - BofA Merrill Lynch, Research Division - Analyst

This is Dean Stephan on for Mike Carrier. Just a question around the CLO subordinated fees. Although the deferral of the sub fees hasn't been too material, so far, year-to-date at only $8 million. Wondering how we should think about the risk of additional sub fee deferrals moving forward, kind of the puts and takes around that and maybe what you guys are forecasting as the potential impact over the next couple of quarters.

Curtis L. Buser - The Carlyle Group Inc. - CFO

Dean, it's Curt. Thanks for that question. Really appreciate it. So let me start with maybe a little bit of background. We have a large CLO business. We're probably top 3 market share, manages $27 billion of U.S. and European CLO funds. It's an experienced team. They've been through the wars before, including in the great financial crisis, and we came through that really well. We had some sub fees back then that turned off, and we were -- we turned them all back -- got them all turned back on and recovered all of those fees before.

Our CLOs are performing better quarter-over-quarter. And the performance and the trajectory is better than we initially thought at the beginning of this pandemic. Probably if I knew what I knew now, I probably wouldn't even mention the CLOs as much as we did in the first quarter, but ones we used to get that out there. I would say our team -- what I'm really proud of is the activity of our team. There's been probably $3 billion of activity the team's taken into account here in the second quarter, really to reposition the portfolio and make sure we're in the right place, manage our default rates, get the portfolio structured the right way. It's appreciated -- I know on our own balance sheet, which isn't necessarily the same thing, but it's -- our CLOs, on my own balance sheet, is up about 13% quarter-over-quarter, reflecting kind of that improved performance. None of our European CLOs have turned off. While the U.S. CLOs are continuing to show some deferrals, we expect that either by the end of this year or beginning in 2021, we'll see those fees start to turn back on and possibly recoup all those deferred fees.

The activity that we've had has really been really good in terms of focusing on cash. And really, default rates at the end of the day is what you want to really look at. And our default rates continue to track very favorably to all kind of industry stats. And this is amidst a time period where rating agency downgrades, at least year-to-date, have far exceeded anything that's been before really in the broadly syndicated loan space. And so this is despite all of that. So again, I'm pleased with where we are. But look, risks are ahead. You get a second wave. Things get bad. The world changes. Obviously, what I've just said could be impacted. But right now I'm feeling pretty good about our CLO book.

Operator

And our next question comes from Patrick Davitt with Autonomous.
Patrick Davitt - Autonomous Research LLP - Partner, United States Asset Managers

My question is more broad, I guess, in terms of the cadence of economic shifts you're seeing kind of geographically and by vertical across the portfolio, maybe compare and contrast versus when we were talking 3 months ago?

Kewsong Lee - The Carlyle Group Inc. - Co-CEO & Director

Patrick, it's Kew. Thanks for the question. It's a great question because what we're noticing is that this recovery is really uneven, and different regions and different industries and different sectors are being affected very differently.

From a regional perspective, clearly, Asia is out ahead. And by our estimates, China probably won't even enter into a recession this year. I would also point out that in that part of the world, particularly China, much of their recovery has been organic with very little fiscal stimulus. So they have a lot of ammunition left to deploy from a macroeconomic perspective.

Clearly, what we're seeing there, though, is consumer behavior even there is changing with skittishness. Travel has not yet fully recovered. Consumer discretionary is not as high as it used to be. And of course, the big issue is, at some point, if the rest of the world doesn't pick up, what does that have implications to China?

Europe is probably doing a little bit better than we thought and dependent on country. But in general, it's correlating to the fact that they may have made more progress on the health care front than we have. And as such, we're hopeful. They're not out of the woods, but we're hopeful that there's a little bit of a step in Europe.

America, you see what I see. It's uneven. Certain states are doing better than others. Certain industries are certainly going to be affected more than others. And I think it's fair to say there's still more to go with respect to declaring victory as it relates to health care but also progress on the economic recovery front.

In terms of industries, look, I think it's very clear there are some industries that have been very badly hit by COVID. And quite frankly, there are others that are just moving along and even have had their growth accelerated because of COVID, especially those that are tech-enabled, e-commerce, collaboration-based or cloud-based. And so really, it's one of the reasons why having a global platform like ours, having deep industry expertise like ours and being in all the asset classes with really strong investment teams is truly an advantage in this type of an uncertain and uneven recovery. It's why, per my comments, we can be cautious about the real economy but are quite selectively aggressive in the areas we like and are going to maintain a bit of caution and prudence as we expect -- as it relates to those companies and industries that are going to get hit harder.

So it's very difficult to characterize or answer your question with just a very flip monolithic statement. It is a very uncertain, uneven, very differing recovery based on region, industry sector and asset class. But that's exactly the type of situation, which, quite frankly, Carlyle is well positioned to handle.

Michael J. Cyprys - Morgan Stanley, Research Division - Executive Director and Senior Research Analyst

So you had some strong performance appreciation in the funds this quarter. I was just hoping you could share a little bit more color around the performance in the funds. What are you seeing in terms of EBITDA and revenue trends among the portfolio of companies? And what portion of the book would you say is more impacted here from this environment versus what portion of the book would you say is not impacted or maybe even benefits from this backdrop? And how is that evolving relative to your expectations last quarter?
So Michael, let me -- I'll start, and then Kew might add on a little bit. So just, again, as we look at it, you saw a really good appreciation in our corporate private equity funds and also real strength in our global credit business. And I'll just point out that the numbers that we do share on appreciation and global credit really just relates to the 20%, 25% of the book that is in traditional carry funds. So it doesn't really talk about the CLOs, which make up half of it, and I already told you that, that's up a lot, or some of the other areas like direct lending and the like. And again, good performance across that entire book.

In corporate private equity, look, the public markets are incredibly volatile. We've had real fortune with respect to some of the public companies that we've been able to take public as well as some of the existing ones. And they've not only performed well, but the market has appreciated by and large. And so you see real appreciation there. A lot of that is in just the areas that Kew mentioned. We're strong in health care, and we're strong in technology, not just in terms of our public portfolios. But that really makes up a good percentage of the way we've constructed.

And again, what I like about where we are and even real estate, our U.S. real estate team has done a fabulous job of diversifying our portfolio, don't have exposure really in any material ways at hotels, no material exposure to big office buildings, no material exposure to retail. So we've done a nice job of really being diversified and constructing our portfolios, both in the buyout business and in the real estate business. And the footprint in global credit is really starting to take off nicely, so I think that's good.

Now the one thing I will point out is, that I mentioned in my opening remarks, is our appreciation in carry was a lot driven by, not just corporate private equity but our sixth U.S. bio funds, which is great. And I'm glad that, that's a good place to have a little bit of concentration risk, but I want everyone to be aware of that concentration risk. But it's in the -- if I had to, look, park my own dollars, that's a good place for me to be parking my dollars within -- with that team. I like the team a lot.

Kewsong Lee - The Carlyle Group Inc. - Co-CEO & Director

Yes. Curt, that was a great answer. Michael, I'll just add maybe just 2 quick thoughts, which is, first, we're really pleased with 2 quarters' worth of portfolio performance, but I just want to make sure everybody appreciates. We and the industry, we're by no means out of the woods in terms of there is still a lot to play out with respect to this recovery. So having said that, I can't emphasize enough the influence of how well we have focused on portfolio construction.

Look, while every fund will have 1 or 2 deals that aren't going the way we like them to, in general, our funds have been constructed very well. Case in point is our U.S. real estate portfolio, where they have virtually no exposure to office, hotel or retail sectors in that portfolio and, thus, performing exceptionally well. But to Curt's point, it's a lot of hard work that's gone in over the years with respect to constructing these portfolios well. And assuming we can stay focused and work with our management teams and stay vigilant, we're hoping to continue to navigate through this environment, because of the fact that the portfolios have been constructed so well.

So look, it's a great quarter, but by no means are we going to be complacent. There's a lot more work to do, which we look forward to doing moving forward to the second half of the year.

Operator

And our next question comes from Gerald O'Hara with Jefferies.

Gerald Edward O'Hara - Jefferies LLC, Research Division - Equity Analyst

Perhaps picking up on the increased target for the FRE range. Appreciate the outlook there, but perhaps a little bit of color on what gives you comfortability on that increased range? And then also if there's any expectation around sort of FRE margin. I think you talked a little bit about kind
of grinding towards 30% in the past, and now that we're sort of at that level, what we might expect in this kind of new and updated range, if anything?

Curtis L. Buser - The Carlyle Group Inc. - CFO

Gerry, it’s Curt. Thanks for the question. Let me just kind of level set, give a little backdrop and then dig into it a little bit for you. So as everyone -- as we've said, $256 million year-to-date FRE now, and that has some benefit in the first quarter of the $30 million CCC expense recovery. And then, obviously, again, with the Fortitude transaction, we recovered some expenses there.

So I would say we're naturally tracking to the middle of our range of $440 million to $475 million, but there's a lot of things I'm really pleased with at this point in time. The fee growth and the fundraising that we've seen really in our Investment Solutions business, particularly at AlpInvest, has been fantastic. The improvements that I've already talked about in our CLO platform is good. In addition, we recently activated fees on our latest aviation fund, and we also expect to activate fees on our most recent Japan fund here in the second half of the year, although that will have some timing dependency upon completing the deployment of the existing funds. And we have further initiatives underway, specifically in credit, which should also give us some uplift.

As everyone knows, the pandemic has helped curtail some expenses, especially travel and conference costs. And look, we're continuing to be very diligent on expense management. And so if all of that continues and if we get some further help from transaction fees and -- but as Kew mentioned, I'd be careful there because large M&A deals may be tough to do this year. But if things were to pop favorably, we could end at the top end of the range. But to be clear, I would guide you really at this point in time to that middle end -- the middle point of our range. But we remain focused on continuing to grow FRE over the long term.

And as it relates to our margins, look, we're hovering kind of 28% to 32%. This year, we're at 32% year-to-date, 31% here in the quarter. And we'll balance right around that. So yes, we have achieved that. We'll get higher in terms of the mid-30s and higher upon completion of the fundraising for our big flagship funds. As that occurs, that's when you'll see the next major step up. Until then, I would think that we'll be kind of in the same kind of ballpark ZIP code.

Operator

And our next question comes from Bill Katz with Citigroup.

William Raymond Katz - Citigroup Inc., Research Division - MD & Global Head of Diversified Financials Sector

Kew, maybe I want to come back to you. You had mentioned some cautionary comments on the sort of infrastructure outlook. I was wondering if you might be able to expand on that a little bit? And perhaps tied into where Curt just left off, how should we be thinking about maybe some of the flagship fundraising as we look out into '21 and '22 given your comments about some second half plus and minuses?

Kewsong Lee - The Carlyle Group Inc. - Co-CEO & Director

Sure. Thanks, Bill. Look, as a sector, infrastructure is something that has been affected by COVID. Clearly, the finances and municipalities and the tax base has been hit, and there are other weirder ways that implications of the current environment affect infrastructure. For instance, general contractors with work and safety rules have difficulty completing projects. So clearly, certain types of projects, development projects, in general, are -- they're complex to begin with. They get even that much more harder to complete in this type of environment. So I would expect to see deployment be more of an issue, broadly speaking, in the infrastructure sector.

Now having said that, it's the type of conditions, which, over the medium to longer term, present great opportunity. When you have disruptions like this and dislocations, clearly, capital and (inaudible) to complete important projects and to invest in infrastructure. And so this is one of these
things where I do believe in the short term there are issues. But over the medium to longer term, the wins at the back of the infrastructure asset class, in general.

With respect to your question on fundraising for some of our flagship funds, all of this is interrelated to pace of deployment and pace of exits. And to the extent that, that gets pushed out a little bit, it shouldn't be a surprise that fundraising would similarly get pushed out a little bit. I think it's too early right now to tell you precisely exactly when we think we'll be raising money for our next cycle of funds, so stay tuned for that. But clearly, mission-critical right now is just to make sure our portfolio is in good shape, is to find these opportunities as the environment -- and adapt to the environment to find these new opportunities. And as our pace picks up, and no doubt as our exits pick up, you'll start hearing from us much more about beginning the next leg of fundraising.

Curtis L. Buser - The Carlyle Group Inc. - CFO

And Kew, I'll just add to that. Even with all of those challenges and issues, fundraising, first 6 months of this year, $12.5 billion, and that's without really anything significant in corporate private equity, really just showing the strength of fundraising in Global Credit and solutions and more to come. So we're always having activity from a fundraising perspective. It just may not be at those super larger amounts with the flagship funds.

Operator

And our next question comes from Robert Lee with KBW.

Robert Andrew Lee - Keefe, Bruyette, & Woods, Inc., Research Division - MD & Analyst

Even though he's not on the call, I'm sure he's listening. So Glenn, best of luck in your new endeavors, and congratulations.

Anyway, one business I wanted to focus on was Investment Solutions. It doesn't give a lot of attention, but as the secondaries business, it seems like a place that there should be pretty healthy growth, and you doubled FRE there. So can you maybe update us on that? It kind of feels like maybe that business has finally reached some type of inflection point. And how should we think of that as an outsized source of growth and kind of the opportunity set there?

Kewsong Lee - The Carlyle Group Inc. - Co-CEO & Director

On this one, Robert -- it's Kew. Let me start with some very high-level comments, and then Curt can help you a little bit with some figures.

Look, we're really happy with our Investment Solutions team. I have to be careful. They are in the market right now raising a secondary fund. But suffice it to say, when you have a strong team and a great track record, even in a COVID type of fundraising and environment, it's a lot easier because of their ability to market their track record. So I've got a lot of confidence in that team.

And I think you're exactly right. We are seeing, broadly speaking, opportunities in secondaries as limited partners. And other owners of Alps are looking to find ways to manage liquidity and manage their portfolio and manage allocations across their investment portfolio. So it's actually a very good time to be thinking about secondary types of strategies, which positions our solutions segment and our AlpInvest team in a very good way.

With that, let me turn it over to Curt.
Curtis L. Buser - The Carlyle Group Inc. - CFO

So thanks, Kew. The thing that I've always been really pleased about our Investment Solutions business is its performance. So if you think about just our most recent -- the prior secondaries fund, for example, which is fully invested, and it's a fun fact from 2011, it's 18% net IRR. If you were to look at Page 27 of our materials in the earnings release, the AlpInvest funds, on a net basis -- and these are primary, secondary and co-investment blends to a 12% net IRR. I mean it's just really good performance for these products. The investors really appreciate it. It's allowed us to scale this business. And you're right, that's contributing to a real nice uptick in fee-related earnings going from, call it, $6 million in Q2 last year to, call it, $12 million this quarter, and they're not done.

The other thing that I like about this business is when we bought it, we didn’t buy the embedded carry, and these are European style waterfalls, which means it takes a while for that carry to come in the -- to be in and really be attributed to us. So while you'll see low net carry numbers coming off of this business, because most of it is going out to other owners, as we move forward, our percentage of that will increase, and that will make this also a stronger driver of DE going forward.

Now again, this business is not going to be like a corporate private equity business, but it will be a bigger component, and I like its increasing contribution to our overall platform.

Operator

And our next question comes from Alex Blostein with Goldman Sachs.

Daniel Jacoby - Goldman Sachs Group, Inc., Research Division - Research Analyst

This is Daniel Jacoby filling in for Alex. Not to beat a dead horse here, but just to clarify a little bit on the updated FRE guidance. I guess, 2 questions. One is what does this contemplate in terms of CLO subordinated fee deferrals? So kind of the range of subsea deferrals that you're assuming within that $440 million to $475 million range?

And then just for comparison sake, as we think about kind of the increased FRE range, was the impact of the Fortitude transaction contemplated in the prior quarter's $400 million to $450 million? Or was that something that wasn't in that $400 million to $450 million guidance?

Curtis L. Buser - The Carlyle Group Inc. - CFO

So let me take a shot at these answers, and thank you for the good questions. So the CLOs, just to kind of remind everybody, we earn about $120 million a year annually on management fees out of the CLO business. So it's an important part of our business. Again, it's a $27 billion AUM business for us, so it's significant.

Now about 2/3 of that number, roughly speaking, are subordinated fees that could be shut off. And so therefore, the concern, at the beginning of the year, was that could, obviously, have a significant impact if rating downgrades were significant. That's proved not to be the case thus far, so I'm feeling good about that. That has, obviously, helped us in terms of thinking about expectation for the balance of this year.

But as I said earlier, there's a lot of other things that think about the expectation. The Fortitude transaction coming through, obviously, helps. And as we look forward, our AlpInvest business is performing very well. And that's done great. And so all of these things together has helped me think through kind of the increasing our range from where we were from the $400 million to $450 million to the $440 million to $475 million.

On top of this, the comments really around -- I think the other part of that was, what drives it? And again, it's these factors that kind of get us there. And so hopefully, that's responsive to your question. And -- but I just would caution people that things -- there's a lot of uncertainties that continue to pop up in 2020. And so we just have to be -- continue to be cautious, while actually effectively executing what we do.
Daniel Jacoby - Goldman Sachs Group, Inc., Research Division - Research Analyst

That's helpful. And can I ask a follow-up?

Curtis L. Buser - The Carlyle Group Inc. - CFO

Sure, Dan. Go ahead, please.

Daniel Jacoby - Goldman Sachs Group, Inc., Research Division - Research Analyst

Just maybe you've touched on this throughout the call, but maybe just to kind of tie it all together, some of the fundraising that you expect kind of between now and that next fundraising super cycle, what should we keep an eye out for?

Curtis L. Buser - The Carlyle Group Inc. - CFO

So this year, we've done about $12.5 billion year-to-date. Early in the year, we had indicated $20 billion. That's still possible. I don't want you to put that down as a hard number. We just told you that second half could be lighter. So that's still a possible number for this year. And somewhere kind of hovering in that high teens to that level is what the business genuinely will be doing on an annual basis prior to the super cycle coming back in.

Operator

And our next question comes from Jeremy Campbell with Barclays.

Jeremy Edward Campbell - Barclays Bank PLC, Research Division - Lead Analyst

Sorry, juggling a couple of calls this morning. So forgive me, if you've addressed this already in your FRE step-up walk through. But I was hoping you can give us some context on how to think about management fee rates? So if I recall, it looks like it stepped up a little bit quarter-over-quarter in both Investment Solutions and credit after you adjusted the CLO sub fee drag. Now I know, obviously, when fee paying AUM changes more dramatically like it did quarter-over-quarter that there can be some denominator averaging issues involved, so maybe that's the culprit. But just wondering if you can give us an update on management fee rates and any potential impacts from here around either new funds turning on or any Fortitude impacts?

Curtis L. Buser - The Carlyle Group Inc. - CFO

Sure. So generally speaking, the funds that we have been raising, from a fee-rate perspective have been either equivalent to or, in some cases, slightly better than their predecessor funds. So the movements that you see, up or down, generally have to do with mix. And also, the other key factor is when you get the new funds also coming in and you get the big step up from a larger fund at a full committed capital levels that helps. And then you need to also take into account some places, in particular, in our global credit business, those fees tend to be more on invested capital rather than committed capital. And so as you invest more, you earn more in management fees, obviously, which makes sense. And then -- from an FRE margin perspective, that is, obviously, very helpful, because you're generally not adding the same type of expenses to the equation as you are from a management fee perspective.

So I would not get too focused on the effective rates at this time because there's a lot to give and takes, but the overall piece that I really would think about is that, generally, on a like-for-like basis, we're not seeing any decreases in terms. The terms are generally flat to better.
Great. And then now that Fortitude is all buttoned up, any potential impacts to call out on that one, too?

Curtis L. Buser - The Carlyle Group Inc. - CFO

I guess, I would -- look, the -- I wouldn’t call quarantine or pandemic or uncertainties buttoned up. As Kew mentioned, I think we're still at the early stages of kind of recovery and seen how things really play out. But from -- what I do like is our core business. Our core business model, 98% of our fee-earning AUM is not subject to redemption. 90% of our fee revenues are long-term oriented, and that’s all good.

And then with respect to Fortitude itself, that Fortitude transaction changes essentially the dynamics around how we operate. So you saw the GAAP charge. But from an investment perspective, that business is well. It’s marked 10% above what we have carried for. Its performance is right on track. Things are going well. With this closing, there's $2 billion of capital we raised, which we'll earn management fees on. You only saw 1 month here in the second quarter from that. So that’s additive going forward. And then you have -- essentially, as they continue to rotate capital in, essentially about $4 billion about now and -- are close to either committed or sighting in and then getting up to the $6 billion, we’ll see further uptake as that all rotates in. And then if we're fortunate to grow that business, I would expect further growth from said growth.

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Operator

And our next question comes from Adam Beatty with UBS.

Adam Quincy Beatty - UBS Investment Bank, Research Division - Equity Research Analyst of Financials for Brokers and Asset Managers

Just a follow up on CLOs, maybe add to your breadth having flagged it before. But I wanted to ask about the environment there. I mean it sounds like your team is doing a really good job kind of managing it. Is it a case of your team kind of outperforming in a weak environment? Or not to take anything away, but is the CLO environment generally just better than folks would have expected?

Curtis L. Buser - The Carlyle Group Inc. - CFO

Yes. So go ahead, Kew.

Kewsong Lee - The Carlyle Group Inc. - Co-CEO & Director

Yes. So let me just give you a little bit of color. So from a macro environmental perspective, clearly, one thing that really affects this business is our rating agency downgrades, and that came in spades last quarter. It has slowed down. And if all continues as currently right now, to Curt's earlier comments, I think, will be in good shape.

Of course, if the real economy goes in a different direction and the downgrades accelerate, then I think that does pose headwinds for the CLO business. In terms of new issuances, what we didn’t quite mention earlier, or maybe we did but we didn’t highlight it, but we did partake in 2 recent issuances, 1 in Europe, 1 in the U.S. I would say those 2 does not a trend yet make but certainly, it’s encouraging that we're starting to see some life with respect to new issuances of CLO structures.

An important aspect of execution in this business is, quite frankly, our team’s ability to trade in and out and manage these CLO portfolios. And to that, to your question, on this front, I think our team did an amazing job over the past 3, 4 months, trading out of certain positions and trading into higher-yielding positions with dislocations in the market, such that our positions are better yielding and performing today than they may have been during the depths of the crisis. So hats off to the team.
But to your point about what's environmental versus what's -- what are we doing? I think that's one element where having great investment teams and having the scale and the breadth that we do really helps in this business. So when you throw all those things together, you can see that it's a big business that we have. We think we've got a great team. The portfolios have been repositioned in a way that I think makes a lot of sense.

We're all keeping an eye on rating agencies and what they're up to. And quite frankly, we were among the first, if not, the first in terms of being able to issue new CLOs. And hopefully, that will pick up in the second half of the year. But no promises on that because I think it's not quite yet in a place where you're going to see sustained new CLO structures emerging.

Adam Quincy Beatty  -  UBS Investment Bank, Research Division  -  Equity Research Analyst of Financials for Brokers and Asset Managers

Great. That's really a valuable context. Then just a quick follow up, if I may, on flows in fee AUM. Maybe it's a little bit of housekeeping, but it seemed like a little lumpy in corporate private equity and Investment Solutions on the outflow side. So I'm assuming some of that was some funds exiting the investment period. Is that correct? Or any other color?

Curtis L. Buser  -  The Carlyle Group Inc.  -  CFO

So keep in mind, as we sell, we -- and that's our goal here. Our goal is not to -- in these closed-end fund structures, which is kind of driving 90% of our revenues, our goal is to invest it and then to sell it at a multiple and make money for our investors. And so you should always expect in our business to see outflows. It's not redemptions. Again, 98% of our fee-earning AUM is not subject to redemptions, but it's from realizations. And so we had good realizations this year, and that's a big part of which you'll see. And obviously, the only thing that can contribute to that are some step-downs when you move -- on fee-earning AUM when you move from the committed to the -- post the investment period, so you can see the step down at that time. But generally, most of the activity is just from exits. And then inflows are obviously as we're raising capital around, and that really has been the big piece.

You will also see some inflows as we activate for fee-earning AUM. So as we activate funds that we have raised, which would be, otherwise, included in total AUM but not included in fee-earning AUM until we activate them, and so they'll come in there. And then some of the funds, which are dependent upon us investing, they'll flow into fee-earning AUM as we invest that capital. So those are what really accounts for some of the ups and downs in the roll forward.

Operator

And our next question comes from Ken Worthington with JPMorgan.

William V. Cuddy  -  JPMorgan Chase & Co, Research Division  -  Analyst

This is Will Cuddy filling in for Ken. So focusing on your energy business, NGP XII is about half invested, so getting to the range where we can think about the next vintage. But we have returned after fees negative NGP X and XI. What are the prospects for raising energy assets going forward? Do you think energy assets are going to be asset class that investors will invest in or a dedicated energy funds a thing of the past?

Kewsong Lee  -  The Carlyle Group Inc.  -  Co-CEO & Director

Will, it's Kew. So look, your question has a lot to do with what's going to be happening with carbon and alternative forms of energy. And clearly, there is a transition going on, but this transition, in our view, is going to take a long time.

And in the short term, obviously, the energy markets right now have been very impacted with demand destruction as well as destruction on the supply side, and a whole bunch of geopolitical factors that are impacting conditions in the energy market. But the switchover to alternative is not
as easy or as quick as people would want it to be. And so our view is there’s going to be a period of time where both traditional forms of energy as well as new and emerging forms of energy are all both going to be viable.

Now from an investment perspective, how we play this is very dependent on values -- valuations as well as the ability of management teams that we partner with to actually drive operational improvement irrespective of commodity prices. And suffice it to say, I think in the short term, we’re in a little bit of a wait and see cautious mode because of all the issues that are affecting the energy sector, broadly speaking. We do have a lot of optimism for finding great investment opportunities in renewables and alternative forms of energy, and we have teams that are looking at that. But clearly, this is not just a switch over, and in a snap of a finger, one whole sector is gone and another whole factor has phased in. It’s going to take time. There are going to be bumps along the road. There’s going to -- there’s clearly a transition. And while that transition plays out, my personal perspective is, there’ll be great investment opportunities in both worlds. And it’s up to our platform to try to figure out how to best navigate that.

Operator

And we have a follow-up question from Michael Cyprys with Morgan Stanley.

Michael J. Cyprys - Morgan Stanley, Research Division - Executive Director and Senior Research Analyst

Just on the fee-related earnings, about 2/3, nearly of your distributable earnings this quarter. I guess, where do you see that in the medium term? Obviously, there’s some moving puts and takes near term. Performance fee is a little bit more subdued and then you raise the next flagship funds, which should help on the FRE. But at some point, performance fees get to more of a normalized level, which I think maybe would drive that FRE contribution more. I guess, where do you see that going? How do you think through the puts and takes? And where would you like the FRE contribution to be longer term?

Curtis L. Buser - The Carlyle Group Inc. - CFO

So my just -- I think you’re asking about the performance fees, currently, and longer term?

Michael J. Cyprys - Morgan Stanley, Research Division - Executive Director and Senior Research Analyst

The mix of FRE.

Curtis L. Buser - The Carlyle Group Inc. - CFO

You were breaking up.

Michael J. Cyprys - Morgan Stanley, Research Division - Executive Director and Senior Research Analyst

Longer term.

Curtis L. Buser - The Carlyle Group Inc. - CFO

FRE longer term.
Michael J. Cyprys - Morgan Stanley, Research Division - Executive Director and Senior Research Analyst

Yes. The mix.

Curtis L. Buser - The Carlyle Group Inc. - CFO

Okay. So look, on fee-related earnings, we have been really clear in terms of growing FRE and committed to growing margin. Given the right guidance for this year, $440 million to $475 million. And then as we go forward, the real question is I got to get 2020 done before I can really definitively answer what happens going forward.

I think the right way to think about, near terms, call it, ’21, is probably flattish to slightly up, again, dependent upon all of these issues from an environment perspective that we’ve talked about.

And then I think you see a real recovery and a further opportunity to really expand upon FRE and margin, again, as we’ve said, when the flagship funds return. And so I think we’ll be really -- but even before then, just -- it will just be more subdued, but we’re going to be doing everything we can to drive growth in that near-term period.

On net realized performance fees, I like the fact that we have $1.8 billion of accrued carry. I like where some of our larger funds are positioned. But in the short term, what you saw here in the first half of this year was essentially, we’re really good at focused on exits. I congratulate our teams for doing that across the board. And it pulled forward some of the carries that I thought would happen later in the year into the second quarter. And so that’s why I said realizations to carry will likely be well below first half levels in the second half.

And look, we can -- there’s always things that people are working on that we could get surprised in Q4 by something kind of coming, but I think the more realistic place is well below kind of first half levels for 2020. And then again, on ’21 and ’22, I think the engine is set up right to get us back to historical levels on much more -- $0.5 billion to $600 million of net carry per year. But when that happens, patience is the right word, especially in this world where big transactions are tough to do, and so calling timing on that is really hard. And my crystal ball just doesn’t work that good right now.

Operator

And our last question comes from Robert Lee with KBW.

Robert Andrew Lee - Keefe, Bruyette, & Woods, Inc., Research Division - MD & Analyst

Real quickly, Kew, you had kind of touched on the resiliencies so far of fundraising, but maybe drilling into that a little bit is are there -- what are the different pockets where it’s been more resilient than others? Is it kind of, I would assume, endowment a tension or being more reticent to make your commitments compared to maybe some other investors? Just trying to get a sense on maybe the complexion of fundraising and have different parts of the marketplace are reacting?

Kewson Lee - The Carlyle Group Inc. - Co-CEO & Director

Sure. Robert, thanks for the question. So yes, in general, fundraising, the environment has been more resilient. But I think in a virtual video COVID-type of world, obviously, that has implications. So what are those?

So first of all, re-ups are easier than first time funds. Dealing with existing LPs is easier than trying to meet new LPs and new investment committees over video technology. And in certain asset classes, things like credit and credit opportunities, things where you can take advantage of dislocation, like in our secondaries area, are all areas where LPs are showing a real appetite.
My general view is that, for the most part, LPs are -- the largest LPs are very sophisticated. They have a plan. They are fine-tuning it, but we are not experiencing or seeing any dramatic changes in their appetite or their desire to keep allocating and keep investing in the asset class.

The 2 last things I would state are: first, in times like these, I think our brand and our platform has particular appeal. LPs are comforted by the fact that we have enormous resources. Our global platform being what it is, that we can really engage with our portfolio companies and bring full force to bear to help these companies navigate through turbulent times. All the functional resources we have, procurement specialists, supply chain specialists, human capital experts, capital market experts, all that comes to bear at Carlyle around the world as we’re working with our portfolio of companies. That is just a huge advantage to our platform that I think LPs appreciate and they become more aware of in times like this.

The second thing I would say, and I’ll finish with this, taking a big step back, we’re in a world where interest rates could be 0 for a very long period of time. And I’m exaggerating a little for a fact, obviously, interest rates right now are going to be, in my mind, could be low for a very long period of time.

In that type of an environment, there is no better way for our LPs to meet the needs of their investment objectives then have to allocate and continue their investment into alternatives. And so from a longer-term perspective, I think the current economic environment and current outlook is such that it further supports and reinforces the tailwinds that our asset class has. And within those tailwinds, I do believe Carlyle, with our platform and our global presence and the history and the depth of our teams, I think we’re extremely well positioned. So that makes fundraising for us easier. But let’s be clear. It’s logistically more challenging if you’re trying to deal with new LPs and, obviously, first time funds are also a little bit harder.

Operator

And this now concludes our Q&A portion of today's conference. I would now like to turn the call back over to Daniel Harris for any closing remarks.

Daniel F. Harris - The Carlyle Group Inc. - MD & Head of Public IR

Thank you all for listening and for your time and attention this morning. If you have any follow-up questions, please follow up with Investor Relations at any point. Otherwise, we'll look forward to speaking with you again next quarter. Have a nice day.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating, and you may now disconnect. Everyone, have a great day.