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Alex Blostein:

Great. Well, good morning everybody. And thanks everyone for joining us here live. Next up, I would like to welcome Kewsong Lee, CEO of The Carlyle Group. Earlier this year at its Investor Day, Carlyle set number of goals, which included raising over 130 billion dollars of capital through 2024, and essentially doubling the firm's earnings power and FRE. After a record year on multiple fronts in 2021, the firm is well on its way to exceeding these original targets and will look forward to speaking with Kew today on what's in store for 2022. And of course getting your perspectives on the private market. So welcome. Thank you so much for being here. It's truly great to see you here and in person.

Kewsong Lee:

Yeah. Thanks for having me. Good morning to all of you here. It's great to do this in person.

Alex Blostein:

Great. So why don't we start with a bit of a look back on 2021. Look, clearly a record year for Carlyle on multiple fronts. What drove the outperformance? Maybe tell us a little bit about the progress you made in year one of setting these targets.

Kewsong Lee:

Sure. Well look, this was a record year, really proud of what we've been able to achieve. And I think it's fair to say we got a lot more accomplished in a shorter period of time than we had expected. It's also fair to say we're well ahead of our objectives that we outlined in our strategic plan. It's all because we've made changes to our strategy or approach and pivots, which are really starting to pay off. And let me just highlight a few of them.

First, we're really focused on growing by scaling behind our strengths. I want our biggest to get bigger. I want our strongest teams to drive more strategies from that team and not be distracted with product proliferation. And when you do that, so for instance, US real estate, 40% bigger, our solutions funds twice as large as their predecessor funds. When you do that, you capture operating leverage. You're driving growth in a sustainable way, which then falls incrementally to really strong FRE. So that's the first thing.

The second, we're very focused on initiatives which set the stage for future growth. Witness what we're doing in global credit. It's doubled in the past four years. I think it's going to double again in the next handful of years. We've unleashed the potential in our secondaries business. It's on a run rate of generating well over 80 million of FRE this year. Just a handful of years ago, it was a nominal level of FRE. And these set the stage not only for future sustained growth, but it's diversifying our FRE and our earnings base to make that more resilient than ever before. And then finally, we're really focused on changes to the way we do things in our investment business. Building our capabilities so that we can invest better than we've ever done before. We've expanded our aperture, taking advantage of our industry sector expertise.

So we can pivot very quickly now to growth opportunities in private equity, as well as traditional large buyouts. We've reduced the time it takes to make decisions. We can move faster in our credit business so that we can take advantages of disruption and volatility in our credit business. We've really built our

ESG capabilities, our digital capabilities, the way we use data, how we share the insights across our platforms to really drive value and build better portfolios. And when you do all that, it explains why we're deploying at record levels. It explains why we're driving great investment performance. Our record accrued carry balances. All this sets the stage for really terrific performance, which obviously feeds back into building out our business and sustaining our growth. So, I'm really proud of our team for executing. We're very focused on being aligned. If we can continue to execute, I'm very confident in our positioning moving forward.

Alex Blostein:

Great. Well, let's talk a little bit more about that. So looking into 2022, as you mentioned, you guys are well ahead of your original targets. You're in the middle of fundraising a number of flagship funds, hoping to exceed 130 billion dollars across the lineup of different products over the next several years. Your peers are in the middle of doing similar things as well. So really robust fundraising across the whole space. What differentiates Carlyle in the marketplace today? Especially when it comes to these larger sites funds. And then secondly, as you look beyond the flagships, how are you positioning the business for more sustained FRE growth beyond the next couple of years?

Kewsong Lee:

Okay. Lots of questions there, but your basic question is can we sustain all the positive, the trajectory that we have? My answer to that is 100%. Absolutely. If you think about... Let's just answer this in two ways. If you think about some of the factual aspects to our performance, we've got really strong fundraising as you pointed out. That gives us great line of sight on our FRE next year. We've raised money that's committed to us. We haven't even turned on or activated those fees yet. And when we start doing that, we expect a real pickup in FRE. But just as importantly as we've been talking about our accrued carry balances are at record levels, that sets the stage nicely for performance fees over the next several years. You throw that all together, really good line of sight. Gives me a lot of confidence in our distributed earnings and the acceleration of that over the next several years.

So that's the factual, but taking a step back, I really like our setup. We've got three great businesses, private equity, credit, and solutions. Great momentum, great trajectory. It's all about really a mindset shift and an approach in our business, which is about thinking bigger, moving faster, performing better, which you've all heard me say. But it's a cultural shift that's occurring. And there's a lot of energy rejuvenation, dare I say. We're reinventing how Carlyle approaches our business and all that positive energy is showing up in great results and it feeds on itself. So for a bunch of the tangible reasons I've set forth, which is the line of sight we have on our earning stream, but also some of the organizational and the changes in the pivots that we've made. I feel very good about the ability of our firm to sustain the trajectory that we're on.

Alex Blostein:

Great. Let's dig into some of the areas that will help you guys kind of sustain this growth. Maybe starting with credit. It's definitely an area that's been a strategic focus for you. I know as you and I have talked a bunch in the past, since you've become CEO of the company, you expanded the business beyond CLOs over the last couple years. Was hoping we could step back and give us your vision for what the credit platform would look like two to three years from now. And again, importantly, given there's lots of other larger players in the credit space, how are you guys differentiating yourself in some of the newer areas like the rec lending?

Kewsong Lee:

So if you take a step back, we've doubled the size of this business. It's at about 60 billion of AUM. I think it can double again in the next handful of years. You're right, we are a market leader in our CLO business. But what I like about our credit platform is we're purposely designing it to be a very broad and a platform oriented approach. So we're strong in not only CLOs, but also direct lending. Our credit opportunistic strategies are very strong. We're already on our second generation and deploying very nicely taking advantage of the current environment. We've got great initiatives going now in infrastructure credit and soon real estate credit. We're picking very large, scalable markets with a platform type of approach. We're taking advantage of the fact that we're really strong with industry sector expertise and global knowledge from our private equity business. So we're using the adjacencies and the benefits of that business to help us in the private credit business.

Moreover, as we build out this business, our LPs, our institutional limited partners, are finding the need to have very strategic relationships with Carlyle where even if they're with us in private equity, they now want to move over and be with us in private credit. And so it's a natural extension of our ability, which gives me a lot of confidence in our objectives of growing that business over time. So it... We want it to be balanced. We think there's a lot of momentum, and I would also point out private credit business is about a 1 trillion dollar AUM asset class right now. It's probably about 10, 15% of the size of the overall alternative space, broadly defined. There's just a lot of room to grow because in a world where, at least the way I see it, rates will stay, yields will stay relatively low and in a space where we need solutions for borrowers as banks continue to withdraw from lending in general, I think the tailwinds are very strong to support again, a platform driven, balanced approach in this asset class for Carlyle.

Alex Blostein:

Great. Let's talk a little bit about the area that's maybe adjacent to credit. Let's talk about things you guys do in insurance with the partnership of afford a degree. Again, another really important initiative you started a couple years ago. It sounds like you guys have about \$6 billion of capital committed across various Carlyle strategies from this relationship, a lot of it sits in credit. So, as you think about the opportunity to sub-advise more assets on the platform, obviously there is the proof reinsurance blog that's going to make that platform even larger. So, I guess how are you thinking about the sub-advisory opportunity and is there a way for Carlyle to pursue a more holistic relationship via like an IMA agreement or something like that with Fortitude?

Kewsong Lee:

So, take a step back. I'm really pleased with where we are with Fortitude. Several years back, it's about a \$500 million investment off our balance sheet. It's generating mid-teens RoE. It's got excess capital. It's starting to put in a... It has a very large acquisition pipeline witness the partnership that you just mentioned, we've got more that we're looking at actively and the rotation of assets into Carlyle's investment strategies is on schedule maybe even a little ahead of schedule and it's doing everything that we want it to do. It's also a differentiated strategy. We do not want to be consumer facing. We want it to have broader products set than just one singular product focus. And we'd rather not be in a strategy or an approach which needs to be interacting with the regulators more so than we're doing right now.

So, it's much more of a B to B strategy than a B to C strategy. So, I like the way we've approached it. In terms of thinking about IMA's let me take a more holistic approach to your question, we're always assessing these things, we're always in conversations with our partners to find better ways to align ourselves, to grow but also to earn more profitability from our initiatives in Fortitude. So, these are all

things that we're looking at, but we're really pleased with the progress we've made in Fortitude and I expect more to come.

Alex Blostein:

Great. Sticking with Fortitude for second, you mentioned this a \$500 million investment for Carlyle on balance sheet, that pipeline from your points early sounds like it's quite robust to do more transactions. As you think about the future economics that Carlyle is willing to support the platform with, is this enough or do you feel like you need to put in more capital for Fortitude to execute additional growth?

Kewsong Lee:

Fortitude has excess capital right now, but clearly if there's strategic opportunities to extend and to do more of, sure we'll be thinking about it very actively, but that leads to a broader issue Alex, if I may which is we're very focused strategically on taking capital on our balance sheet and repurposing that capital into growing scalable FRE generative businesses. So, big picture, the leadership team is very focused on taking a dollar of capital, which is valued a book, repurposing it, investing it in a thoughtful way into strategic initiatives that drive growth, that drive FRE on a recurring basis. And I think that over the medium to long term will be very shareholder at creative if we can do that right.

Alex Blostein:

Great. Let's pivot a little bit, I want to spend a couple of minutes in the solutions business another area you highlighted earlier is a place where you've seen significant scale and benefits over the last couple of years. It looks like the FRE from this business has doubled comprise of maybe about 15% of the total FRE for Carlyle today. Now, look this part of private markets is facing lots of healthy tailwinds especially the secondaries. So, maybe spend a couple of minutes on what this business could look like two, three years from now as well and what are some of the revenue synergies you see with the rest of Carlyle as you build out the secondaries business?

Kewsong Lee:

Yeah, I think the potential is going to be enormous. The alternative space has developed in a way where CIOs now need portfolio optimization tools. They need the ability to deploy in ways which the co-investment strategies help with, but they also need ways to manage risk and optimize their portfolios through accessing the secondaries market. This is what app invest Carlyle solutions plays in and so you can see how the growth is only going to be up and to the right, given the enormous growth that you've seen in private equity, real estate, infrastructure, private credit. With respect to how we do things, the investment performs at [inaudible] is just spectacular. It's driven by the fact that they have a lot of data. They have a lot of visibility into many GPS, and they utilize that data incredibly well to fine tune what co-invest they want to invest in, and also they have a very good appreciation for values and embedded values and portfolios as they helps client with secondary solutions.

And what we're trying to do now is how do we figure out across all of Carlyle, including Yelp invest to utilize the data in a way which is synergistic to all sides of Carlyle. And that's the benefit of having a large platform like ours and we're just in the early innings of trying to figure out how to unleash and tap into that, but I think that only will help us continue to sustain our momentum up into the right.

Alex Blostein:

You bring up an interesting point. There's so much focus on data in private markets. It sounds like there are benefits of that internally for Carlyle. You ever thought about trying to expand it and almost white label it and try to monetize it in more ways than internally?

Kewsong Lee:

Yeah, we do think about this all the time, and it's not only in terms of how do we invest better in terms of seeing ideas and trends and sourcing opportunities, but also in diligence and trying to vet deals, but really where our value creation comes, which is how do we use data? How do we use our digital capabilities to drive top line growth and make our portfolio companies even better? Because that's where you really create value. So, we're doing all that and furthermore, I'd be remiss I didn't say, thinking about data and thinking about all the technology that's out there to make your operations more efficient is also something that we should all be thinking about which we are.

Alex Blostein:

Great. Let's pivot a little bit and talk about another important theme in space which has been retail and that's comes with no surprise obviously that comes up on every call across on you and your peers. So, let's spend a couple of minutes on that. So, I mean, look growth clearly has been really strong this year in particular in this part of the market, in the past, you talked about high net worth and ultra-high net worth being the predominant source of quote and quote retail we can call it wealth management [inaudible] for Carlyle, but how are you thinking about the opportunity to build out beyond these high net worth channel more in the more mass affluent part of the market?

Kewsong Lee:

Sure. So, first of all, just please appreciate since inception, Carlyle raised close to 40 if not over \$40 billion from retail. So, we're a big player in originating retail asset, our brand is quite strong. Also, keep in mind in any given year, it's about 10% maybe a little bit less sometimes between 10 and 15% of the funds we raise. So, it's not like we're not doing anything in retail, we are. The longer-term perspective on retail I think there's a huge opportunity, but it's going to be here for many years to come and I've got high degree of confidence that our platform, our brand is going to be very well positioned to take advantage of these longer term trends in retail.

In terms of the here and now, our strategic plan is very focused on huge growth opportunities ahead of us from our institutional clients. And we can do a lot more in the ways that I just described scaling behind our strengths, making our larger funds even larger, from our institutional client set, because they're looking for more strategic, broader, deeper relationships with Carlyle and so our strategic plan is based on raising money from our core institutional client set. Anything we do above and beyond what we're doing now in retail, is just going to add, it's just upside for us.

Alex Blostein:

Got it. I want to touch base on private equity business, which is still your largest business, but I also think it's quite telling that we got to the question middle of the presentation, given all the other things that you've done a couple years ago, that probably were the first question. Look, clearly lots of focus in flagship fund raises today. We've seen a number of companies in the space venture out into other verticals. Whether it's geographic funds or even more narrowly defined sector funds or core product. Is there a place for something like that within Carlyle or geographic [inaudible], just really like the way to go?

Kewsong Lee:

Let's just start with the fact that I think Carlyle is the largest private equity player in the market when you add up all of our different funds. We have a different architecture and I really like architecture, which is very strong regional platforms connected with incredibly deep sector expertise around the world. Through these platforms, we do buyout, we do growth and we do core [inaudible]. We're already on our second generation of elongated core fund. We're also now branching out into infrastructure. We just hired Macky Tall earlier this year from Caisse de Depot, and he is a terrific business builder and investor. We have high hopes for what we're going to be doing, infrastructure, private equity.

People think private equity is a mature asset class, and the way you phrased your question about we got to it in the middle of the interview. But there's real legs to continued growth because as I talk to our LPs, the largest sources of returns for them continue to be in private equity in terms of relative outperformance. If you put yourself in their shoes, they've got long dated, long duration liabilities, and that we're living in a 0% zero yield world. The returns that they're generating in private equity are essential for their overall portfolio objectives. We have more demand for private equity, not less.

To your good point, the question is, every firm architect differently, how are they going to keep expanding? For us, we've got incredibly strong regional presence. We've got an incredibly strong sector orientation. I want to keep it simple and scalable, which is why the focus is on buyout, growth, and core. And then to the extent we can add in infrastructure. If certain verticals get large enough, of course, we'll be thinking about extension, but I like our setup now, and it's the largest in our business. We drive great returns and I think we're just going to keep driving harder through it to get the benefits of scaling like I talked about in my first answer.

Alex Blostein:

Great. Well, speaking of scaling, let's put some numbers around this. Let's talk about FRE and FRE grows. You guys are now expecting to reach \$800 million in FRE, in your FRE margin targets, sooner than the original guidance as we talked about in 24. Maybe you could talk a little bit about the levers you're pulling to do that. What helps you get there a little faster. But also if there's room for margins to expand beyond the 40 ish percent target that you originally set out.

Kewsong Lee:

Sure, there room to do that potentially. It's much more of a revenue and a growth strategy, as opposed to a cost cutting or expense driven strategy. You can see in all of the ways that I'm responding to your good questions, it's about, how do we do more behind our strengths, and when the revenues come in, have more of it fall to the bottom line than not? I like our architecture. We're in a people bit. We have to generate great returns. It's less of an emphasis on trying to cut, and much more of an emphasis on how do we invest in our capabilities to continue to drive growth and drive great returns?

Alex Blostein:

Makes sense. All right. Let's pivot a little bit. I want to spend a couple of minutes on the investment backdrop and we'll hit it in a couple different ways. But starting with just a macro, you and I were talking just before taking the stage here, that the volatility of last week is reminding us that this is not a straight path upward like we've seen over the course of the year. Inflation is clearly top of mind, higher interest rates are obviously top of mind as well. I guess first question is, what are you seeing across the portfolio companies when it comes to inflation, how insulated are portfolio companies that you guys own from inflationary pressures? When it comes to private markets broadly, how big of a risk do you think higher interest rates could present?

Kewsong Lee:

Well, we're seeing it. I think we should all delete the T word from our lexicon. It's more persistent. We're seeing in two ways, clearly there's difficulty in finding workers. Labor is an issue, and that is potentially a structural issue that's going to take many, many years, several years as our economy is just transitioning, for us to figure that add out as an economy. But also clearly you're seeing the impact of higher energy costs, not to mention the supply chain bottlenecks. Our private equity business focuses on companies that have moats around them, have high barriers to entry, that have an ability to have ability to pass on higher input costs. And so far we've not been too badly affected by what we're seeing. If there's one thing I'm very proud of our teams over the past two years, the portfolio construction that we have and the way we've thought about building up our investment portfolios, has been terrific.

I've got a high degree of confidence that we'll manage through the impact of inflation. I'm much more focused on, and we as a firm are focused on, well, what does this mean for the real economy? What does this mean for policy and potential for policy error as the whole world is starting to decelerate from a real economy perspective? To your point, interest rates and valuations. I think it's fair to say there are certain aspects of the markets which are very overheated, and query as to what happens if rates do start to bump up. What happens to the valuation multiples being put on those types of situations today? These are all the types of issues we're thinking about.

But Alex, I'd be remiss if I didn't say, change presents opportunities for a platform like ours. Volatility provides opportunity for a credit business. When you see digital trends, you see the impact of climate change, you see how companies are trying to manage through COVID and CEOs embracing digital. These are all opportunities that these companies are coming to talk to us about to say, "How do we partner together to grow? How do we partner together to take advantage of these opportunities?" It's created more deal flow for us and more conversations. And so, while in all these changes there are risks and uncertainties that we have to manage through, I think the bigger point, at least from my perspective is, these types of changes have unleashed huge opportunities that platforms like ours are very well positioned to think through and take advantage of from an investment perspective.

Alex Blostein:

Great. Well, speaking of opportunities and investments, maybe we can talk a little bit about the pace of deployment and also the areas where you guys are seeing the most interesting, the deployed capital into '22. Again, that's one of the records you guys would feel like shattering in 2021, just the pace of deployment been really robust. Is that something that you think could continue? Do you think that the macro conditions we just talked about could actually accelerate that even further, if there are bigger dislocations in the market where you could deploy capital?

Kewsong Lee:

Yeah. I think that these opportunity set continues to expand. It's not just here in America, it's in the Far East, it's in Europe. I mean, countries like Japan are opening up to opportunities in private capital. It's new strategies that are emerging, new asset classes that are emerging. I think the pace of deployment is something that I would expect to continue. The issue is making sure your investment performance continues, which is why we're so focused on driving returns in a controllable way. 70, 80% of our returns in the private equity business are driven by top line growth and operational improvement. It's not multiple expansion. It's not financial leverage. So, the key for us is not the opportunity side, because we pretty much see everything. It's how do we select the best deals where we know we can add value and create our own returns regardless of what the environment's going to be. And so that's my major focus, is on building our capabilities. As I mentioned, our digital capabilities, our data capabilities, our supply

chain procurement capabilities. How do we keep building those capabilities so that we can control and drive our own returns as we make these companies better?

Alex Blostein:

Great. All right, let's go back a little bit away from macro and focus on Carlyle specifically. I want to spend a couple of minutes on the balance sheet capital. You mentioned that in one of your earlier points that you and the management team is incredibly focused on deploying every dollar of balance sheet access capital into something that's going to generate sustainable growth over time. You guys are, I would still argue, early in the realization cycle. And that's going to generate a lot of cash flows and the balance sheet itself has a lot of free cash sitting there and then the co-investments et cetera. So talk to us about the capital priorities for the next couple of years. So what are the things specifically you're looking to do to accelerate FRE and kind of have that crystallization of capital into FRE. And if M&A is at all part of that conversation, which sounds like it could be, what are some areas where you feel like it makes sense to look in organically?

Kewsong Lee:

Sure. So taking a step back, we're going to have a very strong balance sheet. Already a strong balance sheet, but even more cash is coming in because of the realizations that we're in our exits. We have to co-invest behind our major fund strategy so that obviously is a use of cash. But I do think we can use our balance sheet more aggressively to accelerate the fundraising of some of our existing products, as well as some of the new products that we've recently launched. So that's one thing to keep in mind.

Second, we are very focused on new ways to grow in permanent capital ways where it creates recurring FRE streams. I've just recently hired somebody to help us to build out and become more active on the development front. So that's news yet to come, but we're going to be thinking about where do we strategically, in thoughtful ways, think about extending and using our capital to build new initiatives for us that again, criteria is big, scalable, drives FRE in a sustained way. So we're thinking very carefully about how we convert book value into FRE. And it's not only through our core businesses and existing businesses, it's through new products that we're organically developing, but it's also via external opportunities. And I just point out, it's probably going to be more in the credit, real estate, or infrastructure spaces. It's probably a global look, not just here in the United States, given our global platform.

Alex Blostein:

Great. Makes sense. Look, another important topic, not just for the private markets firms, but for financials broadly and really the market broadly is around ESG. You referred to ESG as a mindset, not a product a couple of times, I feel like, at this point. So what does that mean for you?

Kewsong Lee:

Yeah, I mean, lots of firms try to package a product around ESG and they go out try to raise money for it. I'm not criticizing it. Different folks in different firms are approaching ESG in different ways. We have a different way of thinking about it at Carlyle. ESG has got to be a mindset and an orientation. It's got to be embedded in your culture. Everything we're doing is about improving our companies, about having impact, about creating change. And if you have that mindset, you're actually pushing ESG into our investment processes so that every single company deal that we touch, we have a total improvement mentality where it drives performance. And if it drives great performance, it results in great results for shareholders and all of our stakeholders.

And so, side by side with our deal teams, our ESG folks are helping create value creation plans. We have figured out that companies and portfolio companies that are more diverse, the earnings grow 12% faster than our portfolio companies that are less diverse. We have put in place lines of credit with our portfolio companies, where if they use less water, for instance, their cost of capital goes down. Even at Carlyle, we have subscription lines of credit where if we have greater diversity in our portfolio companies, our cost of borrowing at Carlyle goes down. And so it's a total mindset as opposed to trying to just productize it, check the box. And I really do believe that as we push on this, and we're a leader on this front in our industry, I think it's really important, because it leads to better decision making and better outcomes when you have a mindset that we're trying to improve every single company that we interact with.

Alex Blostein:

Great. Well, I think we have a minute or two left. So, if there are any questions from the audience, I'd love to take these now. So if you have a hand just sorry, if you have a question, raise your hand and the mics will come around. Well, if there are no questions, I'll ask one more and really it's just around modernization outlook. Again, it's something that came up a couple times. Understanding that market will have an impact on the pace of Carlyle exiting the port. You know, some of your investments. To what extent are you guys dependent on just the equity market as an avenue of exits, versus when you look across the portfolio companies, you kind of say, look, there's a lot of these that could be good, strategic fits. And those are maybe a little bit more defensive in equity market volatility.

Kewsong Lee:

Well look, clearly it's in input. Robust capital markets, robust M&A activity, right? Robust secondary activity amongst private equity firms, private capital firms. It's all helpful. But, you can't sell something if you haven't created value and if it hasn't hit its business plans, right? And so we're very focused on finding the great companies, great teams, driving huge value. And then the exits will come whether or not it's this year or next year, whether or not the markets are open or not open, we'll figure that part out. But it really starts with finding the best companies, best team, but really adding the most value. And then the end result kind of takes care of itself.

That's why Alex, I keep going back to... I'm very pleased with the current state of our investment portfolios. Because I know the types of companies and the situations we have in them. And yeah, capital market volatility could affect the timing of the exit and maybe the higher end of the ranges. But in terms of proceeds and realizations and the earnings power coming from our investment portfolio, that I feel very comfortable with over the next several years.

Alex Blostein:

Great. Well, that's a great message to leave it on, Kew. Thank you so much. Thanks for being here. Thanks for supporting the conference. Appreciate it.

Kewsong Lee:

Perfect. Happy holidays everybody.