CORPORATE PARTICIPANTS

Daniel F. Harris  
Managing Director & Head-Public Investor Relations, The Carlyle Group LP

Glenn A. Youngkin  
Co-Chief Executive Officer & Director, The Carlyle Group LP

Kewsong Lee  
Co-Chief Executive Officer & Director, The Carlyle Group LP

Curtis L. Buser  
Chief Financial Officer, The Carlyle Group LP

OTHER PARTICIPANTS

Kenneth B. Worthington  
Analyst, JPMorgan Securities LLC

Craig Siegenthaler  
Analyst, Credit Suisse Securities (USA) LLC

William Raymond Katz  
Analyst, Citigroup Global Markets, Inc.

Michael Carrier  
Analyst, Bank of America Merrill Lynch

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

Alexander Blostein  
Analyst, Goldman Sachs & Co. LLC

Gerald Edward O'Hara  
Analyst, Jefferies LLC

Robert Lee  
Analyst, Keefe, Bruyette & Woods, Inc.

Chris Kotowski  
Analyst, Oppenheimer & Co., Inc.
MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to The Carlyle Group Second Quarter 2019 Earnings Conference Call. At this time, all participants are in a listen-only mode. [Operator Instructions] Later, will conduct a question-and-answer session, and instructions will follow at that time. As a reminder, today’s conference maybe recorded.

I’d now like to introduce your host for today’s conference, Mr. Daniel Harris, Head of Investor Relations. Sir, please go ahead.

Daniel F. Harris
Managing Director & Head-Public Investor Relations, The Carlyle Group LP

Thank you, Liz. Good morning and welcome to Carlyle’s second quarter 2019 earnings call. With me on the call today are our Co-Chief Executive Officers, Kewsong Lee and Glenn Youngkin; 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’ve provided reconciliations of these measures to GAAP in our earnings release.

Any forward-looking statements made today do not guarantee future performance and undue reliance should not be placed on them. These statements are based on current management expectations and involve inherent risks and uncertainties, including those identified in the Risk Factors section of our annual report on Form 10-K that could cause actual results to differ materially from those indicated. Carlyle assumes no obligation to update any forward-looking statements at any time.

Earlier this morning, we announced that Carlyle will change its corporate structure, and we have posted a presentation with information on this conversion on our Investor Relations website. In addition, we issued a press release and detailed earnings presentation regarding our second quarter results, which is also available on our Investor Relations website.

For the second quarter, we generated $133 million in fee-related earnings and $213 million in distributable earnings, with DE per common unit of $0.57. Our distribution will be $0.43 per common unit.

Today, Glenn and Kew are going to speak for us on our corporate structure and then, Curt will go through our results, after which we’ll take your questions. To ensure participation by all those on the call, please limit yourself to one question and return to the queue for additional questions.

With that, let me turn it over to our Co-CEO, Glenn Youngkin.

Glenn A. Youngkin
Co-Chief Executive Officer & Director, The Carlyle Group LP

Thank you, Dan, and good morning, everyone. We are pleased to announce our decision to convert Carlyle from a publicly traded partnership to a Full C-Corporation with a fixed annual dividend initially set at $1 per share.
Let me summarize what is happening and then Kew will describe our rationale for some of these decisions. First, on January 1, 2020, Carlyle will become a corporation, undergoing what we refer to as a Full C conversion. All of our private holding units and common units will be exchanged for one class of common shares. Second, we are establishing an annual fixed dividend initially set at $1 per share or $0.25 per quarter, replacing our current variable distribution. All Carlyle shareholders will receive the same dividend. Our initial $1 per share dividend is equivalent to approximately a 4% dividend yield on our current unit price, more than double the average level of the S&P 500 constituents.

Third, we are buying out and terminating our future obligations under our tax receivable agreement for $1.50 per private unit payable over five years. This is a positive outcome for our public shareholders removing a long-term overhang of both a growing liability and significant tax complexity. And fourth, the new Carlyle Corporation will have a one share, one vote governance structure.

And let me make a few specific points here. Out of the box, approximately 30% of our shareholder vote will be held by Carlyle's current public unitholders directly proportional to the public's ownership of CG units today. For a finite period of time, after our conversion, Carlyle will be a controlled corporation as Carlyle's senior employees are expected to initially own approximately 60% of the common shares based on today's ownership and these senior employee shares will be voted as a block by our current general partner entity. And there will be shareholder agreements with our three founders, who will have specific nomination rights for a subset of our board members and the right to designate the board chair.

The Carlyle team, our founders and our board of directors have worked extensively on this conversion and we believe a Full C Corporation with best-in-class governance and a fixed dividend is the most attractive structure for all of our shareholders. This conversion is another important step for Carlyle as we continue to build momentum across our business, establish a strong foundation for future earnings growth and create a more shareholder-friendly investment proposition.

Our progress is evident as assets under management have increased 27% over the past three years to a record $223 billion. Fundraising has now eclipsed our $100 billion goal that we began three and a half years ago. Our $400 million fee-related earnings target for 2019 is more than 60% higher than FRE levels three years ago, and net accrued carry of $1.9 billion has increased more than 50% over the past three years and there is substantial room for further growth.

Today's announcement is another major milestone for Carlyle, and we believe we are well positioned to continue our strong operating momentum and deliver great value to current and potentially new Carlyle's shareholders.

Let me turn it over to Kew.

Kewsong Lee
Co-Chief Executive Officer & Director, The Carlyle Group LP

Thanks Glenn. Let me now provide the rationale for why we chose the path just outlined and give you some additional context on the benefits for our shareholders.

First, we expect a significant improvement in our ownership base and trading liquidity. Our new structure maximizes Carlyle's attractiveness to passive and active investors, and we anticipate that following our conversion, our shares will be considered for addition to many of the leading market indices and benchmarks, including the CRSP, Russell and the S&P Indices among others. We estimate more than $3 trillion of passively benchmarked assets will consider Carlyle for inclusion into their funds with an even larger opportunity from
actively manage funds. Carlyle's potential buyer universe is likely to expand significantly not only because of our planned conversion to a C-Corp, but it's further enhanced by our transition to a one share, one vote single class of common stock.

Second, our new fixed dividend policy provides a recurring and attractive yield, while also enabling the firm to better retain capital for investment to drive growth. Historically, we believe our valuation multiple discounted future distributions above a base dividend. Therefore, we set an initial dividend level that investors can count on as a predictable source of income compared to our prior difficult to forecast variable distribution model. Our new fixed dividend will be largely supported by after-tax fee-related earnings and over time growth in our dividend should reflect our ability to generate higher levels of FRE. Retained earnings will be utilized to invest in our business, grow our investment platform and enable shareholder-friendly actions to minimize dilution and the buyback of shares if appropriate.

And third, our new corporate form is simple. It improves governance and increases shareholder alignment, making Carlyle shares even more attractive. Following our conversion, there will be only one single class of common shares. Every shareholder, whether an employee or a public investor, will receive the exact same dividend. All shareholders will be impacted in the exact same way from any increase or decrease in share price and the proportion of shareholder vote held by public investors matches the public's percentage ownership of Carlyle's total shares. We believe our structure simplicity, transparency and alignment is differentiated in all else equal makes Carlyle's shares more appealing to own and improves our attractiveness as an investment.

Before I turn it over to Curt, while our structure is evolving, let me talk about what isn't changing at Carlyle. As a global investment firm, we remain focused on delivering strong investment performance. We'll continue to build on our momentum to increase fee-related earnings and expand FRE margins. We will continue to drive growth by organically scaling our existing fund families and building upon new and meaningfully large opportunities such as global credit. We will occasionally make selective acquisitions and investments in platforms like Fortitude to expand our capabilities in a strategic and thoughtful way. And we will continue to invest in our people and our global platform to drive performance and create value for our fund investors and shareholders.

So to wrap up, we have strong momentum. The announcement today is a continuation of the terrific progress across the firm and puts us on the best path forward to drive growth in the years to come.

With that, let me turn the call over to our Chief Financial Officer, Curt Buser.

Curtis L. Buser  
*Chief Financial Officer, The Carlyle Group LP*

Thanks, Kew. Today, I will cover some additional detailed aspects of our Full C conversion and then summarize our second quarter results before we take your questions.

Three points on our conversion. First, on timing. We fully expect our conversion to be effective on January 1, 2020. From that point forward, all investors will receive a Form 1099 instead of a K-1. Second, on the financial impact. Upon conversion, substantially all of our taxable income will be subject to corporate tax compared to only a portion currently. We expect the effective tax rate on our full level of distributable earnings to be in the single-digit range in 2020 and then increase to the mid- to high-teens before reaching the low 20s in about five years. And third, on the dividend. The dividend we pay to shareholders is expected to be a qualified dividend for U.S. tax purposes. Our last unitholder distribution will be in November of 2019 and then beginning in 2020, all cash to shareholders will be dividends.
Moving on to our results for the second quarter. We generated distributable earnings of $213 million in the quarter, which included a $72 million recovery of prior charges related to the resolution of French tax litigation. Excluding this impact, distributable earnings of $142 million were 24% higher than the second quarter of 2018. Our distributable earnings per common unit was $0.57, including the positive resolution of the tax matter, and we will pay a distribution of $0.43 per common unit.

Total assets under management of $223 billion increased 6% over the past year and fee earning assets under management increased 8% over the past year to $158 billion. We raised $3.5 billion in new capital this quarter, pushing Carlyle past our $100 billion fundraising goal that we set several years ago. Our $10.4 billion fundraising pace over the first half of the year is consistent with our expectation for at least $20 billion of fundraising throughout 2019.

Fee-related earnings totaled $133 million in the second quarter, more than double the level in the second quarter of 2018 and up about $30 million from last quarter. Adjusting for several notable impacts in the quarter, including catch-up management fees and lower the normal expenses, we continue to estimate our quarterly FRE run rate to be about $100 million.

Fee revenue of $429 million was an increase of 27% over the second quarter of 2018. Included in this quarter's result is $28 million in catch-up management fees largely attributable to a significant closing in global infrastructure as well as smaller closings in international energy in Europe Buyout compared to $12 million in catch-up management fees in the second quarter of 2018. In addition, transaction fees were $10 million during the quarter compared to $4 million in the second quarter of 2018.

The FRE margin of 31% in the second quarter was positively affected by the additional high incremental margin revenue. And our first half FRE margin of 29% was similarly affected, while the year-to-date margin is running ahead of our 25% target for the year, excluding certain notable items, our run rate FRE margin is in the 25% to 27% range.

Cash compensation expense of $207 million increased 20% over the past year, reflecting in part the acquisition of Carlyle Aviation Partners as well as our continued build out of platforms and investment teams, largely across global credit and real assets.

G&A and other indirect expenses were $80 million in the second quarter, positively affected by lower than normal fundraising expenses. Second quarter equity-based compensation expense of $38 million was lower than both the year-ago quarter and the first quarter of 2019, reflecting the effect of lower equity awards and expense. We continue to expect full year 2019 and forward year equity-based compensation expenses to decline from prior periods.

Realized proceeds from carry funds were $4.4 billion in the quarter with realizations over the last 12 months down from our historical averages, reflecting the need for our portfolio to continue to mature, as Kew outlined last quarter. Net realized performance revenues of $21 million in the second quarter remain low. While realizations and performance revenue could tick higher over the next few quarters, we expect they will remain muted compared to prior periods. And 2019 realized performance revenues will be below last year's level.

Realized investment income, exclusive of the favorable resolution of the tax matter, was $2 million, also reflecting the sale of fewer balance sheet investments. That said, we are confident, investment income could grow materially over time as our balance sheet investment value of $1.4 billion has tripled over the past three years.
Net accrued performance revenue of $1.9 billion was down slightly from $2 billion last year, but up versus the first quarter of 2019. Our carry fund portfolio appreciated a modest 2% in the quarter, but we saw strong performance in several Asia Buyout, U.S. real estate and investment solutions funds which drove accrued carry higher.

We invested $7.3 billion of new capital this quarter, and year-to-date have now invested almost $11 billion into new and follow-on transactions with roughly half of that amount in corporate private equity and half across the other segments. Deployment remains largely on track with the high levels of the past several years.

Now a word on the tax matter and related gain. We recently resolved French tax litigation which dated back to 2010 concerning the amounts due in connection with the gains earned on the sale of an asset in France out of a real estate fund. Upon the initial adverse ruling in France, we realized a loss to investment income, reducing distributable earnings in 2015. The French court ruling was subsequently reversed upon appeal in 2017, and we have now finally resolved the matter recognizing a recovery and gain of $72 million in the current quarter.

In closing, let me also reiterate our excitement to announce today’s changes to Carlyle. We have strong momentum across our platform and are optimistic Carlyle can deliver strong results for all of our stakeholders.

With that, we are ready to take your questions.

**QUESTION AND ANSWER SECTION**

**Operator:** [Operator Instructions] Our first question comes from the line of Ken Worthington with JPMorgan. Your line is now open.

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

Hi, good morning. Thank you for taking my question. Congratulations on C-Corp. Just can you help us gauge the estimate of the impact on C-Corp conversion? I feel like it’s a silly question, but when others gave their preliminary impact, it was reasonably different than what kind of the actual impact has been. So based on the latest and all that the tax implications here, how should we think about the conversion actually impacting the earnings you’re reporting and if you can give us any details kind of walking through what might be temporary, what might be permanent changes that would be helpful if you’ve gotten there yet? Thank you.

**Glenn A. Youngkin**
Co-Chief Executive Officer & Director, The Carlyle Group LP

Ken, hey, thanks for the question. Yes, as I’ve said in my opening remarks, we’ve looked at the tax around this very thoroughly. So we’re, as you can imagine, structuring this, analyzing this both in terms of our own teams as well as outside advisors. There’s been a lot of work put into this. And as you also know, it’s going to take six months to actually get the conversion complete, so it’ll be done on January 1, 2020. And there are a few moving parts in particular if you think about the stock price, it will be the biggest thing that will actually drive what the actual stuff up will be upon the conversion.

That said, the way I’ve thought about this is really kind of focusing on what our effective tax rates will be again on distributable earnings post conversion. And as I’ve said, 2020 we’ll be in the single digits, then that will increase to mid- to high-teens and then after that in about five years, it will be at low 20s. I think that from – as we evaluated, the dilutive effect of this again kind of on average 15% or so, mid-teens in terms of average dilution from where
we are today, but really, we think to that it's very much getting covered in terms of how the impact that we are expecting and hoping in terms of increased demand for the stock.

Now one of the things to also kind of keep in mind is, as you're aware, in terms of tax matters, part of the complications here are really the challenges as you also have to take those step ups and push them down to underlying assets. And as you do that, then part of that benefit comes as you realize the underlying assets. So while I gave you kind of how it should work over on an annual basis, there could be some fluctuations on a quarterly basis, depending upon how we realize those underlying benefits.

Ken, hopefully that answered your question in terms of financial impact. I will, one last comment, I do think that this transaction from, if you just look at our GAAP financials, I know nobody does. But, it will really simplify it because you no longer have non-controlling interest in the firm. It's just one class of shares, one common unit and that just makes it a whole lot easier to understand. And then the same is true on our corporate tax structure, just far more simple than where we are today.

**Operator:** Our next question comes from the line of Craig Siegenthaler with Credit Suisse. Your line is now open.

Craig Siegenthaler
**Analyst, Credit Suisse Securities (USA) LLC**

Good morning, everyone, and congrats on the Full C-Corp conversion.

Glenn A. Youngkin
**Co-Chief Executive Officer & Director, The Carlyle Group LP**

Thank you.

Curtis L. Buser
**Chief Financial Officer, The Carlyle Group LP**

Thanks, Craig.

Craig Siegenthaler
**Analyst, Credit Suisse Securities (USA) LLC**

So your peers are staying at an Up-C C-Corp structure, but you thought the pros to go Full C-Corp single share class, outweighed the cons, including voting rights, independent board annual meetings. So I'm just wondering why were these cons not a big deal for Carlyle and which are the items do you think pose the biggest issue for moving into a Full C-Corp?

Kewsong Lee
**Co-Chief Executive Officer & Director, The Carlyle Group LP**

Hey, Craig, its Kew. Thanks for the question. We were – one of the goals we had was to maximize the potential for liquidity in our stock and really expand the universe of potential buyers into our stock. And having one share of common stock, one share, one vote, I mean, one single class of common stock, one share, one vote achieved that objective for us.

And so as I stated earlier, the simplicity of this structure, the transparency of this structure maximizes the index potential for us in terms of being included in everything including potentially the S&P. And so we thought that was
a very big positive for Carlyle. And all of us around the same page here at the firm to try to figure out how do we drive value, how do we drive liquidity, and how do we really position the firm in the best way moving forward? And we thought moving to this simplified transparent single class of common stock, one share, one vote was the right way to do it.

Operator: Our next question comes from line of Bill Katz with Citi. Your line is now open.

William Raymond Katz
Analyst, Citigroup Global Markets, Inc.

Okay. Thank you very much for taking the questions and similarly a great way to sort of finish off the C-Corp for the whole industry. So I guess maybe a two-part question, sorry to violate the one question per analyst rule. But first question maybe for Curt. I'm wondering just given a lot of the moving parts away from the conversion, you guys have updated us on your thinking around so the FRE margin and realization outlook as we look into 2020 and beyond. And then, just within the supplement you provided today on the conversion, you had mentioned a little bit about potentially growing the balance sheet a little bit. I was just wondering if you could provide a little more color about this underlying growing strategy behind that. Thank you.

Curtis L. Buser
Chief Financial Officer, The Carlyle Group LP

Thanks, Bill. I'll take the first part and then maybe get Kew to kind of way in a little bit on the second part. So on FRE margin, look, we've been — as Glenn started out, we have grown FRE really significantly over the past three years, up 60% over the past three years. We're very pleased with that and as we've continued to remind people internally as well as all of you, we are focused on driving FRE.

Now the way to think about it is we also try to level set for everybody what our current run rate is versus actual amounts, and we always try to call that out. So this quarter $133 million of fee-related earnings of 31% FRE margin, I actually think our run rate is closer to $100 million or a little bit over $100 million and I think our actual margin is more in that 25% to 27% range as you think about on a normal run rate basis after pulling out $28 million of catch-up management fees, after looking at some of our lower-than-normal expenses in the quarter. And so the way to kind of think about where we are today is that $100 million of FRE, again, at that 25% to 27% range.

That's how I think things will be in the short term. We'll then obviously be focused on growing that and over time, so a couple years I think we can get back to where our normal run rate FRE margin is in the 30% kind of range, but we got to do some things to kind of get there and that will take us some time for that to be a run rate number as opposed to just a quarterly blip due to outsized items.

On realizations, so as I said here, the realizations in the quarter were light. We're about $50 million of net realized performance fees year-to-date. If you back out the $20 million of clawback in Q1 compare that to $150 million same first half of 2018. So we're running $100 million less than we were a year ago. Now put all this in perspective, this is all timing related, and I do think that our realizations will begin to tick up a little bit, but we'll really see that grow in the second half of 2020, assuming all else kind of remains kind of where it is. Our large funds are performing well, they're tracking consistent with where our historical funds have been. Our portfolio is in great shape, so I think that's essentially the same answer that I gave you last quarter on how all that plays out.

In terms of having additional capital to grow our balance sheet, look, we run a light balance sheet. We've always run been balance sheet light. We now have $1.4 billion of investments on our balance sheet. When you haul out
all the noise, some of the funny stuff that happens on the GAAP, you look at what's really ours, it's $1.4 billion, that has grown significantly over time. I do think that will be another source of earnings for us. But I do think as we continue to grow the business having the added capital to be able to do the things, to be able to drive growth is important.

Kew or Glenn, I don't know if there is anything to add?

Kewsong Lee  
Co-Chief Executive Officer & Director, The Carlyle Group LP

I think, Craig, I mean Curt you hit it. We're not looking to grow the balance sheet for the sake of growing the balance sheet. The balance sheet grows because of good investment opportunities that we have to build our business. And so the benefit of the fixed dividend policy is going to be we now have an enhanced ability to retain capital to reinvest it back into our business to drive growth. We're on a pace, as you heard earlier, to invest about $20-plus billion a year. When you do that, we have co-investment opportunities and that is several hundred million dollars a year of investment, which is in our core business.

We have selective opportunities to make acquisitions, which we've been very thoughtful about in the past. We'll continue to look very carefully as it relates to external growth. And so and finally of course, we are very cognizant of the fact that we need to be very good stewards of our capital. And so while Glenn and I and Curt were very return on capital focused, we do appreciate the benefits of managing our dilution and when appropriate making sure we repatriate capital back to our shareholders. And so with that mindset is how we think about using the additional capital that would be available to us, but it's really with the view of driving growth and positioning the company to be in a better place in the future.

William Raymond Katz  
Analyst, Citigroup Global Markets, Inc.

Thank you.

Curtis L. Buser  
Chief Financial Officer, The Carlyle Group LP

Thanks, Bill.

Operator: Our next question comes from the line of Michael Carrier with Bank of America Merrill Lynch. Your line is now open.

Michael Carrier  
Analyst, Bank of America Merrill Lynch

Good morning and thanks for taking the question. So just on the C-Corp conversion, I understand the benefits from the share class and voting right changes from a public shareholder base. But how are the LPs taking it, since in the past, I think mini partnership firms mentioned the old structure was in part to protect the LPs from potential shareholder pressure as the sector went public. So just how do you think about that given some of the changes that you made?

Glenn A. Youngkin  
Co-Chief Executive Officer & Director, The Carlyle Group LP
Thanks, Michael. It's Glenn. I think first and foremost, a lot of the – I think initial potential concerns that some LPs had many, many, many years ago when all of our firms were listing have really been met with great enthusiasm for the quality of the businesses that have been built, the transparency of these firms and the great performance. And so I do think that those issues have predominantly been met and have subsided.

In this case, this move towards more transparency and more alignment just fits right into all of the things that our investors and our funds are absolutely looking for. And of course, this conversion doesn't change anything with regards to the alignment that we have with our LPs and our funds. So all in, we think that this will be viewed favorably. There's no change to them and it just moves Carlyle further along the alignment spectrum which they all endorse.

Michael Carrier
Analyst, Bank of America Merrill Lynch

Right. Thanks a lot.

Curtis L. Buser
Chief Financial Officer, The Carlyle Group LP

Thanks Mike.

Operator: Our next question comes from the line of Michael Cyprys with Morgan Stanley. Your line is now open.

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

Hey, good morning. Thanks for taking the question and congratulations on the Full C-Corp. I guess just on the earnings that you retain that you're not distributing out. I was just hoping you could flesh out a little bit more around your framework for using that capital either toward debt paydown at the management company or buyback C capital use M&A. What's the priority, what sort of mix can we sort of expect? And related to that, how you're thinking about M&A for Carlyle at this point? Where could it make sense and again what's the framework there?

Curtis L. Buser
Chief Financial Officer, The Carlyle Group LP

Thanks, Michael. Let me start and Glenn or Kew can add. So as we look – first, we have to be growing the firm and as we grow the firm that will then provide us with additional earnings and as those additional earnings come into play that will allow us to be thoughtful in terms of how to invest capital. And I think some of that analysis comes down to first, we want to be thinking about where and how the firm is performing and what are the opportunities in front of us. Those things that are attractive that can accelerate or add to growth. We want to be able to have the capital take advantage of those opportunities.

From a debt paydown perspective, we always want to be looking at that as well and be poised repositioning the balance sheet and be thoughtful around it. But we're also looking at kind of where the stock price is at any point in time. This also goes into that math and thinking about where the stock price is, and does it make sense to as we said in your opening remarks, be shareholder-friendly and buyback stock, managed dilution, et cetera. And then as we've already said, our funds, as we continue to invest and grow the firm, balance sheet capital into our funds makes sense, that can be a $100 million to $200 million per year requirement for the firm, and I expect that that will grow over time. And so that's where we want to be using our capital. So it's a mixture of all those things given the facts and circumstances at the time.
Hey, Michael, it’s Kew. Let me just add just a little bit of quick color for you. I mean, first and foremost, the capital is going to go to support our main business. We’re an investment firm. Our funds – our big funds are growing at 30% to 40% cliff over the predecessor funds, supporting that is obviously first and foremost. Second, we are entering into and launching new initiatives off of our core business, which are quite exciting. And we’ve talked to you about this in the past infrastructure obviously all of our efforts in global credit, which by the way is $46 billion of AUM versus $36 billion just a year ago, so that growth is being supported by the investment we’re putting into these businesses.

As it relates to acquisitions, there is no plan at Carlyle to say we are going to spend X to do Y or we are moving into Z with all this money. We’re very comfortable with the opportunities ahead of us in terms of scaling up our existing businesses. Where we have made move strategically, it’s been to extend our investment management franchise. We did this very thoughtfully, we believe, with $42 million last year and in aviation in the global credit platform. We will continue to look at and assess these types of external opportunities, but I would not assume that that is a major priority for us and that we have a long list of targets that we are actively trying to go get. This is going to be much more careful, thoughtful and logical extension of our platform.

Hey, good morning. Thanks for taking the question. I was hoping you guys could spend a couple of minutes talking through the drivers of management fee growth from here. Obviously, FRE growth has been very important for you. You’ve delivered on that margins. It feels like you still have some room to go. But beyond the big flagships that are already generally in the run rate, maybe walk us through kind of what the next three-year outlook catch for? Some of the key initiatives, how that will drive management fee can grow? And then, within that, maybe just comment on the energy mezz fund issue that kind of – what’s percolating in the news couple of days ago, I think it was a $4 billion fund. So maybe walk us through the impact on management fees from that underlying? Thanks.

Sure. Thanks, Alex. This is Curt and I’ll start. So as we look forward, as I started here, the ability to grow FRE is what we think we can do on a reasonable pace over time. From a management fee perspective, obviously a key input, we’re very much focused on growing our credit business. If you look at kind of the growth that we’ve had off of that, we’re at a run rate of, call it, way over $320 million or so of run rate on management fees, up from about $240 million of a run rate management fee number. So the growth in credit has been good. We’ll continue to be focused on growing credit.
That takes into account really the repositioning of our energy mezzanine. We will remain investing for opportunities in energy mezzanine, and we will continue to be focused on that portfolio and making sure that we take good care of that. What we're going to really do that much more is an integrated platform perspective going forward, which is also a good way to kind of improve margins and results as we think about things on an integrated platform.

From the rest of the business, there are a number of good opportunities. We have a Japan Buyout fund that we are actively raising. There are opportunities with – we're still in the market with our international energy platform. We recently closed on Europe Tech. We recently closed on our Carlyle Credit Opportunities Fund. We continue to remain in the market with our aviation products. There are real assets, there are new initiatives especially within the natural resources platform. And so I feel really good about our ability to continue to drive management fee growth. It may not be as substantial as it has been overall in the near future, but it will continue to grow.

Glenn A. Youngkin  
Co-Chief Executive Officer & Director, The Carlyle Group LP

Great. And Alex, it's Glenn. Let me just add a little bit of color. Over what we could call a multiyear campaign of fundraising, there will be years of course where there are larger funds that will have a bigger impact in a particular year. I mean just to highlight, out of our four large private equity funds, we'll raise something well in excess of $30 billion over a reasonably short period of time. But that sometimes overshadows the very important progress that we're making in scaling some of our newer businesses and introducing newer businesses. And so just in the last six months to nine months, we've seen a final close on our new infrastructure business, we've seen a final close on our opportunistic credit business, we've seen a final close on our European real estate business. As Curt said, with Carlyle Aviation Partners now moving into the market, that's exciting. So we're going to continue to see over the course of the next few years some of these newer initiatives make progress. They will drive management fees, but as Curt said, just not to the same level as we would see increases when we have our big fund cycle back through.

Kewsong Lee  
Co-Chief Executive Officer & Director, The Carlyle Group LP

Yeah, Alex, it's Kew. You get all three of us on your question. Let me just add a little bit of color to your – in particular to your [indiscernible] (00:37:58) question, which is you are correct. You saw the news and the way to think about what is happening there is we are going to stop investing out of the existing [indiscernible] (00:38:11) fund and so there's about $1 billion of dry powder or so that won't be invested out of that fund.

But I think it's really important to take a step back and appreciate what we're really trying to do in global credit. We've set up an integrated global platform with many pillars of different investing strategies from CLOs, direct lending to create opportunities to distress the full spectrum of the very important credit mandates that exist out there. We will still pursue private energy credit opportunities except for the way we intend to execute against that opportunity set is to originate them into the platform, but then underwrite them and invest in them through our direct lending or credit opportunities or our distressed strategies.

So we still have an energy and will still be growing an energy credit business. It's just that the way we have defined how we intend to execute against it will be different moving forward. It is much more in line with what we're trying to do in global credit, which is to continue to build out an integrated platform and grow that platform over time. Hopefully, that gives you a little bit more color on what happened at [indiscernible] (00:39:26).
Alexander Blostein  
Analyst, Goldman Sachs & Co. LLC

Yeah, it does. Thanks everyone for chiming in.

Curtis L. Buser  
Chief Financial Officer, The Carlyle Group LP

Thanks, Alex.

Operator: Our next question comes from the line of Gerry O'Hara with Jefferies. Your line is now open.

Gerald Edward O'Hara  
Analyst, Jefferies LLC

Great. Thanks for taking my question this morning. Perhaps one on the new distribution policy, maybe a little bit of color on how you sort of settled in on the dollar per share annually? And then how we should think about that kind of going forward? Will that be revisited annually? And it sounds like the majority of which will be kind of tied to FRE, but are there sort of puts and takes on how that will be decided going forward? Thank you.

Curtis L. Buser  
Chief Financial Officer, The Carlyle Group LP

Gerry, thanks for your question. As a partnership, our variable high distribution model we don't believe was fully appreciated in our stock price over the past -- since we've been public. And it essentially creates volatility and noise very hard to predict. So as a corporation, we wanted to set a highly stable, predictable recurring dividend. As we've said -- we've initially said that a dollar per share and as we also said that's pretty much covered by our after-tax FRE and that's the way that we'll be generally thinking about. Now it's on a fixed policy, so the initial way of setting it, but we want to make -- that being supported by after-tax FRE, that again, underpins the stability of that number. And as Glenn said, that translates into roughly a 4% yield at our current stock price, which we think investors will find attractive.

Operator: Our next question comes from the line of Robert Lee with KBW. Your line is now open.

Robert Lee  
Analyst, Keefe, Bruyette & Woods, Inc.

Great. Thanks for taking my question and congratulations on the conversion. I guess with that in mind, I've a question and maybe I'll try to speak in a two parter, but with the -- in the GP entity, are there any kind of lockups within that entity in terms of limitations on how participants can over time sell them their stake? And then I lied just one part.

Glenn A. Youngkin  
Co-Chief Executive Officer & Director, The Carlyle Group LP

Good. Hey, Robert, it's Glenn. We have always had and will continue to have a minimum retained ownership level which is 25% of folks' ownership when we went public. And so that will stay in place, and we think that provides a really good baseline for our senior partners and employees to continue to own Carlyle shares.

Robert Lee  
Analyst, Keefe, Bruyette & Woods, Inc.
Is there – I mean, some of the founders are there. I mean, any other kind of lockups though that January 2 people – not that they will, but could decide to sell down some of their stake?

Glenn A. Youngkin  
Co-Chief Executive Officer & Director, The Carlyle Group LP

No, there are no further lockups other than the normal blackout periods in trading windows that we currently have.

Robert Lee  
Analyst, Keefe, Bruyette & Woods, Inc.

Okay, great. Thanks for taking my questions.

Curtis L. Buser  
Chief Financial Officer, The Carlyle Group LP

Sure, thank you.

Operator: Our next question comes from the line of Bill Katz with Citi. Your line is now open.

William Raymond Katz  
Analyst, Citigroup Global Markets, Inc.

Okay. Just a follow-up and you can certainly put this in and I can't believe you asked this question already. But just as you think about that dividend policy and as you think about scaling the business and as you generate more free cash flow to sort of deal with the sort of de novo growth of the business and then the yields that might come around on a very selective basis. Is there any thought of having sort of a variable component to the dividend at the end of the year similar to some of the exchanges or other asset managers that have much higher multiples where you might have some excess cash flow that you don't need to drive growth and that could be returned to shareholders?

Curtis L. Buser  
Chief Financial Officer, The Carlyle Group LP

Thanks, Bill, it's Curt. No, there's no – this is a fixed dividend, as we said, we want to be predictable. It's fixed and we're just – we've got to get the January 1 also.

Glenn A. Youngkin  
Co-Chief Executive Officer & Director, The Carlyle Group LP

Yeah. And I would just add, Bill, of course, if we are in a position where we have excess cash on our balance sheet, then we'll review various ways to do good things with it, which, as Kew said, can range all the way from managing our dilution to even could be a special. So – but we'll have to get to that when we get to that. Right now we're pretty excited about getting to January 1 and getting converted.

William Raymond Katz  
Analyst, Citigroup Global Markets, Inc.

Thanks so much.
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Thank you.

Operator: Our next question comes from the line of Chris Kotowski with Oppenheimer. Your line is now open.

Chris Kotowski
Analyst, Oppenheimer & Co., Inc.

Yeah, good morning. Thank you.

Curtis L. Buser
Chief Financial Officer, The Carlyle Group LP

Good morning.

Chris Kotowski
Analyst, Oppenheimer & Co., Inc.

You gave kind of a muted outlook for realized carry and performance fees over the next couple of quarters. And I guess what's interesting is it's not just you, I mean all the publicly traded private equity sponsors that we cover are all kind of in a lull and it's odd just in that the markets are at all time high and M&As are active and some of these funds have been invested for a couple of years. So I'm wondering is there something in your mind that kind of accounts for it? Is it just that all the market action has been in tech and not the kind of more a traditional EBITDA-generating companies that you all invest in? Or is there — have you seen a period like this? Is there an explanation for why we're in this low?

Curtis L. Buser
Chief Financial Officer, The Carlyle Group LP

Hey, Chris, yeah, I think if you think about it, big picture, we've been investing at a pace which is substantially stepped up from historical levels. And we are in a long-term business. It takes three years, four years, five years to start really getting value creation and then sometime in that timeframe or even thereafter do we actually monetize and start realizing the benefits of all that value creation.

And just taking a step back thinking about it, with all that money being deployed and remember our funds that are up 30%, 40% from prior years, we're deploying at $20-plus billion which is close to double from just five years ago, it just takes time for that money deployed in the ground to work its way through the private capital value creation playbook so to speak. And so it's just in our minds a matter of time, it's just a math of what happens when you have a lot of deployment, and you're waiting for that deployment to be harvested in our long term business.

Now we track our portfolios very carefully. It's what we do. We're in the investment business. And when you track our current funds and their marks versus their predecessor funds and you normalize for timeframe, our current funds are at or in some cases above the marks that they were at in predecessor funds. And the predecessor funds all generated about 2 times your money in private equity speak. Our current funds are on that track, they're currently if you had to roughly estimate it there are about 1.3 times, 1.4 times as some of our major funds. So we have real room to go in terms of value creation potential, but it takes time.

And so if you just take a step back and think about it with all that input going into the ground, which is at a much larger pace than ever was before, with the fact that it takes three years, four years to generate the value creation in the private equity model and then the time it takes to realize thereafter, you can see why it's actually not that surprising that maybe to use your words there's a little bit of a lull. But it's — I don't think it's anything more complicated than that. Now in any region or any fund, there's always one or two things that are quirky or in any
one quarter, but big picture, the explanation that I gave last quarter that I’m now giving you again this quarter is really what’s at play.

Chris Kotowski
Analyst, Oppenheimer & Co., Inc.

Okay. Well, great. That’s it for me. That would make a great set of slides for some future presentation to show that analysis about this generation of fund versus prior generations.

Curtis L. Buser
Chief Financial Officer, The Carlyle Group LP

Thanks, Chris.

Glenn A. Youngkin
Co-Chief Executive Officer & Director, The Carlyle Group LP

Thanks, Chris.

Operator: [Operator Instructions] Our next question comes from line of Craig Siegenthaler with Credit Suisse. Your line is now open.

Craig Siegenthaler
Analyst, Credit Suisse Securities (USA) LLC

Thanks for the follow-up. On the tax receivable agreement, what other options do you explore for the TRA outside of $1.50 of cash over five years?

Curtis L. Buser
Chief Financial Officer, The Carlyle Group LP

Craig, it’s Curt. So the tax receivable agreement obviously is complex. We spent a lot of time on this. Remember, we’re doing a tax free conversion. So when doing a tax free conversion, that will essentially eliminate that TRA and so as part of all doing this, it was appropriate for there to be a compensation for this because we’re eliminating a very large tax obligation. So just to kind of level set for everybody, and this is complicated, I would encourage you to look at our public filings. The tax receivable agreement provides our pre-IPO partners with a real tax asset, a tax benefit, in the exchange in a taxable transaction, the company ends up getting the tax benefit, but it ends up paying out substantially all of that to those people that have exchanged. That payment goes out over 15 years, lots of things affect that payment.

So as a result of all of that, it causes a lot of complexity, it causes a big obligation and it causes – fundamentally, it adds to the misalignment in the partnership between what the private unitholders have and are versus what the public is. So we thought it was appropriate to remunerate this and get rid of it. And we’ve essentially put the $1.50 and that was an amount to get it to go away. It goes away in the Full C, that’s an amount that after a lot of analysis and internal debate that was determined to be reasonable. So hopefully, that answers your question.

Craig Siegenthaler
Analyst, Credit Suisse Securities (USA) LLC

Thank you.

Operator: And our next question comes from line of Michael Cyprys with Morgan Stanley. Your line is now open.
Hey, thanks for taking the follow-up. I just wanted to circle back on the FRE margin. I think you mentioned that you thought a 30% could be achievable at some point over the next couple of years, but that was dependent upon certain things happening. So I guess – I was hoping you could elaborate on what some of the underpinnings are that are required to hit that 30%? Is it a certain asset size? How should we think about that? And then also, what is the sustainable level of FRE growth that we could expect from Carlyle? I understand there's lumpiness with the flagship fundraisers, but is double-digit FRE growth achievable as we look out over the medium term?

Curtis L. Buser  
Chief Financial Officer, The Carlyle Group LP

Thanks, Michael. So we've grown 60% over the last three years, we're clearly focused on – we hit 31% on an actual basis this quarter, but I'm leveling that back down to 25% to 27% margin. Yeah, I do believe that 30% is what we can achieve in the long term, whereas we grow our credit business, that's a key aspect of kind of getting there. As we remain focused on improving scale across our platform and on expense management, those are the things that will help us to get to that 30% long term.

Operator: And that concludes today's question-and-answer session. I'd like to turn the call back to Mr. Harris for closing remarks.

Daniel F. Harris  
Managing Director & Head-Public Investor Relations, The Carlyle Group LP

Thank you, everyone, for your time today. As we said, we're extremely excited to announce today's conversion news, and we do look forward to speaking with all of you as we continue down this path. If you have any follow-up questions, feel free to contact Investor Relations after the call, and we look forward to speaking with you, again, next quarter.

Operator: Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program, and you may now disconnect. Everyone, have a great day.