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# The Carlyle Group, Inc. (CG)

## Q2 2023 Earnings Call

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*Analyst, JPMorgan Securities LLC*

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**Glenn Schorr**
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# MANAGEMENT DISCUSSION SECTION

**Operator**: Good day, and thank you for standing by. Welcome to the Carlyle Group's Second Quarter 2023 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there'll be a question-and-answer session. [Operator Instructions] Please be advised, today's conference is being recorded.

I would now like to hand the conference over to Daniel Harris, Head of Investor Relations. Please go ahead, sir.

## Daniel Harris

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

Thank you, Norma. Good morning, and welcome to Carlyle's second quarter 2023 earnings call. With me on the call this morning is our Chief Executive Officer, Harvey Schwartz; Chief Financial Officer, Curt Buser; and Incoming Chief Financial Officer & Head of Corporate Strategy, John Redett.

Earlier this morning, we issued a press release and a detailed earnings presentation, which is also available on our investor relations website. This call is being webcast and a replay will be available on our website.

We will refer to certain non-GAAP financial measures during today's call. These measures should not be considered in isolation from or as a substitute for measures prepared in accordance with Generally Accepted Accounting Principles. We have provided reconciliation of these measures to GAAP in our earnings release to the extent reasonably available.

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

So, turning to our results. For the second quarter, we generated $207 million in fee-related earnings, and $389 million in distributable earnings, with DE per common share of $0.88. Our accrued carry balance was $3.7 billion as of the end of the quarter, and we declared a quarterly dividend of $0.35 per common share.

In order to ensure participation by all those on the line today, please limit yourself to one question, and then return to the queue for any additional follow-ups.

And with that, let me turn the call over to our Chief Executive Officer, Harvey Schwartz.

## Harvey Mitchell Schwartz

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

Thanks, Dan. Good morning, everyone, and thank you for joining us. I'm excited to be joined today by John Redett, who you'll hear from later, as well as Curt. There are two areas I'd like to cover. First, the macro environment; and second, a review of several work streams that will position us to drive long-term growth.

First, the macro environment. As I've said previously, we're in one of the most complex periods in recent economic history. The combination of sustained, elevated inflation, along with Central Bank rate hikes, has led to a corresponding increase in the cost of capital. The peak of the inflationary cycle may have passed, but our base case is that rates stay higher for longer as we shift away from a decade of zero interest rate policy.

It remains early days in understanding the impact of this shift on corporate capital structures and liquidity. Among other factors, this shift in interest rates further contributes to mixed investor appetite and sentiment. In part, our economic and market views are informed by the vast data and proprietary insights gathered from our portfolio. The data set includes nearly 300 global companies, 600 real estate investments and loans to over 1,300 issuers.

Let's start with inflation. We're starting to see it's more difficult for our portfolio companies to pass through increased cost, reinforcing the view that the inflationary cycle [indiscernible] (00:03:47). Our portfolio companies' CEOs remain generally cautious in terms of how they're approaching the operating environment. But broadly, our portfolios have seen accelerating activity with over 10% EBITDA growth.

As you'd expect, these economic forces have slowed the pace of investment across the industry. You see this in the amount of capital we are deploying, and you see it in lower fundraisings, LP's slow decision-making on new fund allocations. Having said that, in general, our teams are seeing signs of an increasing pace of early flow access across most asset classes.

Now, I want to update you on five key areas that we are focused on as a leadership team. Though these are just a sample of activities in our firm. We have mobilized teams and launched workstreams for each of these. As you'd expect, we are approaching these in a very deliberate and methodical manner, and while early, let me give you a line of sight into what we're doing.

First, our Insurance Solutions business. Our relationship with Fortitude is profitable, strategic and vital, but only one piece in the opportunity set. As insurance companies look to free up capital and shift liabilities to improve their ROE, we're seeing a greater interest on their part to partner with us in a variety of important ways.

Second, our capital markets team. They also have a large opportunity to scale their impact. We have in place today all the key ingredients for growth, a well-positioned and active private equity franchise and an experienced capital markets team. As activity rates pick up, we expect that we will further leverage our deal flow and our portfolio companies' need for capital to create a natural tailwind in this business.

Third, we're also focused on our technology and our AI strategy. This allows us to create operational efficiencies across the firm as well as at our portfolio companies and is an important driver of growth and scale over the long term. We recently appointed, Lúcia Soares, as our new Chief Information Officer & Head of Technology Transformation. She will work closely with the entire leadership team to drive technology transformation strategy and operations.

Now, fourth, as we said before, we see long-term opportunity around private wealth. We've recently hired a new Head of Private Wealth Strategy. While we only have three products in the market covering $5 billion of assets today, we view this as an important channel for growth. We'll be working with our distribution partners to bring product innovation globally to the wealth channel. Most importantly, the Carlyle brand is a huge differentiator here.

And fifth, the last workstream I'll mention is around expense management and improving FRE margin. This means investing in our platform wisely to drive top line growth, as well as closely monitoring the overall level and composition of expense, as well as the capital required to run the firm. This is a critical strategic effort. We will continue to move with a discipline sense of urgency around each one of these, and we'll continue to update you as these progress.

To close, as I said, we're still operating within a somewhat challenging market backdrop. It's important to state that we will be patient when we need to be, while at the same time, capitalizing on opportunities to deploy capital, where we see attractive risk/reward. As a leadership team, we are intensely focused on delivering performance excellence for our investors and driving long-term shareholder value. We are taking action to mobilize teams around priority areas to drive disciplined growth. And I'm really enthusiastic for Carlyle's future.

Now, before I hand it to John, I'd also like to take a moment to thank Curt for his tremendous contributions to Carlyle over the last nearly 20 years. I personally am thankful for Curt's counsel and support as I transition into Carlyle over the past six months, and I've really enjoyed getting it on. I know you'll all join me in wishing him the best in his upcoming retirement.

And now, John, over to you.

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## John C. Redett

*Head-Global Financial Services, Vantage Group Ltd.*

Thanks, Harvey. Good morning, everyone. I also want to thank Curt for his 20 years of leadership at Carlyle and for the guidance he continues to provide me as I transition into the CFO role. I look forward to working more closely with many of you in the coming periods.

As Harvey highlighted, we delivered solid results this quarter in a tough environment driven by a diversified investment platform and the focus of our global investment teams. We produced $389 million in distributable earnings for the second quarter or $0.88 in DE per share. Year-to-date, we have generated $660 million of DE, or a $1.51 in DE per share. We reached 60 million of shares in the second quarter and have repurchased 160 million in the first half of the year.

Today, I'm going to focus my remarks on three main areas: Fee-related earnings and the near term outlook; accrued carry; and fundraising. First, fee-related earnings. FRE increased to $207 million in the quarter, up from $193 million in Q1 2023. Relative to the second quarter last year, FRE declined 12%, as modest growth in revenue was offset by continued investment into our people and teams.

Year-to-date, FRE of $401 million was down 5% compared to the same period last year. Second quarter management fees of $515 million increased sequentially after having declined for a few quarters, with increases in each of our segments. Over the next few quarters, new fund launches and fee activations should support continued management fee growth.

Our second quarter results benefited from $73 million in fee-related performance revenue. Looking ahead, we are not expecting to generate material fee-related performance revenue in global private equity in the second half of 2023. Though Global Credit fee-related performance revenue should remain stable. Transaction and advisory fees were $18 million in the quarter, down significantly from a year ago, given muted capital markets activity, which has pressured both FRE and the margins. And as you heard from Harvey, driving an increasing level of transaction revenue from our investment platforms is a major focus area for the firm.

Compensation expense was $289 million in the second quarter, an 11% increase year-over-year. A majority of the increase this quarter was a function of higher fee-related performance revenue, as we generally accrue compensation at 45% of associated revenue. Excluding this impact, compensation expense increased only 5% year-over-year.

G&A expense of $102 million reflects a more normalized set of firm-wide activities relative to lower levels we saw during the pandemic. This quarter also included external fundraising costs, largely captured in Global Investment Solutions, which supported fundraising momentum. G&A expense may tick up in the back half of the year, as we typically have increased operating costs tied to our LP conferences.

With regards to our FRE outlook, second half 2023 FRE is likely to be similar in the aggregate to the first half of 2023 with a relatively stronger fourth quarter. We remain focused on generating sustainable top line revenue growth, as well as diversifying and growing FRE.

Moving on, I'd like to discuss our net accrued carry. Our global carry fund portfolio appreciated 2% in the quarter, with relative strength in infrastructure and natural resources, owing to an uptick in announced transactions. We had more muted appreciation in private equity and real estate. Our net accrued carry balance of $3.7 billion declined from $4 billion last quarter. Most of this decline was driven by $175 million in net realizations, with the balance due to a reduction in accrued carry in Global Private Equity. Even with this decline, the net accrual remains at a robust $10 per share, which is a substantial source of future shareholder value.

Let me finish up with an update on fundraising. Fund investors continued to face challenging decisions and make commitments more slowly than in previous years. Despite this slowdown, we still expect to raise a larger amount of capital in 2023 than we did in 2022. Through the first half of 2023, we raised $14 billion of new capital, approximately halfway to last year's fundraising total. We have momentum in several important strategies that should see inflows in the second half of 2023, likely weighted towards the fourth quarter.

In Global Investment Solutions, we're off to a good start for our latest vintage secondaries and co-investment strategies, which should both continue into the second half of the year and into 2024. This new capital will turn on management fees later this year.

In Global Credit, we expect to grow off a slower start to 2023. We priced two CLOs in the second quarter after none in the first quarter. Our credit opportunities fund should continue to attract more capital and a number of strategies and SMAs are positioned to generate positive flows with the fourth quarter likely to be relatively stronger than third quarter. In Global Private Equity, we expect to raise capital in the second half of the year in several buyout funds and various real asset strategies.

Wrapping up, let me reiterate my excitement to be in this new role, working alongside Harvey and the entire Carlyle team to drive shareholder value. We are excited about the opportunities for continued growth and improved operational performance.

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

# QUESTION AND ANSWER SECTION

**Operator**: Thank you. [Operator Instructions] First question will come from the line of Alexander Blostein with Goldman Sachs. Your line is now open.

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

Q

Great. Thanks. Good morning, everybody. Harvey, maybe we can zone in on some of the key priorities that you mentioned in your prepared remarks, really starting...

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

A

Sure.

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

Q

...I guess, the last one you highlighted around the expense structure and FRE margins. Could you just hone in a little bit more in terms of what that means? You obviously came into the business with a fresh pair of eyes. So, curious how that could impact compensation mix, and ultimately, the FRE margins longer term for the firm?

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

A

Right. When you said, it would impact which mix? [indiscernible] (00:14:59)

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

Q

Yeah. Compensation mix, yeah.

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

A

Okay. Fine. I got you. Thanks. Yeah. Okay. Thanks for the question, Alex. Good to hear your voice. So, this is a critical workstream. We kind of gave you a flavor of the five. There are more than those, obviously.

But as I said [indiscernible] (00:15:15), Curt and I kicked off a workstream that was really focused on FRE margin and how we want to think about that. And obviously, he's in the process of handing that baton over to John. We could talk about both the top line growth, but you narrowed in more on the compensation piece and the expense piece. So, we're basically doing a line-by-line review, going through the business and making sure we're super disciplined about expense.

Now, as it relates to compensation, that's obviously a critical component of it. And the way we're approaching that is, as you heard me say before, very first principle base. And what I mean by that is we're going to start with the things that are most critical around compensation. And that, as you know, is making sure that we have a really, really as-perfect-as-we-can alignment with our constituencies, our LPs, our employees and our shareholders. And at this stage, I think, we're making good progress on the workstream. I think there's a real opportunity here.

And importantly, as it relates to our team, we want to make sure that they're aligned with the LPs, that we retain and attract the best people, and we really want to reward people for performance. But as a first principle, I would just say, we're taking a white sheet of paper to this, and we're being very thoughtful about it. I will just...

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

Thanks, Alex.

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

Thank you.

**Operator**: Thank you. One moment for our next question, please. Our next question comes from the line of Ken Worthington with JPMorgan. Your line is now open.

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

Hi. Good morning, and thanks for taking the question.

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

Hey, Ken. How are you?

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

Hi. Good morning. John, maybe just starting high level, can you give us some background on your time at Carlyle and your decision to transition to the CFO role? And then, maybe following up on Alex's question, sort of FRE margins dipped in the quarter. Can you talk us through the outlook for margins in this context of challenging market backdrop, number of fund launches, but increased investment? And basically, how do you see the direction of fee margins evolving, as we go into the back half of the year?

**John C. Redett**
*Head-Global Financial Services, Vantage Group Ltd.* A

Thanks, Ken, and I look forward to meeting you at some point in the near future. Just quickly on the first part of your question and on my background. I've spent my entire career in financial services the last six years in private equity at Carlyle. While at Carlyle I focused on investing and financial services globally. A large component of that job, Ken, was value-creation at the portfolio company level. And I would just add the Financial Services team has a great track record at Carlyle.

And when the CFO opportunity was presented to me, honestly, it was the easiest career decision I've ever made. It was an easy yes. I'm super excited to be in this role starting October 1. And I really look forward to working with Harvey and the team to further drive shareholder value.

In terms of your second part of your question, the FRE margin, I would just say, look, we know we can do better. And as Harvey mentioned, we're very focused on expenses and margin. And more importantly, we're very focused on delivering disciplined revenue growth. And I would just say, as we make progress on these workstreams, we'll keep you updated in the coming periods.

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

Q

Okay. Great. Thank you.

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**Operator**: Thank you. One moment for our next question, please. Our next question comes from Brian McKenna with JMP Securities. Your line is now open.

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

Q

Thanks. Good morning, all.

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

A

Morning, Brian.

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

Q

So, Harvey, you've been in your seat a couple of quarters now. I know you continue to analyze the business. And I'm assuming it might take some more time for you to frame out the longer-term trajectory of the firm, but do you have any early expectations on what you think the underlying growth at Carlyle could look like over time? Based on everything you've seen thus far, and then just based on some of the growth initiatives that are underway?

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

A

Yeah, great question. So, I think, I'm coming up on six months. And I think I've seen almost 150 LPs. I traveled 40 days. I've met with teams internally. And I could not feel better sitting here today than I ever would have imagined about the future of Carlyle and the growth opportunity.

And I say that feeling quite informed on a number of levels, the power of the brands and the dialogue with LPs directly. Obviously, part of my view on this and how I feel is informed by what I think is the trajectory for the industry, which I think is fantastic. And it may not be fantastic quarter-to-quarter, but I think the long-term trajectory of the industry is quite good.

And when I think – when I try to give you some flavor of how we're now turning our focus to these workstreams, and the workstreams allow us to do a number of things. They obviously allow us to prioritize growth, whether it's in insurance, it's in capital markets, it's in credit, various parts of our businesses. But also, it allows us to focus on margin and how we want to think about the composition of compensation and things I've already talked about.

Another thing that it serves is it really brings the team together. And I feel great about the way the team is coming together in terms of the focus. And this is engagement across – including, obviously, John, Curt, myself and the team that you know better. Also, this includes some of the best investors in the world, which I've brought together on various workstreams. And so, I feel great about the momentum.

This is not going to be an immediate third, fourth quarter thing. But if you ask me about the long-term trajectory, I felt really excited when I got here in February, and I feel better now.

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

Q

Super helpful. Thanks, Harvey.

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

A

Sure.

**Operator**: Thank you. One moment for our next question. Our next question comes from the line of Chris Kotowski with Oppenheimer & Company. Your line is now open.

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

A

Hey, Chris. [indiscernible] (00:21:58)

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

A

Chris, we can't hear you.

**Operator**: Chris, your line may be muted.

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

A

We can come back to him, operator.

**Operator**: We'll move to the next person. One moment, please. Question comes from the line of Ben Budish with Barclays. Your line is now open.

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

Q

Hi. Good morning, and thanks for taking the question. I want to ask about your...

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

A

Good morning.

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

Q

Good morning, Harvey. Wanted to ask about your fundraising expectations, particularly on the private equity side. I know in your prepared remarks, you indicated that the pace of investment is slowing. The fundraising is slowing in general. But as broader markets are kind of recovering, maybe the denominator effect issues are sort of getting resolved a little bit.

And as you're sort of seeing some kind of green shoots for overall transacting activity, any kind of increased optimism or updated expectations for sort of the next vintage of private equity funds taking Asia buyout, Europe, Japan, to ones that are kind of expected to come later this year and into 2024?

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

A

So, broadly speaking, on fundraising, as we've said, we feel this year is going to be better than last year. That's broadly across the diversified platform, right. So, solutions, there's a lot of momentum. There's a lot of momentum in credit. There's a lot of momentum across the insurance complex. So, we feel good about that. There's a lot of momentum in real estate.

Private equity, still some headwinds globally when you go around the world, but we feel optimistic about certain aspects of the fundraising that are in the market right now. I can't obviously get into specifics because they're in the market right now. But I would say, now, our comments that you heard in the prepared remarks, generally how we feel about it for the balance of the year, but a lot of momentum in those other areas.

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

Q

Okay. Great. Thanks so much.

**Operator**: Thank you.

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

A

Thanks, Ben.

**Operator**: One moment for our next question. And next question comes from the line of Glenn Schorr with Evercore ISI. Your line is now open.

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

Q

Thanks very much.

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

A

Good Morning, Glenn.

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

Q

Good morning. So, you gave a bunch of comments about second half versus first half, and it was very clear that, weighted towards fourth quarter, given that we're in the third quarter and it's kind of slow right now. So, I wonder if you can help dimensionalize how much waited fourth quarter versus third quarter on some of those items.

And then, when thinking about growth, you talked optimistic about credit insurance, but I was wondering if we could get a little bit more. CLOs are in the process of recovering, knock wood, but what else was going to drive growth? Because there is the opposite of private equity like private credit backdrops feels pretty good. So, maybe if you can talk a little bit more on insurance and direct lending? Thanks.

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

A

Sure. So, I mentioned in the workstreams, we mobilized an effort around insurance. Obviously, we have Fortitude. It's a hugely valuable asset and our ownership there. And so, we mobilized workstreams around that, in some respects and exactly the way you've talked about, Glenn, because the adjacencies between insurance origination where the pipeline is very, very good for further transactions and the desire to work with Fortitude is a natural creator of flow into our credit business. Again, this is not a third or fourth quarter event. This is longer term, I can tell you about the momentum we see and the pipeline that we see.

Also, as it relates to our credit franchise, the performance has been good, quite a little slower than we expected, but it feels good in terms of the pipeline of fundraising and the team feels confident for the back half of the year. So, I feel good about the trajectory of all those pieces. And of course, there's adjacencies in there with capital markets in terms of how we distribute and how we bring all that together.

That is really the purpose of bringing these workstreams together. It's just about mobilizing the teams around these opportunities. So, I would say, we feel good about that. I can't pin it down to third quarter, fourth quarter. And we don't really run the company that way, Glenn, as you know. It's certainly not the way I think about things, but I feel very, very confident about the trajectory and our focus on our FRE margin and the things we talked about.

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

Q

Okay. Thanks.

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**Operator**: Thank you.

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

A

Thanks, Glenn.

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**Operator**: One moment for our next question. Our next question comes from the line of Brian Bedell with Deutsche Bank. Your line is now open.

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

Q

Great. Thanks. Good morning, folks. Thanks for taking my questions.

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

A

Hey, Brian.

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

Q

Hey. Good morning. Maybe just back on the FRE margin and trajectory. And really next – let's think about next year and not this second half. But if we could put aside Insurance Solutions, and you've talked, Harvey, about building up the capital markets effort, it sounds like you have the right ingredients there to do that right now. So, I'm assuming that, that can be leveraged quite well.

But as we move into next year, do you view that FRE margin expansion as more of an element of revenue growth and scaling the business or were more coming from expense initiatives? And you mentioned compensation, would that be including any kind of change in structure in compensation, and such as moving more comp out of FRE and into performance-based revenue?

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

Okay. Thanks. Let me unpack that a little bit. So, I just want to make sure I hit your points. So, on our FRE margin, that is – as I said, that's a critical workstream for us. And what does that mean? It means driving growth to the top line, but it also means being exceptionally disciplined in terms of expenses and how we're thinking about capital deployment.

And as I said, we started this process with Curt. Now, we're transitioning that over to John. I feel very good about the momentum of that, given how long I've been here and how focused the team is. And so, the trajectory there should be good.

And with respect to compensation, again, we want to make sure we get this perfectly right for our teams and the alignment for our constituencies. But, yes, compensation and the composition of compensation, and making sure we reward our best people. And again, at the same time aligning with our constituencies and our LPs, yes, 100%. That's on the table. Too early to give you details on that. As soon as we have them, we'll share them. But that's a process, and we're going to be very methodical. But I can tell you, as it relates to FRE margin, both growth and also expense management, we're laser-focused, and you should hear it no differently, okay.

Now you had a question there, where you talked about capital markets, which I just want to drop into for a second. And I want to minimize it. It's not rocket science, okay. We're not building space shuttles over here for capital markets. Basically, all we're doing is mobilizing the team to work in the adjacencies a little bit differently. We're not going to build up a big team. We don't want to be competing with the JPMorgans of the world. But we do think there's a real valuable opportunity set here, where we can provide incremental revenues without any significant need to scale.

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

Yeah, yeah. That's great color. Thank you.

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

Sure. Thanks.

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

Thanks, Brian.

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**Operator**: Thank you. One moment for our next question. And 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*

Q

Hey. Good morning. Thanks for taking the question. If we look out the next couple years, it seems like you guys are set to generate substantial cash flow across the business. Just curious how you're thinking about deploying that cash generation, what portion might be returned to shareholders versus what portion might you retain for organic growth versus inorganic? And how important or meaningful could inorganic opportunities be at this point?

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

A

So, for me, it's a math question. I don't want to oversimplify it. I think it's a question of really just thinking through the strategic opportunities that may be presented to us versus returning the capital. As we talked about before, right now, I think the opportunity is to return capital to shareholders may be more attractive, but that's a moment in time.

I think that when you look at the position of the firm and the footings of the firm in terms of what we have, we have an insurance investment, which is quite critical to the firm. So, we don't need to go out and acquire one. We have a credit business, which is continuing to build organically. We have the solutions business, so all the component pieces are here. I wouldn't rule out certainly strategic partnerships, where we think they could accelerate growth, but they'd have to be a really good fit.

And again, I know this is always the case. Everybody says this. The math just has to make sense, but we'll make those choices at the margin when presented. But the brands are very powerful. And if there's opportunities for us to scale in ways that are inorganic, we'll certainly consider them. But right now, I would say, that's not front and center. But I wouldn't rule it out over the long term.

**Operator**: Thank you. One moment for our next question. Our next question comes from the line of Rufus Hone with BMO Capital Markets. Your line is now open.

**Rufus Hone**
*Analyst, BMO Capital Markets Corp. (Canada)*

Q

Hi. Good morning. Thanks very much. Maybe coming back to the private wealth opportunity. And I'm curious to get your thoughts around what the Carlyle product set in the wealth channel might look like two or three years from now, and not just in the US but internationally as well? Thank you.

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

A

Yeah. So, this is where we feel like the brand is a very, very powerful differentiator. The name recognition, the presence of the founders and what they represent for the firm, and David Rubenstein and sort of – it's iconic, and everybody in the world knows it.

Again, we're at the beginning of this journey. I actually would say, my opinion, these industries at the beginning of this journey. I think product development will continue to improve. I think there'll be a real innovation in the product over the next couple years. And I think as a team at Carlyle, we're going to be very thoughtful about this. We only have three products in the market right now, but this is a place where we want to make sure we have our market share, and so we're going to be focused on it. But it's early in the journey.

**Operator**: Thank you. One moment for our next question. Our next question comes from Patrick Davitt from Autonomous Research. Your line is now open.

**Patrick Davitt**
*Analyst, Autonomous Research US LP*
Q

Hi. Good morning, everyone.

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

Good morning, Patrick.

**Patrick Davitt**
*Analyst, Autonomous Research US LP*
Q

I think there were a couple of chunky realizations that helped the 2Q performance fee. But how you thinking about realizations in the second half now relative to your tone on the first quarter call? And is there a tangible pipeline you can speak to or a tangible pipeline building you can speak to now? Thank you.

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

We wouldn't want to have this call without Curt ever opening his mouth. So, it looks like he wants to actually speak, Patrick. So, we're going to let Curt take your question. I think that the poor guy's just dying to have one question on this call.

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

Hey, Patrick. I appreciate the question. And before I answer it, let me just say, thank you. Thank you, really, to all of our shareholders. I want to say, thank you to our founders. I want to say, thank you to all the analysts that follow us. It's been great working with you over this time. It's really been an honor and privilege for me to serve in this role. And I have total confidence in Harvey and John's leadership taking it forward. And look, we got a great team at Carlyle. Big bench, lots of tenure on the team, it's just really been a great honor.

In terms of realizations, look, we got $3.7 billion of net accrued carry roughly $10 a share, just as John said. We delivered a $1.5 billion of net carry realizations in 2021. In 2022 it was roughly $1 billion; first half this year, $245 million. Look, it's really hard, as I've said in the past, to like call it to the nickel on which deal is going to close when and how all that plays out.

But I would kind of think, second half of the year in total is going to look more or less like the first half of the year on carry. But look, as I said, gas and things can slide. And until activity really picks up again, it's a hard thing to really nail down. But again, $3.7 billion, that's a lot of carry. And we're very excited about that to be able to turn that into cash.

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

Yeah, I view that as just a war chest at $10 a share. It's incredible.

**Operator**: Thank you. One moment for our next question, please. And our next question comes from Craig Siegenthaler with Bank of America. Your line is now open.

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

Q

Hey. Good morning, everyone.

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

A

Good morning.

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

A

Good morning, Craig.

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

Q

My question is on the capital markets business. I know you're looking to grow this business. And at the 2021 Investor Day, Carlyle provided a transaction fee target of greater than $120 million by 2024. So, I'm just curious if this target still valid as we think about updating our models?

A

So, I wasn't here in 2021, so I can't speak to that, but we haven't set targets. I can give you a little insight into how we've been focused as a team, and maybe this is more of an insight than you want. But we're systematically working with the workstream that we mobilized. We're systematically working business by business to ensure that we have the right connectivity, the right plan, literally for us, every pocket of the firm in terms of how we want to drive value here.

And I think that as a business, I think it's a difficult business to predict that it's going to have an episodic nature to it, because it's going to be sensitive to market activity. And we're not looking to be a giant capital community here. So, this is really about us moving the ball from being very small at $15 million to marginally growing.

But we'll come back to you at a later date. But I would personally be reluctant to put hard targets out there, but I can give you some sense of scope when we look backwards at opportunities and the way that we approach them versus the way we would now. The opportunity looks meaningful, and I feel good about it.

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

Q

Thank you, Harvey. And Curtis, [indiscernible] (00:37:28) with you.

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

A

Thanks.

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

Best of luck with your next venture.

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

Thanks, Craig. I really appreciate it. It's been fun.

**Operator**: Thank you. One moment for our next question. [Operator Instructions] Our next question comes from the line of Adam Beatty with UBS. Your line is now open.

**Adam Q. Beatty**
*Analyst, UBS Securities LLC*
Q

Oh, thank you, and good morning.

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

Good morning.

**Adam Q. Beatty**
*Analyst, UBS Securities LLC*
Q

A follow-up. Good morning. Follow-up around realizations. I don't know if Curt gets a twofer out of this, but there's been press during the quarter and more recently around a potential monetization of a significant holding in China. And obviously, I don't expect you to comment on a specific deal, but I just wanted to broaden that out because the other part of the press piece was that the asset might be included in a continuation vehicle. So, I wanted to broaden that out and just ask about the potential use of continuation vehicles at Carlyle, given the amount of mature assets that you have in different portfolios and the potential benefits of that for the firm? And also, maybe a comment on the deal backdrop in China? Thanks a lot.

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

Adam, hey, thanks for the question. Let me make a few comments here. So, first, we focus on our business operations across Asia. We've got a great track record there. And the team does just a phenomenal job really operating across Asia, China, India and many of the countries in that arena. And so, feel really good about the team, and what they've accomplished and what they continue to do.

I'm hesitant to talk about any specific deal because things aren't done. Continuation funds are tools that we look at. There's this complexities with continuation funds as you're all aware. And so, it's not something that we routinely do. We spend a lot of time thinking it through and examining all of the potential conflicts around that.

But really, it's premature to comment on anything specifically on this. And I would say, that those things also take some time to kind of pull together. So, comments I made before in terms of second half are still the right way to think about it for your near-term modeling.

**Adam Q. Beatty**
*Analyst, UBS Securities LLC* Q

Sounds good. Appreciate it, Curt. All the best today.

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

Hey, thank you.

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

Thanks.

**Operator**: Thank you. And one moment for our next question. I have a follow-up with Michael Cyprys with Morgan Stanley. Your line is now open.

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

Oh, great. Thank you. I was just hoping you could maybe elaborate a bit on the deployment pipeline and the potential for new deal activity. Maybe you could talk a little bit about how you're seeing that backdrop evolving? How are terms and structures adjusting? And given the improvement in equity market and reduction in volatility, what seems like peak fed funds here? I guess, what are the key hurdles you see at this point for deals getting announced and getting completed?

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

I'll give you my perspective on that. I would say that from the deal team perspective and the flows we're seeing, I would say there's been a market improvement in sentiment. And I think we can be more optimistic about deal activity going forward.

But I'd say, the market still feels fragile. CEO confidence is improving. But we've had a major shift, obviously, in the cost of capital, which I talked about. And I think across the marketplace, that's still being digested. Of course, this will be worked through. But that would give you that perspective at a high level. But we're seeing some interesting opportunities. Our teams are being very selective in deploying capital.

John, I don't know if you want to add anything to that?

**John C. Redett**
*Head-Global Financial Services, Vantage Group Ltd.* A

Yeah, look, I think it comes down to confidence. And I think you're starting to see the level of confidence increase among executives. And I think that's a positive thing. I do think we're still absorbing the high rate environment we're in. I think that caught a lot of people off guard. Thankfully, we've hedged most our capital structures. So, look, I think you're going to start to see more activity looking at our pipelines across the platform. Our pipeline logs are looking a little better, but I think, it's going to take time.

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

Any particular areas where you might expect activity to return first versus what may take a little bit longer and what may not come back?

**John C. Redett**
*Head-Global Financial Services, Vantage Group Ltd.*
A

Yeah, I would say, I think you're going to see activity come back in private equity, in credit, pretty much the same time. I don't think one is necessarily ahead or behind the other.

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

Okay. Thank you.

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

Thanks, Mike.

**Operator**: Thank you. I'm currently showing no further questions at this time. I'd like to hand the conference back over to Mr. Daniel Harris for closing remarks.

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

Yes, thank you, operator. And thank you, all, for your time this morning. And of course, your interest in Carlyle. If you have any questions, feel free to follow up with Investor Relations after the call. Have a great day.

**Operator**: This concludes today's conference call. Thank you for your participation. You may now disconnect. Everyone, have a wonderful day.