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The Carlyle Group, Inc. (CG)

Q4 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to The Carlyle Group Fourth Quarter 2022 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]

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

Daniel Harris

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

Thank you, Kevin. Good morning and welcome to Carlyle's Fourth Quarter 2022 Earnings Call. With me on the call this morning is our Interim Chief Executive Officer and Co-Founder, Bill Conway; 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 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-looking statements at any time.

Earlier this morning, we issued a press release and a detailed earnings presentation, which is also available on our Investor Relations website. I'm going to begin with a quick discussion of our results and then hand the call over to Bill.

For the fourth quarter, we generated $202 million in fee-related earnings and $433 million in distributable earnings or $1.01 per share. Fee-related earnings for the full year 2022 of $834 million increased 40% compared to 2021, and FRE margin expanded to 37% from 33% last year. Strong organic growth and several strategic transactions combined to deliver another year of substantial growth. We generated $1.9 billion in distributable earnings in 2022 or $4.34 per share with a good balance of earnings from FRE, net realized performance revenue, and realized investment income.

We entered 2023 in a strong capital position. We have $1.4 billion in cash, $2.4 billion in firm investments, and $4 billion of net accrued carry on our balance sheet, in total over $20 per share. We've nothing drawn against our $1 billion revolver and our debt ratings from both S&P and Fitch improved to A-minus ratings. The strength of our balance sheet gives us confidence that we can continue to pursue growth strategies, both organic and inorganic, to help continue to deliver additional FRE growth. We delivered a quarterly dividend of $0.325 per common share. The combination of our balance sheet strength and sustainable growth in FRE allowed our board of directors to approve another increase in our fixed dividend to $1.40 per share per year, an increase of 8% year-over-year and up 40% over the past two years. This higher dividend will begin with Q1.

And with that, let me turn the call over to our Interim Chief Executive Officer and Co-Founder, Bill Conway.

William E. Conway, Jr.
Co-Founder, Interim Chief Executive Officer, & Co-Chairman, The Carlyle Group, Inc.

Thank you, Dan. Good morning, everyone, and thank you for joining us today. I am pleased to be on the call to discuss Carlyle's Fourth Quarter and Full Year Results. As you've heard, Carlyle delivered strong results to our stakeholders despite the challenging market environment. The firm is operating well and I have tremendous confidence in our ability to capture investment opportunities and to continue to grow our platform in 2023.

I want to talk about three topics this morning; the outcome of our CEO selection, the strong financial performance of Carlyle in 2022, and some general thoughts on our outlook. First, we are incredibly pleased that Harvey Schwartz will join Carlyle as the new CEO on February 15. As you all know, this was an incredibly important decision for Carlyle and the search committee of the board on which I serve, drove a robust and exhaustive search for a new CEO. Following a thorough and competitive process, Harvey was unanimously chosen by the board as the right leader to move Carlyle forward in its next phase of growth. Harvey is a widely respected business builder with significant leadership experience in a high-performing, highly competitive global financial institution. He is a seasoned operator with a proven record of leading and developing a wide range of businesses and a demonstrated ability to invest in and develop the talent and organizational structure to manage and support these businesses.

As we look to the future, there's tremendous opportunity to grow and to continue to perform Carlyle, to transform Carlyle, and deliver sustainable results over the long term. Harvey brings the experience and skill set to fully capture this opportunity. As CEO, he will set and execute a strategy that advances and accelerates the diversification plan the firm has successfully pursued, as well as identify new investment opportunities to further scale the business, drive performance, and deliver growth. I am confident in Harvey's leadership and look forward to introducing him to you in the very near future.

Moving on, I'd like to discuss our 2022 results. Curt will dive into our results in more detail. But I wanted to touch on a few notable points. As Dan mentioned, we generated record fee-related earnings of $834 million in 2022, an increase of 40% over 2021, which demonstrates that our strategic focus to grow FRE and diversify our earnings mix is paying off. And we earned $1.9 billion in distributable earnings despite a volatile exit environment. We delivered investment returns that were attractive across our portfolio. Our aggregate carry fund portfolio appreciated 11% in the year, while the public markets were down about 20%. And as I said last quarter, portfolio construction and risk management matter, and we believe that this is a key differentiator that positions our investment teams to deliver superior relative performance across market cycles.

Turning to our outlook. As we enter 2023, we are confident in the strong foundation of the firm and believe that we are well-positioned to capture new growth opportunities and Harvey will focus on building off the strong foundation. At its core, our business involves raising money and investing money and then making that money that we've invested worth more.

Let me begin with some thoughts on fundraising. No doubt, the backdrop for raising new capital remains challenging, with headwinds more pronounced in certain areas than others. However, today's environment is different from what we faced entering 2022. Early last year, an unexpected and sharp change in market sentiment had investors on their back foot for most of the year. With rapidly deteriorating public equity and debt prices, the denominator effect greatly reduced LP interest and ability to make new commitments. Over the past few months, at least until last week, we've seen a gradual reduction in market volatility. Investors still believe that they have a better handle on the magnitude of further interest rate changes. In addition, Carlyle's longstanding relationships with the largest and most sophisticated investors around the globe is a benefit and we continue to see strong demand for many of our investment strategies across our three global segments.

Our platform has continued to diversify. And it's important to note that roughly two-thirds of our fundraising last year came from areas such as Global Credit, Global Investment Solutions, natural resources and real estate. While corporate private equity may continue to face headwinds, we see significant capital raising opportunities across our platform. We will have more strategies raising capital in 2023 than we did in 2022, including our next vintage flagship funds in credit opportunities, secondaries, co-investments, and buyout funds across the globe. We anticipate that our overall dollar volume of fundraising in 2023 will be higher than the $30 billion we raised in 2022.

Over the past few months, I've been around the world speaking with our teams and investors and feel confident in the power of our platform. Our investors value our partnership, our global reach, and our ability to construct diverse portfolios that perform across market cycles. Now that Harvey is here, it is also taken away some uncertainty about our path forward as a firm and we think that will also have a positive impact on fundraising.

Regarding capital development, today's market conditions create new opportunities to invest capital across all of our global businesses. Recently, there's been a wider than average spread in pricing expectations between buyers and sellers, which has impacted capital development. The spread is across most asset classes, but it's been more pronounced in private equity than other strategies. But we are starting to see evidence of this spread narrowing. As debt and equity capital markets continue to reopen, the pace of deal activity is poised to accelerate. We deployed a record $35 billion in capital in 2022 with a good balance across equity, credit, and solution strategies. And we are well-positioned for further investment with $72 billion in dry powder to capitalize on an improving environment. We expect to find ample opportunities to make new investments in 2023 and beyond on behalf of our fund investors.

In addition, the improving deal environment presents an opportunity for our global credit business to provide unique capital solutions to the marketplace. In 2022, we underwrote $3.9 billion of new loan activity in our direct lending strategy and our CLO team issued nine new CLOs, while also trading $30 billion across their portfolios to better position the CLOs for the expected economic environment. And as fund investors need for liquidity persists, we are well-positioned to capitalize on this need to our secondaries and co-investments business.

Overall, 2022 was a solid year across most financial metrics for Carlyle, and we entered 2023 with strength and momentum. With Harvey as our new CEO alongside our strong leadership team, Carlyle's well-positioned and we're confident that he will build on this momentum to bolster the firm's position and create value for all our investors and shareholders.

With that, let me hand the call over to our Chief Financial Officer, Curt Buser to discuss our financial results in more detail.

Curtis L. Buser

Chief Financial Officer, The Carlyle Group, Inc.

Thanks, Bill, and good morning, everyone. I want to start by reiterating many things Bill mentioned that emphasize the strong position Carlyle finds itself in as we begin this year. We believe our investment portfolios are in good shape and are well-positioned to weather economic volatility and we expect to deliver a long-term attractive performance for all of our stakeholders. We produced a robust $4.34 per share in distributable earnings in 2022, displaying the significant cash earnings power of our firm. We've now earned over $9 in DE per share in just the past two years. We remain focused on growing fee-related earnings and it grew by 40% in 2022. And over the past five years, our FRE CAGR has been a robust 34%. Our overall earnings mix continues to diversify as we have grown our credit, insurance, capital markets, and solutions capabilities.

Our strong growth in fee-related earnings is not driven by a single fund or strategy. Rather, our performance also driving broad-based top line fee growth across our global platform. Top line fee revenue growth was 25% in 2022 and was driven by the following: first, raising capital for and growing our traditional high-performing investment strategies across each of our three global segments. Second, organically building out new fee-generating businesses like opportunistic credit, insurance, capital markets, and infrastructure credit to name just a few, each of which added significantly to our growing fee revenue pool throughout the year. And third, we've been actively adding new inorganic streams of earnings, such as our transactions to further scale our CLO business with CBAM and our advisory agreement with Fortitude.

These efforts have scaled our platform and helped drop more of our top line revenues to the bottom line as we expanded our full year FRE margin to 37% in 2022, an increase of nearly 400 basis points compared to 2021. FRE margin has more than doubled over the past five years. We have done this while concurrently invest in a new product development and enhance distribution capabilities, notably across the private wealth channel. We expect to continue to grow FRE in 2023. FRE in the first quarter will likely be similar to Q4 of 2022 before increasing in the second half of the year. In addition, we remain highly confident in our ability to grow FRE well into the double-digit range over the mid to longer term in line or better than the market trends across the private capital industry.

Consistent growth in fee-related earnings is supported by the attractive investment returns we produced for our fund investors. Our investment teams again delivered appreciation that outperformed public benchmarks, even with increasingly higher discount and cap rate assumptions in our valuation models and elevated concerns about a global recession. While only 6% of our carry fund portfolio was publicly traded at year-end, public market comparables are an important input to our valuation methodology and generally were a downward driver of valuations across our private assets during the year. Of course, the most important valuation driver of any investment is underlying asset-level performance, which in general, continue to reflect growth in revenues and earnings. So, this growth generally slowed in the second half of 2022.

Our strong performance also owes to our focus on deploying capital in the sectors, where we have deep industry expertise and experience. Our real estate funds appreciated 16% during 2022. Our infrastructure and natural resource funds appreciated a very strong 48% and corporate private equity funds were up 6%. We realized $34 billion in proceeds for the year, which produced another year with $1 billion in net realized performance revenue. About what I previously indicated would be a good target most years.

Looking forward, net accrued carry increased 2% year-over-year to $4 billion, a solid portfolio appreciation more than offset strong carried realizations. And we ended the year with $138 billion in fair value in our carry funds, up more than 10% compared to year-end 2021. In general, we continue to expect to generate on average $1 billion in annual net realized carry. So, depending on the year, realized performance income could be elevated as it was in 2021 when market factors were favorable or lower in years where uncertainty diminishes capital markets activity.

Industry-wide activity rates slowed considerably in the past few months as buyers and sellers continue to search for a valuation middle ground and funding markets while available are less amenable than they were just a year ago. For Carlyle specifically, new investment and realization activity has also been slower and so we expect a muted start to 2023 for both deployment and realizations. Thus, transaction revenue and realized performance income will be lower over the next quarter or two. If, however, activity rates across the industry improve over the next few months, then our expectations for higher performance and transaction revenues will also increase.

Let me now turn to some quick thoughts on each of the business segments. Global Private Equity had another strong year with fee-related earnings up 34%. Strong appreciation across real estate, infrastructure, and natural resources helped net accrued carry increase to $3.5 billion after more than $900 million of net carry realizations. $20 billion of invested capital was generally similar to $23 billion of realized proceeds, which positions global private equity to continue to deliver attractive levels of distributable earnings in future periods.

Global Credit remains our fastest growing segment, and it benefited from both organic growth activity as well as the positive impact from strategic transactions. Top line fee revenues grew 46% in 2022, resulting in fee-related earnings more than doubling to $225 million and fee-related earnings margins increasing by nearly 1,000 basis points to 37%. Strong investment performance across various strategies produced $70 million of net realized performance revenue. Our credit interval fund delivered attractive performance with a 10% dividend yield, while continued net inflows grew managed assets to more than $2 billion. We raised $15 billion in new capital across 11 strategies in Global Credit in 2022. And we expect to have an active year fundraising for additional strategies in 2023, which should position Global Credit for further growth. In addition, we remain focused on helping Fortitude evaluate new growth opportunities, which would help us benefit from incremental advisory revenues.

And in Global Investment Solutions, we are well-positioned to see growth in this segment as we begin fundraising for our flagship products, including next vintages and our co-investment and secondary strategies. Fee-related earnings of $69 million in 2022 was lower than 2021, but we expect to see growth later in 2023 as these strategies attract new capital. In addition, with $374 million in net accrued carry and very strong fund performance, performance-related revenues are well-positioned to increase over time. In sum, we delivered strong performance for our stakeholders in 2022 and are well-positioned for what will likely be a more attractive investment environment in 2023. We see tremendous opportunity to deploy capital in what we think will be a great investment for our portfolio and fund investors.

Now, let me turn the call over to the operator, so we can take your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Glenn Schorr with Evercore ISI. Your line is open.

Glenn Schorr
Analyst, Evercore Group LLC

Q

Hi. Thank you. Appreciate it. So, maybe for Bill first, look, I think a lot of investors have been getting on board the direction of travel for Carlyle for the last couple of years, FRE growth, margin expansion, diversification. So, you had a pause for six or seven months, we found Harvey. Maybe talk a little bit more about why Harvey and then most importantly, what's he here to do relative to the strategy that all these investors are on board? And I want to know, like, is that strategy important to you and the co-founders because the process we went through is what it is. So, just curious if you could talk to that. Thanks.

William E. Conway, Jr.
Co-Founder, Interim Chief Executive Officer, & Co-Chairman, The Carlyle Group, Inc.

A

Sure and thank you for the question, Glenn. First of all, I am very excited that Harvey is coming to join us. He was our first choice and I think it should be pretty obvious why. We were looking for somebody who had a really proven track record. We're looking for somebody who had experience building businesses. We were looking for somebody who had a record of managing and recruiting and training and developing talent and working in a collaborative environment. We were looking for somebody who could relate to people like you and Wall Street and tell our story a wide range of skills. And frankly, there aren't a lot of people who have all those skills. And Harvey, I think we found that person. He is really fantastic. Yesterday, he and I were walking around our New York office. We went on all the floors. We were talking to people. And he was happy to see them and they were happy to see him. And it was really not so much they wanted to get rid of me, but rather they were excited to see him there. We obviously have a lot of people used to work for Goldman and they were happy to see him and people who just had heard about him and his track record and his skill set. So, I think why Harvey and who he is and what his track record is, that was pretty clear to me that we couldn't get anybody any better than Harvey. He was fantastic.

Now, what's he here to do? I think in some ways the path that we have is set. First of all, we want to increase the stock price, even though we've got a great investment track record that doesn't show up in our stock price. How is he going to do that? Well, we have to grow our business. We have to grow our business. We have to grow our business, particularly the fee-related earnings, but other parts of the business as well, that assets and the like he's got a great set of experiences. I remember he was at Goldman during the time of a financial crisis and talking about having to deal with situations that were risky and yet had great opportunity. So, I don't see dramatic changes in the basic strategy, but it'll be up to Harvey. He's going to be the CEO of the company, and I'm going to do everything I can to help him be successful, including staying out of his way, if that's the right part of the solution. I can't tell you happy I am that he's here.

Glenn Schorr
Analyst, Evercore Group LLC

Q

Well, long track record with him. So, I totally agree with that. Maybe just one numbers question. I'm interested in your comments about the improving bid-ask dynamic. You have $11 or so in net accrued performance revenue, which is a lot relative to your stock price, like you said. So, you realize the $1 billion in performance revenue, but you picked up another $1 billion basically on the back of infrastructure, natural resources. So, could you expand a little bit more on what you talked about the improving bid-ask dynamic? Is that like a near-term-ish thing or is that a hopefully second half thing? Just curious on what you think it takes to get the wheels moving again.

William E. Conway, Jr.
Co-Founder, Interim Chief Executive Officer, & Co-Chairman, The Carlyle Group, Inc.

A

That's the real question, isn't it? And, of course, what we're talking about there is that sellers think their businesses were worth what they were worth a year or two ago. And buyers say, well, I don't want to pay those prices anymore. And so, there's been a gap. I've mentioned in my remarks that it's been both in the prices of equities, we see it kind of on the value of the companies that you own. But it also applies to credit, for example. And there was a deal recently we looked at where the credit spread or all in prices of credit a year ago might have been 6% or 6.5% and now it's double digits. So, there are still certainly some disparities in valuation. However, it is getting better Glenn, and I'd say it's getting better slowly. It's not rapidly. This is not going to be something that I think it – someone is going to bring the buzzer and we're going to know that it's where it should be.

Private equity has the advantage in private debt too as well being able to evolve and able to function in a lots of different kinds of environments and to adjust to those environments. And I see that in the types of deals that we do now, we're not doing deals that are giant deals that require $10 billion of equity and $10 billion of credit. Those deals would be almost impossible to do today, but the market is gradually healing. Buyers and sellers are gradually coming together and I think it's on both sides. I think buyers are dropping the prices down and I think buyers what they're willing to pay and the sellers are saying, well, maybe we're going to have to just be able to settle for a lower price than we thought. And I think that's across the board. It's not going to be just in private equity and it's not going to be just in America. It's everywhere.

Glenn Schorr
Analyst, Evercore Group LLC

Q

Thank you for all that color.

William E. Conway, Jr.
Co-Founder, Interim Chief Executive Officer, & Co-Chairman, The Carlyle Group, Inc.

A

More in the second half probably than the first.

Glenn Schorr
Analyst, Evercore Group LLC

Q

Yeah [indiscernible] (00:26:55).

Operator: One moment for our next question. Our next question comes from Bill Katz with Credit Suisse. Your line is open.

Bill Katz
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. Thank you very much and congrats on adding Mr. Schwartz. So a question for you guys. You mentioned that you think that asset gathering can be better in 2023 than in 2022. I was wondering if you could unpack that a little bit and maybe bifurcate between where you stand on sort of the three flagship corporate private equity portfolios versus the rest of the business with some emphasis on solutions business. Thank you.

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

A

Bill, it's Curt. Hey, thanks for your question. I'll start and then Bill might add in. So, I'm really proud of what we did in 2022 from a deployment standpoint. We deployed $35 billion across the portfolio. It was actually our most deployment in any year. And between 2022 and 2023, it was noticeably better than what it had been in all prior years. Bill talked about some of the challenges here recently and we think that that's going to pick back up. The diversification across the platform and deployment, I was really proud of it because what you saw in 2023 was much more coming out of global credit and other aspects of even private equity outside of corporate private equity. And so, all of that was really good. So, the deployment piece was really good. That leads us into a good place from a fundraising perspective and sets us up well for fundraising. And so, because it's the first and foremost thing, I think is kind of how the portfolios are performing and then how you think about fundraising.

So, from a fundraising standpoint, a couple of high level things for you to keep in mind. Our portfolios are performing really well and this sets us up nicely to go as we seek to raise more capital. Second, as Bill said, we expect to raise more in 2023 than we did in 2022, and we'll have more products in the market to support this. The third thing from a numbers standpoint I want you to keep in mind is in 2021, at the beginning of the year, we said we would raise $130 plus billion over four years. So, two years in, we've raised $80 billion; $50 billion last year, $30 billion this year and we added $65 billion through strategic transaction. So, that's $145 billion of new fee-earning AUM in just two years and you see that in our fee-related earnings, up 40%, 30 plus CAGR over the last five years. And so that's done really well. And we've seen a lot of that growth really in credit and in our solutions business.

Now, in the buyout funds, we still have obviously some congestion in that space. But there's a number of reasons to have optimism there. First, as Bill said, I think there's less uncertainty about the global markets today than it was a year ago. Second, public markets seem to be improving here in early days of the year, but it's still early. Third, we're in 2023, so that's a new set of allocations for investors. And last, with the appointment of Harvey Schwartz, we have a lot of reason to be excited, and we hope that that carries forward to our investors and taken away some uncertainty that may linger there in certain situations. But look, I'll reiterate that I think that our buyout funds will be similar in size to their previous vintages. And so, I'm confident of that and very excited about kind of our overall growth in the firm and think that this will be a better year from a fundraising perspective than it was in 2022 and again, helping us in our focus on driving fee-related earning.

Bill Katz
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay, thanks. And just a follow-up, maybe stick with you, Curt. So, just sort of triangulating the notion of FRE up in 2023 over 2022, just sort of wondering how you might be able to ring fence that. And then just given the sort of yet to be determined incremental strategy with Mr. Schwartz, how should we think about margins? Because I hear a lot of grow the business, grow the business, grow the business. Can you drive FRE up and FRE margins up if you still need to grow the business? Thank you.

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

A

Bill, look, I said we're confident we're going to grow fee-related earnings in 2023. I think the first quarter will be a little flat, as I said in my remarks. But thereafter, I think things are really set up nicely. This is a challenging environment and we are continuing to invest and that's why, I think this might be a little lower rate of total growth than it's been in the past, but feeling really good about our ability to grow fee-related earnings. I think with Harvey coming on, his past experience in helping companies or helping situations improve profitability would be a good addition to the team or bring new thoughts to this. Look, I also want to be careful and give him the opportunity to put his imprint on things. And so, I want to be a little cautious in terms of how much specificity I give in guidance, but we're really well set up to begin 2023.

Bill Katz
Analyst, Credit Suisse Securities (USA) LLC

Q

Thank you.

Operator: One moment for our next question. Our next question comes from Alexander Blostein with Goldman Sachs. Your line is open.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

Thanks, everybody. Good morning. Thanks for the question. Maybe just to follow-up the prior discussion from Bill's question, it sounds like you guys don't feel pretty confident about the overall fundraising targets that you laid out a couple of years ago. But the mix might be slightly different. Obviously, you highlighted the private equity business is a little bit slower. Can you expand on that a little bit? And as you think about the ramp that you're talking about into 2023 from FRE growth, what are some of the key products and strategies that you expect to be kind of the biggest contributors to that ramp?

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

A

Hey, Alex. It's Curt. Let me start and then Bill can add. So, look, credit did about $15 billion this past year, it's now more product in the market than last. Feeling really good about how that continues. Our opportunistic credit fund is out there raising money. Our CLO business will probably start to [ph] yield (00:33:22) a little slower because of all the reasons we've talked about, but I think it's always a heavyweight in the room. And then in the solutions business, we've got our co-investment products and our secondary products and a couple new things that will bring to market this year and so, again, more products in that space think of the solutions business has really been a nice way to kind of really increase from where they were in 2022. And then in private equity, look, we're going to have more product in the market in private equity. So, a number of buyout funds, US, Europe, Asia will either begin or will be in the market from a fundraising perspective. There's other products in private equity that will be in the market. And so, that too I think is well-positioned to do better.

I don't know, Bill if you have anything to add.

William E. Conway, Jr.
Co-Founder, Interim Chief Executive Officer, & Co-Chairman, The Carlyle Group, Inc.

A

Yeah. I think solutions is going to be a big growing fund and the funds of solutions are going to be a pretty big growing area this year. Also, I don't want to confine Harvey in any way, and I don't want my comments in any way to limit his ability to imagine a different future or a different way that things could be done better. So, I'm a little hesitant to get too specific on this. But I do think that the non-corporate private equity funds, the demand is there too. I use that credit example before when I was answering a prior question sometimes when it's a little tougher to raise the equity, raising the credit funds is a little easier because the opportunity is greater, the spreads are wider, and more money can be made by the investors in those funds. But I don't want to confine my answer in any way that limits Harvey and his ability to do a great job.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

Got it. All right. We'll stay tuned for when Harvey's on.

[indiscernible] (00:35:12)

William E. Conway, Jr.
Co-Founder, Interim Chief Executive Officer, & Co-Chairman, The Carlyle Group, Inc.

A

Do you know Harvey? Do you know Harvey?

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

I've met Harvey. Yes.

William E. Conway, Jr.
Co-Founder, Interim Chief Executive Officer, & Co-Chairman, The Carlyle Group, Inc.

A

Okay, good. Just I didn't know what that another Goldman Sachs person might weigh in on what a great guy he is.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

Well, thanks for that. My quick follow-up for you guys was around Fortitude. That's something you mentioned in your prepared remarks as well. And I think, Curt, you highlighted some new growth initiatives within that that can kind of help expedite some of the growth as well. Can you expand on that a bit as well?

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

A

Sure, Alex. So, look, Fortitude's got $50 billion, $51 billion of AUM. The way we've set up the services arrangement, we feed off of all of that. In addition, they've invested about $9 billion or I should say committed about $9 billion into our funds. So, all of that has been working as planned. They also have about $3.5 billion to $4.5 billion of access capital, which positions nicely to continue to grow very active pipeline, working really hard on that. We've said before that we fully expect that for them to be able to double in size because of that and fully expect that that that will occur. And we have more to be able to say on those fronts. We'll be sure to mention that to you, but we remain very optimistic about kind of how Fortitude can continue to benefit Carlyle.

William E. Conway, Jr.
Co-Founder, Interim Chief Executive Officer, & Co-Chairman, The Carlyle Group, Inc.

A

And I'd also tell you that Fortitude has – we have four or five institutional partners who are in that business and have fellow shareholders with us in Fortitude and they have been fabulous partners helping us grow that business for us and still as we've got a lot of capital invested, but we have less than we otherwise would, thanks to those great partners we have. And as Curt said, we do expect to double that business over the next few years at least.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

I got you. Great. Thanks very much.

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

Patrick Davitt
Analyst, Autonomous Research LLP

Q

Hey. Good morning, everyone.

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

A

Good morning.

Patrick Davitt
Analyst, Autonomous Research LLP

Q

I wanted to get in a little bit more on the [indiscernible] (00:37:25) fundraising issues. Could maybe update us, I know it's early in the year, but update us on the tone of the conversations with LPs? Are you starting to see people kind of step back in to PE more broadly? And thoughts on maybe a more specific timeline for when we can see some more chunky closings in those large flagship funds and then maybe through the lens of all that, is it fair to say 4Q is about as bad as you think it could get in that line?

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

A

Patrick, let me start on this. Look, I'm always sensitive about trying to read into the minds of others or really try to figure this out in detail. Look, we have great relations with our LP investors. I think they're pleased with what we're doing. A lot of our portfolio performance has been just fantastic and well-constructed. And as I already went through a litany of things in terms of what we've done well, $145 billion of capital formation in the past two years, think that we can continue to do that in terms of growing and looking and we'll continue to look at organic things. So, look, I think the tone is good, but it's still difficult in different places. And tone you got to be specific really to kind of individual situations in the given fund and the like and there's a lot of reasons to be optimistic as we start 2023.

So, Bill, I don't know if you've anything add to that.

William E. Conway, Jr.
Co-Founder, Interim Chief Executive Officer, & Co-Chairman, The Carlyle Group, Inc.

A

No more specifics to give at this time, Curt. Sorry.

Patrick Davitt
Analyst, Autonomous Research LLP

Q

That's all I have. Thank you.

Operator: One moment for our next question. Our next question comes from Kenneth Worthington with JPMorgan. Your line is open.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

Hi, good morning. Thanks for taking the question. Maybe first, private markets investing in energy as you start to come back to market with more of these funds, how does the better environment in energy mesh with a pension fund community that seems more reluctant to invest further in traditional energy? And what does this mean for your ability to grow your energy franchise and what seems like a more constructive energy environment?

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

A

Ken, well said. I mean, I do think that we're optimistic on the energy platforms. Our partners and colleagues at NGP are excited about their opportunities. They've got a fund in the market now. I don't want to comment specifically on that, but expecting good things out of that. Our renewables platform, our power business, our international energy platform all give us a number of products, but they're not all in the market. But you're right, right now, there's a lot of good opportunity in energy. But different LPs based on their constituencies have different perspectives. The limited experience that we have is that generally we're seeing a nice uptick from existing investors in existing product, which is different than kind of going after new or different. But it's a good opportunity at the present time.

William E. Conway, Jr.
Co-Founder, Interim Chief Executive Officer, & Co-Chairman, The Carlyle Group, Inc.

A

And I think it's returns are pretty uncorrelated with all the other returns available in the market too and that appeals to a certain group of investors as well.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

Okay. So, do you think the business can grow or does it just sort of stay here as those two trends offset each other?

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

A

Look, the needs are really significant. I think a lot of that has played out. And so, it's too early, Ken, to really call that definitively. But, look, I feel a whole heck of a lot better about that whole sector than say two years ago where it felt a lot more difficult. Right now, everything performance and the chance forward on a lot of those different aspects I think are really, really good.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

Thanks. And then equity comp fell a bunch during the quarter, what drove it and I assume we see that sort of snapback next year?

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

A

Yeah. That's like a lot of things in this business looking at any individual quarter is a mistake. You got to look at it over a longer period of time. The fourth quarter has some unusual things in it. Essentially, our fourth quarter is always a little bit light because you've completed a vesting of a big tranche in the third quarter and you haven't granted anything new that occurs in February. So, the fourth quarter is naturally a low quarter plus we had some performance units for some senior folks that didn't fully vest that had been accrued prior in the years. So, the fourth quarter was a little bit light. I do think you're going to see a significant uptick in our equity-based comp next year in 2023, both we've made some big grants in February, just a number of our key people and to ensure retention and to make sure to reward people that have performed really well and then also bring it on Harvey and that'll also have an increase on an equity-based comp in 2023.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

Thank you.

Operator: One moment for our next question. Our next question comes from Brian McKenna with JMP Securities. Your line is open.

Brian McKenna
Analyst, JMP Securities LLC

Q

Great. Thanks. So, realizations have been pretty resilient despite the tough backdrop. I'm curious what parts of your portfolios are you most active monetizing today? And then it might be tough to answer, but what's the base case expectation for realizations in 2023, assuming no material shift in the backdrop? Do you think you can get back to that $1 billion level again?

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

A

So, Brian, it's a great question. And I always like policy my crystal ball to fine tune this as best I can. A year ago in the fourth quarter of 2021, we earned about $700 million in net realized carry-off of a very strong realization period. And that was like not only impossible to forecast and predict and so kind of as it was happening. It also shows the power of what can occur in a single quarter. So, we're sitting here today with $4 billion of net accrued carry on the balance sheet. Our underlying portfolio of $138 billion of fair value is up 10% from a year ago. So, the portfolio is incredibly well-positioned to continue to drive significant realizations for our LPs and carried interest for us.

Now, exact timing of that, look, it's going to be second half of the year. Now, good news is there are some smaller mid-sized transactions occurring as we speak that gives me a lot of confidence. But the big stuff that will really drive, it will be more in the back half of the year. And keep in mind, you actually sign up a transaction and it takes often a couple of quarters to actually close the transaction. And so, the level of announced transactions far lower today than, say, a year ago. And so, therefore, it's going to be the back half of the year.

Brian McKenna
Analyst, JMP Securities LLC

Q

Helpful. Thanks, Curt. And then just with respect to CP VII, gross returns of the fund total 14% or 8% on a net basis. So, how are you thinking about returns for this fund as it continues to mature over time? And then, if you look back historically, what's the average mark-up unrealized investments relative to the prior unrealized marks?

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

A

So, I would be very careful in terms of we have a funds that are in fundraising. So, talking about specifics and forward stuff is complicated on a call like this, but let me give you some high-level thinking. First, our current generation of buyout funds are generally in the same position as their predecessor funds, which all did exceptionally well. And really, I'm optimistic in terms of where this fund and similar vintage funds will continue to perform and do, just as I said, with respect to carry. So, I think we're well set up for this. And keep in mind, our portfolio construction, whether it's in private equity or real estate or credit, is very diversified. And we tend to invest in good assets where we have deep industry experience and knowledge, where we understand the macro environment where they're operating in, and most of our value creation comes from driving revenue and driving earnings. It's generally not, hey, how do we figure out how to buy low, sell high, it's generally not kind of, boy, we can turn this business around because we're smarter than everybody else. We bring tools to add to revenue, add to profitability and that's what turns into success.

Brian McKenna
Analyst, JMP Securities LLC

Q

Great. Thank you.

Operator: One moment for our next question. Our next question comes from Rufus Hone with BMO. Your line is open.

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

Q

Great. Good morning. Thanks for taking the question. I wanted to come back to some of the comments you made around the FRE growth trajectory. I guess, could you give us a better sense of when you anticipate getting into the double-digit growth rate you mentioned in the prepared remarks? And do you think you can get to double digits organically or is that dependent on inorganic growth? Thank you.

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

A

Rufus, thanks. Look, we can definitely get double-digit organically where the business is growing fast and it's very possible that we'll get there in 2023. But I would say it's on the lower side of that and it really depends upon activity level. Transaction fees can be a big help. Transaction fees, essentially, if you look on detail, while 2022 was up over 2021 and was our best year ever on transaction fee revenues, from Q2 it kind of peaked and came down in Q3 and came down in Q4, which put downward pressure on fee-related earnings. I think they're going to remain light in the first quarter or so. And then as they pick back up, that will be a big help. In addition, there's a number of things that we think will also turn on later in the year. And keep in mind, our credit business generally generates fees off of invested capital. So, as we raise capital in that business and raised a lot of money in 2022 as it's deployed, we get the benefit of that and so there's a built-in lag between fundraising and fee generation, in particular in that business. So, hopefully that gives you some color.

William E. Conway, Jr.
Co-Founder, Interim Chief Executive Officer, & Co-Chairman, The Carlyle Group, Inc.

A

And I would just add, Rufus, that as we said during our remarks, we continue to invest in new product development and distribution and that's across the platform and we noted that that's in the private wealth channel as well. So, those are things that should help us drive organic new growth over time, in addition to, of course, inorganic opportunities that show up and all the things that Curt just mentioned.

Operator: Thank you. One moment for our next question. Our next question comes from Craig Siegenthaler with Bank of America. Your line is open.

Craig Siegenthaler
Analyst, BofA Securities, Inc.
Q

Good morning, everyone. And we just want to congratulate you on naming a top notch CEO.

William E. Conway, Jr.
Co-Founder, Interim Chief Executive Officer, & Co-Chairman, The Carlyle Group, Inc.
A

Thanks, Craig.

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

Thank you.

Craig Siegenthaler
Analyst, BofA Securities, Inc.
Q

So, we want to start with an update on fundraising for the flagship PE fund, starting with CP VIII. I think there are a number of large LPs that wanted to wait until 2023 for when their annuals appointment allocations were reset before they committed to CP VIII. I just want to see how this is playing out now that we're more than a month into 2023.

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

Craig, it's really too early and really don't like to talk about details on a given fund, but remain optimistic in terms of where all of our fundraising can turn out. And as we said, we're going to raise more money this year than we did last year.

Craig Siegenthaler
Analyst, BofA Securities, Inc.
Q

Got it. Thanks, Curt. Just as my follow-up, your big question for us is the long-term growth trajectory. And I know there's not a ton you can say on this, but when you wrap up your fundraising super cycle with Asia VI and Europe VI this year and start to exit the cycle, can you talk about the potential for FRE growth to decelerate and help us kind of with this risk really framing into 2024? And I think it really comes down to the dynamic of, can you raise enough capital and insurance solutions and credit to offset the net realizations that your private business will generate?

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

So, Craig, look, I am very optimistic. So, let's just start with solutions. Solutions pre-2021 or so was for five years was averaging about $30 million or so in fee-related earnings, had a very successful fundraise and growth in that business and steer stepped up essentially doubled initially to $80 million. We're now in the 70s or $69 million in 2022 for fee-related earnings, does everything that I'm expecting it to do. I see it doubling again. It won't double in 2023, but think 2024 that business can double.

We're very bullish on what our credit business can do and we think with both products that we can really drive hopefully another doubling of that business once again in 2023, it's going to take us some time, but really kind of think that we can kind of make some real progress there. And that's off the back of continuing to build out our capital markets business, which, by the way, I had zero exposure on my balance sheet to in terms of hung deals or bad things. So, really proud of our team in capital markets in terms of how they've operated and operated in a very smart way.

We talked about Fortitude and what it can do and look, just the strength across the rest of the structured credit as well as a number of new products and don't forget our opportunistic credit business, which is very bullish and is going strong. So, there's a lot of great things in credit and in private equity, but still remain interested in kind of what we can do outside of traditional buyout, which, look, I actually think our buyout business is amongst one of the best and with a little bit of good news in some places, we'll be right back to kind of doing what it's always done and think that we're well set up for real progress there. And then you just think real estate has just a phenomenal track record. It can add to the picture and see a much further growth in real estate. It's too early to really call out kind of what can happen in energy, but I think in infrastructure you got a nice upside lift kind of there. It'll take some time, but it's a nice upside lift. And so I think across the platform, lots of great things and looking forward to what we can collectively do as a team going forward.

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

And Craig, I think as you reference the term super cycle, as we've continued to pursue this diversification strategy we've been on for quite some time, that term has less and less meaning for us. Yes, we raise closed end funds. But if you look at the number of significantly large bonds across our platform in every different business, we're going to raise significant amounts of capital in every year. And then you add on all the things that Curt mentioned outside of what we had several years ago, whether that's Fortitude or opportunistic credit or open-ended products. And we see opportunities to raise a lot of capital, which gives us conviction and confidence that we're going to be able to grow FRE in a very substantial way over time. And just to reiterate what we said during our prepared remarks, we've grown FRE at 34% CAGR over the past five years. And that's not an accident. It's because of this process. As we look forward, we're very hopeful and we have a lot of confidence that we're going to be able to deliver great results too.

Craig Siegenthaler
Analyst, BofA Securities, Inc.
Q

Thank you, Dan, Curt and doubles are great.

Operator: One moment for our next question. Our next question comes from Michael Cyprys with Morgan Stanley. Your line is open.

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

Hey, good morning. Thanks for taking the question. Maybe just circling back to some of the fundraising commentary, just as you guys are out on the road meeting with LPs, I was hoping you might be able to comment on pricing trends, to what extent have fees and pricing come up in your discussions with LPs? How are overall economics evolving on the newer [ph] slate of funds (00:54:53) relative to the predecessor funds when you look across management fees, discounts for size, recycling provision, step-downs, reimbursement for expenses, all of the sort of pieces? What sort of changes if any are you seeing in the marketplace?

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

Michael, it's Curt. I don't think that we're seeing anything significant one way or the other as we are on the road talking to people. The stuff that was always kind of the case still remains the case, which is access to co-investment and the like. And so, that's really where more of the discussions really go as we're talking to LPs and fundraising.

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

Q

Thanks. And maybe just a follow-up to that, maybe more on the portfolio companies side just around performance revenue, EBITDA growth trends, maybe you can just give a little bit of commentary there, what are you seeing margin trends, inflationary pressures, tight labor conditions, how's the portfolio adapting to the sort of backdrop? And if you're able to quantify any of that, that'd be helpful too. Thank you.

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

A

Look, the portfolio grew really nicely first half of the year in particular. The rate of growth decreased second half of the year, but was still growing. So, over 2022, EBITDA was growing, I want to say, on average about 10%, particularly over the corporate private equity broadly speaking portfolio. And so, optimistic around kind of what that can continue to do. Across many of the businesses, we saw continued pricing power that enabled that to occur to be seen in terms of how strong that pricing power continues and kind of inflationary pressure and how that works against us. And then, but the good news is I will say that the way we've constructed the portfolios were generally in good shape. So, again, cash flowing businesses, real estate is not in the bad areas. So, like almost nothing in office or hotel or retail. So, again, very good construction across both our private equity inclusive of real estate.

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

Q

Great. Thank you.

Operator: One moment for our next question. Our next question comes from Gerry O'Hara with Jefferies. Your line is open.

Gerald Edward O'Hara
Analyst, Jefferies LLC

Q

Great. Thanks. We've covered fair amount of ground here this morning. But maybe just kind of touching base on the expense side and clearly saw a pretty meaningful step-up in G&A year-over-year. Obviously, a lot of growth initiatives going on, investing in the business. But perhaps, Curt, you could give us a little sense of how to think about that as we look to the next 12 to 24 months?

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

A

Thanks, Gerry, for the question and good to hear from you. Look, in a year where I can grow FRE 40% over the prior year, I'll take it however I can get it. And if that means investing in the business, that's a great outcome to generate 40% FRE margin.

With respect to cash and with respect to G&A, if you look at it on a quarterly basis Q4 versus Q4 pretty much flat, yes, on an annual basis up. But actually think that we're very focused on, I know that we're very focused on managing costs and managing where we deploy our excess expenditures. And it's really around investing in new product development, in distribution and investing for the future. There are really things that we're making investments in that will benefit us 2024, 2025, 2026 to enable long-term growth in things like retail and private wealth really matter for that, less so in terms of what it does to 2023 FRE.

Gerald Edward O'Hara
Analyst, Jefferies LLC

Q

Great. That's it from me. Thanks, gentlemen.

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

A

Thanks, Gerry.

Operator: One moment for our next question. Our next question comes from Brian Bedell, Deutsche Bank. Your line is open.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thanks very much. Most of my questions have been answered as well. But I just want to go back to actually to Investor Day target that you laid out in 2021. You're tracking ahead of those targets already with the exception of FRE, which I guess you're on the way to towards given it's a 40% target for 2024. But just wanted to get your conviction around reaching that level or is that going to be more of a Harvey decision in terms of potential new investments that you might be making and you rather just focus, like you said, on FRE growth?

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

A

Right. Brian, good question and look, I'm incredibly proud of what Carlyle and the entire team has achieved 2021-2022 because we set out a target of $1.6 billion for 2024, $800 million of FRE, $800 million of carry for a $1.6 billion of pre-tax fee. We've swamped that from an outcome perspective already in 2021 and in 2022. So, FRE at $834 million this past year 40% up, I care much more about FRE dollars and growth in FRE dollars than I care about margin. And look, margin is a tool to generate FRE dollars. And so, whatever we can do to create more dollars, one tool is creating is by margin, but however I can get, I'm going to get it. And you're right, we set a target of 40% of FRE margin by 2024. 2023, I think, we'll probably be more on the flattish side to 2022, which will then cause pressure for 2040 to get to that number. I still think we can do it. Look, we grew from 33% to 37% 2021 to 2022. So, there's no reason we can't do that in 2023 to 2024, but time will tell. And look, again, it's about growing FRE dollars and so if I can get FRE dollars going the right way, that's what I'm going to do.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.

Q

That's loud and clear. Thanks for that. And then maybe just one last one. I guess you talked a lot about fundraising and the headwinds, obviously, on the private equity side, maybe if you could just characterize what you're hearing from LPs and other investors in terms of now having Harvey on board and how much of a ballast that is to confidence in the franchise or was that not so much of a headwind anyway, it was really just the headwinds in the overall industry and less related to the leadership?

William E. Conway, Jr.
Co-Founder, Interim Chief Executive Officer, & Co-Chairman, The Carlyle Group, Inc.

A

It's Bill. In my discussions with the investors and I was in Europe and I was in Asia, in Japan and I would say that I didn't see anybody who didn't invest with us because I was the interim CEO and we didn't have a permanent CEO and Harvey hadn't been named at that time. There were perhaps some people who delayed and wanted to think about the decision and wondered who was going to be before they committed. But I don't think there was a – I couldn't point any investors and they didn't do it, because we didn't have the CEO. I think they didn't do it now because we didn't have the CEO. And we'll see what happens with that when the CEO was named. I do think a far bigger factor than the CEO is the market. And the CEO is most of the fund investors, they care much, much more about the performance of their fund and the individual deals than they care about who the CEO is. So, although I'm very excited about Harvey and I think he's going to be fabulous, the market, I think, is a more important factor in terms of growth in the PE business fundraising.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.

Q

Great. That's great color. Thanks very much, Bill.

William E. Conway, Jr.
Co-Founder, Interim Chief Executive Officer, & Co-Chairman, The Carlyle Group, Inc.

A

You're welcome.

Operator: One moment for our next question. Next question comes from Adam Beatty with UBS. Your line is open.

Adam Q. Beatty
Analyst, UBS Securities LLC

Q

Good morning. Thank you for staying on. Just one question has got three parts about the fundraising environment, not necessarily fund specific, but just kind of what you're seeing. Number one, you mentioned LP liquidity needs. I'm curious what's driving those, whether it's slower monetization or tighter financing or something else. Number two, big theme last year was denominator effect. How far along are LPs in terms of realigning around that and kind of getting past that? And number three is the reopening of LP budgets with the new year. Is it similar to what you've seen in past years or better or worse? Thanks a lot.

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

A

Adam, it's Curt. I'll start and then Bill can add in. Look, it's always difficult to generalize these types of questions across all the different investor classes and everyone. So, everyone just take that caveat very seriously as I attempt to address some of this. LP liquidity needs in general, really, due to the fact that a number of funds invested and deploy capital very quickly across the industry and have come back for greater needs faster than expectations. And then with the slowing down of the equity capital markets in particular just as we're talking about buyout in general, that has put some liquidity needs on some investors, not necessarily all. I mean, there are parts of the world, Middle East in particular, where I don't think that those needs are as apparent as in other places.

On the denominator of fact, look, there's some green shoots early in the year in terms of potential changes with that, some resetting, I think that that will get better over the course of the year. But, again, it comes back to each individual investor type and how they're viewing it. And so, I think that that will play out. And also, again, all investors are going to be seeking yield and I think alternative assets is a great place to seek yield. This industry has proven well and it's just generally done better. And so, it's more about giving them all access to this.

And then, the new year, yes, that has an impact on again, certain LPs in their allocations and how they work with their own investment committee. And, yes, it is an impact for some. But, again, in terms of quantifying on a broader basis, really tough to kind of do. So, I don't know if you want to add anything.

William E. Conway, Jr.
Co-Founder, Interim Chief Executive Officer, & Co-Chairman, The Carlyle Group, Inc.

A

Well, I would say, I can't break it down by category in terms of what the impact is going to be. I think it's going to be better than it was last year. I do think that the LP liquidity creates an opportunity for Carlyle. We have a big solutions business of about $70 billion and both in secondaries, primaries, co-investment. I think there's going to be a lot of opportunity there, perhaps in some ways offsetting some of the primary opportunity as LPs either reposition their portfolio or need liquidity for some reason as Curt pointed out, not so much in some parts of the world, but in others.

Adam Q. Beatty
Analyst, UBS Securities LLC

Q

That's great. Appreciate the nuance around liquidity. Thank you guys for tackling that.

William E. Conway, Jr.
Co-Founder, Interim Chief Executive Officer, & Co-Chairman, The Carlyle Group, Inc.

A

Thanks, Adam.

Operator: And I'm not showing any further questions at this time. I'd like to turn the call back over to Daniel Harris for any closing remarks.

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

Thank you all for your time and interest this morning. We look forward to talking with you again next quarter. Should you have any follow-up questions after the call, feel free to reach out to Investor Relations at any time. Thank you.

Operator: Ladies and gentlemen, this does conclude today's presentation. You may now disconnect and have a wonderful day.