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MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to The Carlyle Group's Second Quarter 2024 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded.

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

Daniel Harris

Head-Public Investor Relations, The Carlyle Group Inc.

Thank you, Shannon. Good morning and welcome to Carlyle's second quarter 2024 earnings call. With me on the call this morning is our Chief Executive Officer, Harvey Schwartz; and our Chief Financial Officer and 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. 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-looking statements at any time.

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

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. The first half of 2024 reflects strong momentum across our business. And as you can see, when you look at it, this momentum truly clear in our results. For the first six months, we generated record FRE, record FRE margins, record assets under management, and strong fundraising.

Let me take a moment to talk about the current market activity. Obviously, we've all seen over the last few trading days and this morning the market remains quite volatile. From our perspective, it's important to take a big step back. When we look at our proprietary portfolio data, this is what we see. The trajectory for GDP, the expected Fed rate cuts this year, all the dynamics still tell us the underlying fundamentals support improving activity across our platform for the balance of the year.

Now, consistent with that, we've announced two large recent transactions and have others in the pipeline we expect to finalize soon. In asset-backed finance, we announced a landmark $10 billion transaction to acquire portfolio loans from Discover Financial Services. This transaction is a great example of the intersection of our asset-backed finance capabilities, our credit and insurance businesses, and our capital markets expertise, all coming together to drive value for our clients and generate transaction fees.

As we've discussed, asset-backed finance is a critical provider of capital for the financial sector. There is a significant opportunity here to grow as we're in the early innings of a multi-trillion dollar market opportunity, which we're well-positioned for.

On exits, we have a considerable pipeline of active IPO and sale processes underway. You just saw today we announced the sale of our portfolio company, Cogentrix Energy, a leading power producer and the assets it manages at a valuation of nearly $3 billion. We expect exit activity in the second half of the year likely to be materially higher than the first half with several large transactions in our pipeline.

Moving to fundraising. We raised $18 billion year-to-date and north of $40 billion over the last 12 months. We closed our fifth Japan buyout fund, saw strong inflows into our US real estate business, and raised $5 billion in credit this quarter alone. This was our third best fundraising quarter on record for the credit business. And importantly, we're working towards our target of $40 billion for 2024.

Let me just quickly run you through some specific areas of activity across our business. I'm quite optimistic about where our business is today compared to a year ago. As I said, there's a lot of momentum across the franchise. In Global Credit, we're well positioned to capitalize industry tailwinds and capture market share. In addition to the Discover Financial Services transaction, we saw strong activity in opportunistic and real asset credit strategies.

In our CLO business, we remained very active. The first six months of the year were the second busiest in our 20-year CLO history. We ended Q2 as the world's largest CLO manager and we feel quite good about the forward pipeline.

Finally, in Global Investment Solutions, the activity levels remained quite high as we addressed the investment needs of our clients. We deployed $9 billion and raised $12 million over the last 12 months and continue to see attractive opportunities across secondaries and coinvestment.

In Global Wealth, our brand continues to resonate with our wealth advisor partners. CTAC, our private credit product, had a strong first half; and CAPM, our solutions wealth product, had significant momentum and has been added to several new wealth distribution platforms.

To wrap things up, our results this quarter reflects strong momentum across the firm. As the environment continues to improve, which we believe it will, despite, as I said, recent market activity, Carlyle and our stakeholders are well positioned to benefit.

With that, let me now turn the call over to John.

John C. Redett

Chief Financial Officer & Head-Corporate Strategy, The Carlyle Group Inc.

Thanks, Harvey. Good morning, everyone. We continue to see significant momentum across our platform and remain on track to achieve our 2024 financial targets. We achieved record AUM of $435 billion in the quarter, up 13% year-over-year. We also produced another quarter of record FRE, and FRE margins remained strong. We produced $343 million in DE for the second quarter or $0.78 in DE per share. And year-to-date, DE per share of $1.79 is 19% higher.

We repurchased $178 million of shares in the second quarter, bringing our total repurchase amount to approximately $330 million for the first half of the year. Total shares outstanding are at the lowest level since 2021, and we have $1.1 billion remaining on our share repurchase authorization.

Now let's cover three important areas: fee-related earnings, fundraising and the investment environment. Fee-related earnings increased to $273 million in the quarter, up over 30% from the second quarter of 2023. First half FRE of $539 million is far and away a record and is 35% higher than the first half of 2023.

Second quarter management fees increased 2% in the quarter to $525 million. Management fees in Global Credit and Solutions experienced double-digit growth year-over-year and hit record levels. We expect total management fees to accelerate across the second half of the year, driven by the nearly $20 billion of pending fee-earning AUM, the highest level since 2021.

Transaction and advisory fees were up almost 60% year-over-year, driven by the steadily improving transaction environment. We are on pace for a record year. We continue to drive towards our target of $1.1 billion of FRE for 2024, implying FRE in the second half of 2024 will be higher than the first half.

Let's turn to fundraising. Year-to-date we raised $18 billion in new capital and $41 billion over the last 12 months. We saw meaningful activity in this quarter in both Global Private Equity and Global Credit. In Global Private Equity, we closed our fifth vintage Japan buyout fund, nearly 70% larger than its predecessor. Across Asia, this brings us to $5 billion of capital raised. We recently announced the take-private of KFC Japan, where our pan-Asia teams came together to leverage our significant expertise in the restaurant and food sector. This remains a robust market for us.

In terms of our latest real estate fund, we closed on an amount materially higher than what we disclosed in our earnings release, and we are progressing quickly to a final close. In a challenging real estate market, it's worth noting the exceptional performance of our franchise, which remains a key area of growth.

In Global Credit, we raised $5 billion in the quarter. As Harvey said, we had one of the most active first six months in our 20-plus year CLO history. We also benefited from continued strength in our credit wealth product, CTAC, as well as other strategies. For the balance of the year, we expect to raise significant capital across all segments as we continue to work towards our target of $40 billion.

Finally, let me touch on the investment environment. As Harvey mentioned, we are seeing increased investment activity across the business as buyer and seller confidence has improved despite recent volatility. We have access to great proprietary data across our global platform, which also points to increased activity levels. In terms of exit activity, we now are seeing more robust competition where an IPO is a real exit path and strategic buyer interest has picked up. We expect increased activity in the second half of 2024.

Wrapping up, we continue to focus on delivering strong results for our shareholders. We have good momentum across our platform and are on track to achieve the financial targets that we laid out for 2024.

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

QUESTION AND ANSWER SECTION

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

Glenn Schorr
Analyst, Evercore ISI
Q

Thank you very much. Okay. So...

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

Good morning, Glenn.

Glenn Schorr
Analyst, Evercore ISI
Q

Good morning. Good morning. I heard both your comments loud and clear about your exit pipeline, DE guide and the backdrop. And the brokers and advisors that have reported have all said similar commentary. The market sentiment and the outlook feels like it's changed a lot in the last few days. And so, I'm curious, A, why you think the market's perception is that things are going to slow down materially. But that's different for your business mix, I get it. So I'd love to hear that. And B, just how all that bullishness goes into your thoughts on capital raising outlook for PE specifically?

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

Yeah. So, Glenn, again, thanks for the question. So, obviously, the last couple days of trading and the way the markets were positioned to open this morning, there's a lot of red on the screens. When we form our views, as John and I said, we look at underlying portfolio performance and we extrapolate that data in terms of economic growth. If we were having this call last Tuesday, none of these questions would be in the mix about the current market environment. As a matter of fact, you might think we were understating the trajectory of how things felt. And so, I think all of us have to be a little bit careful not to overreact to a market adjustment, which at the moment feels very, very liquidity-driven and very risk sentiment-driven. Again, we're having this last call, we were talking about the fact that we expected Fed rate cuts. GDP looks solid. So none of that has changed our view.

Now, sentiment can extend itself into problematic ways. It's way too early to extrapolate that. Portfolio performance looks good. Market opportunity feels good. Exits still feel good. Any announcements feel good. We'll see what happens over the next several weeks in terms of market environment. But if anything, I think this will encourage the Fed to take action, which is really what the market's looking for. And again, we all have to be reminded, one of the things we learned over the last couple years is how the transmission mechanism, when the Fed is raising rates, is slower than when they're cutting. Again, my crystal ball is no better than yours, Glenn, but nothing about the last couple days changes our view about the balance of the year at this stage.

Operator: Thank you. Our next question comes from the line of Alexander Blostein with Goldman Sachs. Your line is now open.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

Hi. Good morning, everybody. Thank you for the question as well. So, sorry maybe...

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

A

Hey Alex.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

Hey Harvey. So, maybe just to build on the $40 billion target for fundraising for the year and your sort of confidence level around working towards that remaining $20 billion plus in the back half of the year, maybe talk a little bit about the key contributors you expect to come through, particularly around real estate, where it seems like you guys have seen a really nice momentum and maybe just clarify how much capital have you guys raised in those real estate funds and where they stand today. Thanks.

John C. Redett
Chief Financial Officer & Head-Corporate Strategy, The Carlyle Group Inc.

A

Hey Alex. It's John. Look, we feel very good about the momentum we have in fundraising. We obviously had a very strong quarter in the second quarter. We're at $18 billion year-to-date. And as I said in my remarks, we're at $41 billion in the last 12 months. So we do feel like we're working to the $40 billion.

And as I look at kind of the next six months, it's really across the platform where we're raising money. We have a lot of products, strategies in the market. I think you'll see continued momentum in our solutions business, both the secondaries, the coinvestment fund. As Harvey said, the CAPM wealth product is on more platforms. So, we feel good about that. In terms of our credit business, we're seeing good momentum in our wealth product there. CTAC, you'll continue to see strength in our credit opportunities fund, our infra credit fund, and CLO activity will continue. And then when I look at kind of Global Private Equity, you'll see continued strength in our real estate fundraise. As I said earlier, we have a lot of momentum. We're at a number that's materially higher than we disclosed. And later in the year, we'll be launching infrastructure product as well. And we have two buyout funds in the market. So we have a lot of strategies in the market in the back half. And we feel really – we're quite positive on the momentum we have.

Operator: Thank you. 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. Can you talk about the outlook for fundraising in CEP VI and CAP VI. I think both have been similarly sized funds in recent vintages. Do you see fundraising as easier or more challenged for the next vintage in either Europe or Asian for those buyout-focused funds? And then for CAP VI, you raised $2 billion. How much longer is that fund in market? Any comments you can make on the outlook here?

John C. Redett
Chief Financial Officer & Head-Corporate Strategy, The Carlyle Group Inc.

A

Hey, Ken. It's John. Look, I'm limited in terms of what I can say specifically about CAP VI because we are in the market raising money. And we've been pretty clear previously stating that we do think the current fund CAP VI will be smaller than its predecessor fund. And we've said that as well for CEP. Look, our CAP business is – it's really facing some geopolitical headwinds. But look, overall in terms of Asia, as I said, we've raised $5 billion. We continue to see very attractive opportunities in Asia. I referenced the KFC transaction, which was a kind of a pan-Asia effort. But this is – our Asia business is a very important business to us and we're fully committed to it. As to where we end up in CAP VI, I can't really provide you a number.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

Okay. Great. Thank you.

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

A

Thanks, Ken.

Operator: Thank you. Our next 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 wanted to ask about your transaction/advisory fees. You identified this last year as a strategic area of focus. But based on your comments, it sounds like there's a lot more activity coming in the back half of the year. Just any color on how that line item should evolve in the back half and going into 2025 would be very helpful. Thank you.

John C. Redett
Chief Financial Officer & Head-Corporate Strategy, The Carlyle Group Inc.

A

Yeah, Ben. This is John. Look, this has been a focus area for the firm the last 12 months. Harvey has been very clear that the firm is focused on this particular part of our business. I would say, we're very pleased with the progress we've made. When you look at how – the growth we've generated in this business over the last six months, it's quite impressive. It's up 60%. And obviously, it's benefiting from a more conducive transaction environment. And we're kind of looking at the pipeline of exits, as well as new transactions really across the platform, not just specific to private equity. We feel like this will be a record year for our kind of transaction capital market fees.

Benjamin Budish
Analyst, Barclays Capital, Inc.

Q

Got it. Thank you.

Operator: Thank you. Our next question comes from the line of Brian Bedell of Deutsche Bank. Your line is now open.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.

Q

Thanks. Good morning. Thanks for taking the question. Just going back to the deployment outlook for the second half. If you could talk a little bit about the timing of the – I think nearly $20 billion of fee pending AUM in terms of that potential build for management fees. And then just in the light of the environment, if this risk-off sentiment persists in the second half, how do you envision that impacting your deployment outlook potential in the US and also Japan, I guess, as well?

John C. Redett
Chief Financial Officer & Head-Corporate Strategy, The Carlyle Group Inc.

A

Yeah, Brian. It's John. Look, as Harvey said in this call, we're long-term investors, not as focused on day-to-day market volatility or market gyrations. But look, if [ph] we're in extend (00:20:05) period of a down-market, I don't know what happens, but I think it's probably less positive than where we sit today. But looking at the pipeline today, we see tremendous transaction activity in the back half. So we feel very good about that. And it's really, again, as I said earlier, it's not only private equity, it's in credit and it's in solutions.

I mean, if you look at the deployment levels we've had in our solutions business, it's quite strong. We're at $4.5 billion year-to-date and they have a very good pipeline. So, I'd say, it's broad-based. I'm not smart enough to tell you where the markets are going to be. But where we sit today, we feel very good about the deployment.

In terms of the $20 billion of pending fee-earning AUM, which is really the highest level it's been since 2021, and there are some – there's some Global Private Equity AUM in that number and there's also some credit, you should expect that to be turned on over the coming quarters. So, in Global Private Equity, we have Japan buyout in there, we have real estate. And in Global Credit, it's really spread across the platform. But you should assume those fees turn on over the coming quarters.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thank you.

Operator: Thank you. Our next question comes from the line of Patrick Davitt with Autonomous Research. Your line is now open.

Patrick Davitt
Analyst, Autonomous Research US LP

Q

Hi. Good morning, everyone. Looks like you're now already in the kind of 30% to 35% FRE comp ratio range, which, I think, happened a bit faster than most of us were expecting, particularly with realizations still so light. So, firstly, can we expect this to be a new baseline from here or could it ratchet back up later in the year if, say, realization stay this light? Thank you.

John C. Redett
Chief Financial Officer & Head-Corporate Strategy, The Carlyle Group Inc.

A

Yeah, Patrick. It's John. Yeah. Look, we're very pleased with where we are on that ratio, but I have to be honest, we're not managing the business to hit that specific ratio. And we've always said we're going to operate within the range we specified in our fourth quarter. You should expect us to operate in that range, but plus or minus 1% or 2% from kind of where we are, which is the midpoint – or the upper end of that range at 35% is where you should expect us to operate the business. Look, we're very mindful of investing in the business for growth, not necessarily completely focused on driving the margin, but more focused on investing in these businesses for growth.

Operator: Thank you. Our next question comes from the line of Brian McKenna with Citizens JMP. Your line is now open.

Brian McKenna
Analyst, Citizens JMP Securities LLC

Q

Thanks. Good morning, everyone. So we saw the announcement this morning that you're merging two of your BDCs. Maybe just talk about the merits of the transaction. Why is now the right time for this? Are there any financial implications for CG? And then, would be great just to get an update on your broader direct lending strategy specifically as it relates to both institutional and private wealth fundraising there.

John C. Redett
Chief Financial Officer & Head-Corporate Strategy, The Carlyle Group Inc.

A

Yeah. So, we announced the merger of our public BDCs merging with a private BDC and we'll provide more details over time. And it likely won't close, Brian, until Q1 2025. But look, the benefit to us is we get more scale in the public BDC. It is a scale business. I think it'll be easier for us to raise equity capital going forward. That's obviously financially attractive to the firm, but also there is a benefit to FRE with this merger, and we'll quantify that as we get closer to the close. But net-net, it's a positive for Carlyle.

Brian McKenna
Analyst, Citizens JMP Securities LLC

Q

Got it. Makes sense. Thank you.

Operator: Thank you. Our next question comes from the line of Dan Fannon of Jefferies. Your line is now open.

Daniel T. Fannon
Analyst, Jefferies LLC

Q

Thanks. Good morning. Within Global Private Equity, management fees were slightly up quarter-over-quarter, but obviously still down year-over-year. And given the fundraising, you talked about some of the dry powder, I guess, as you look at the second half of the year and prospectively, what is your outlook for kind of management fees within just the Global PE bucket?

John C. Redett
Chief Financial Officer & Head-Corporate Strategy, The Carlyle Group Inc.

A

Yeah. So, Global Private Equity, we kind of are expecting flattish, Dan, in terms of management fees. Obviously, we're showing some real strength in the real estate side of the business. But as I said in previous question, we do expect a couple vintages of our private equity fund – or our Europe buyout fund and Asia buyout fund to be smaller than predecessors. But we're able to mitigate that with the growth we're seeing in the real estate business in other parts of the Global Private Equity business.

Daniel T. Fannon
Analyst, Jefferies LLC

Q

Thank you.

Operator: Thank you. Our next question comes from the line of Steven Chubak of Wolfe Research. You line is now open.

Steven Chubak
Analyst, Wolfe Research LLC

Q

Hi. Good morning.

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

A

Good morning, Steven.

Steven Chubak
Analyst, Wolfe Research LLC

Q

So, how are you doing, Harvey? So wanted to just ask for a mark-to-market on some of the progress you're making in the retail channel. You cited some improved momentum. We're just hoping to drill down further. How did flows trend in the quarter? And maybe more specifically, how are you designing your retail-focused PE product just to be more competitive with some of the peer offerings that are out there that have seen some pretty good uptake?

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

A

So I've been spending a lot of time in the space. And just to give you some color, we launched the CAPM, which John mentioned, on a number of platforms in the past quarter. David Rubenstein and I did a whole series of town halls, office meetings with our distribution partners who – we're really grateful for their focus across the US and we're looking to expand internationally. So, when you look at the momentum behind CTAC, our credit product, and CAPM, we feel very, very good about it. In terms of strategy, we are not of the view that we want to flood these distribution partners and channels with multiple products. We really want to have scale and focus and long-term performance. And so, you'll see us stay really focused on a mix of platform programs that we can build on over very long period of time. And then, obviously, we'll have selected targeted feeder funds, which have always been part of our strategy.

In terms of the private equity product, we're still targeting 2025 as a complementary product, and that'll give us the three key footholds that we want across wealth for the coming years.

Steven Chubak
Analyst, Wolfe Research LLC

Q

That's great. Thanks for taking my question.

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

A

Sure. Thanks.

Operator: Thank you. Our next question comes from the line of Bill Katz with TD Cowen. Your line is now open.

William Katz
Analyst, TD Cowen

Q

Thank you very much for taking the question this morning. Maybe turning to the capital and we talked about that. How should we think about the pacing for the residual $1.1 billion of repurchase? How does that triangulate up against how you think about the balance sheet? And then maybe, Harvey, I was thinking – just wondering if you could give us an updated thoughts of this strategic M&A for the company. Thank you.

John C. Redett
Chief Financial Officer & Head-Corporate Strategy, The Carlyle Group Inc.

A

Yeah. So, Bill, look, Harvey and I've discussed in the past just – we really took a step back and really rethought how we think about capital allocation. And capital allocation runs the spectrum of buying shares back, investing in the business for growth and M&A. And look, I'd say we're very pleased with the buyback activity. Last year, 2023, our share count was down. That's the first time since our IPO. I think that's a positive. Year-to-date, our share count is down again. I think that's another positive. And as I said in my remarks, we've repurchased $330 million shares year-to-date. I think the best we've ever done in the past is couple hundred million in a year. So, we're on pace to deliver a fairly large share repurchase. We have $1.1 billion remaining on the share repurchase and you should assume that we're active buyers of the stock.

In terms of M&A, look, to me, it's a multifaceted question in the sense, if we saw something that we like strategically and financially, the deal made sense, and culturally it was compatible, we would absolutely pivot to M&A away from the stock buyback. And again, it comes back to how do we think about allocating capital. We think about allocating capital in terms of where could we get the best returns and growth for our business, our shareholders and our stakeholders. So, if something on the M&A front made sense, we would pivot away from utilizing the capital for a stock buyback and do an M&A transaction.

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

A

Yeah. What I would say, first of all, obviously, I agree with everything John said. It's really important to understand the lens through which we look at capital allocation and the discipline we're applying to that in terms of what's marginally most accretive. But again, as I said in my remarks, sitting here now a year-and-a-half in at Carlyle, I really like the organic momentum and the way the team is coming together. Having said that, our platform currently gives us the flexibility to position in a lot of directions. And if the right opportunity came across, you should expect us to take action, but it has to fit all those prerequisites John just described. They're not flexible.

Operator: Thank you. 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

Great. Thanks. Good morning. Just a question on insurance. I was hoping you could elaborate on the contribution from Fortitude in the quarter, how you see the pace of migrating the book over into Carlyle strategies, how is that progressing. And then just more broadly, if you could just maybe update us on your insurance and Fortitude-related initiatives and how you're strategically thinking about accelerating the pace of growth from here. Thanks.

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

A

So the Fortitude partnership has been fantastic, as you know. We talked a bit about the Discover Financial Services transaction, and that really is a great example of the partnership and collaboration across credits, our CSS business, capital markets and insurance. And it really does exemplify the flywheel effect one gets by being in the insurance business and across all of our insurance clients and partnerships away from Fortitude. So we feel quite good about that.

In terms of our positioning with Fortitude and insurance more broadly, obviously, there is huge opportunity in the sector in a number of ways. One, obviously, is this focus on private investment grade. Again, that's a fantastic example of our asset-backed business growing so quickly over the last several years and the focus there. But more importantly, from our position in being capital-light, it gives us the ability to pivot and grow in any number of ways. The very narrow answer to your question, the market's been at the margin a bit more competitive in the block business. We're being disciplined about the capital deployment there, but the pipeline is quite good in terms of transaction flows around the world, reflecting various regulatory changes and the needs of our insurance partners. But we feel quite good about the partnership and the trajectory all around.

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

Great. Thank you.

Operator: Thank you. Our last question comes from the line of Craig Siegenthaler of Bank of America. Your line is now open.

Craig Siegenthaler Q
Analyst, Bank of America

Thanks. Good morning, everyone.

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

Hey. Good morning, Craig.

Craig Siegenthaler Q
Analyst, Bank of America

Hey, Harvey. I think part of my name cut out, but I think you guys know who I am. Can you hear me okay?

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

Yeah. No, we got you. Sorry about that, I didn't mean to talk over you.

Craig Siegenthaler Q
Analyst, Bank of America

Oh, perfect. No, no worries at all. So, I actually have another compensation question. So, following the modifications you guys announced on the 4Q call, stock-based comp is running up a lot year-over-year. That's not really a surprise. But we are hoping you could give some color on how we should model stock-based comp over the next year, because I believe there's a step-down coming from 4Q 2024 to 1Q 2025 due to the roll-off of one of the stock-based comp tranches. I had in the ballpark of about $25 million per quarter, but maybe you could help us with the forward run rate of stock-based comp. Thank you very much.

John C. Redett A
Chief Financial Officer & Head-Corporate Strategy, The Carlyle Group Inc.

Hey Craig. It's John. Look, in terms of the stock-based comp, we've been pretty clear of saying – telling you that it will remain elevated in 2024. And look, a lot of that is driven by this performance stock unit grant we gave to key senior individuals of the firm earlier in the year. And these are the people responsible for driving growth. And as you recall, these are very, very shareholder-friendly instruments, great alignment. They only vest if the stock's up 20%, 40% and 60%. So, again, very shareholder-friendly instruments. The accounting of the performance stock units is a little different in the sense we still have to expense the award even though we don't even know if it vests. And that's we're in the middle of expensing that award. It's very frontend-loaded. So you're seeing a fairly large impact from this PSU grant. But again, I would expect third and fourth quarter stock-based comp expense to be elevated and then to start trickle down – trickling down in 2025. I think, directionally, the number you alluded to is probably not too far off from where I'd start.

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

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Yeah. This accounting versus reality, always a little bit of a challenge. We're happy to take more of that offline for folks because this question comes up. Again, we are obviously very focused on the efficiency of how we're running the company and the discipline we're bringing to that, which is why you're seeing the share count come down so dramatically since John and I started focusing on this a bit over a year ago, and all the capital planning that we've announced. But I agree, it's a little confusing to see comp expense – see equity compensation expense up and share count down somewhat. It's a little hard to reconcile that, but keep an eye on the share count.

Craig Siegenthaler
Analyst, Bank of America

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Thank you very much.

Operator: Thank you. I would now like to hand the conference back over to Daniel Harris for closing remarks.

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

Yeah. Thank you for your time and attention today. If you have any follow-up questions, please reach out to Investor Relations after the call. We look forward to talking to you next quarter.

Operator: This concludes today's conference call. Thank you for your participation. You may now disconnect.