01-May-2018

# The Carlyle Group LP (CG)

Q1 2018 Earnings Call

# CORPORATE PARTICIPANTS

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

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

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

Kewsong Lee
*Co-Chief Executive Officer, Head of the Global Credit segment & Chairman of the Executive Group, The Carlyle Group LP*

# OTHER PARTICIPANTS

William Katz
*Analyst, Citigroup Global Markets, Inc. (Broker)*

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

Gerald Edward O'Hara
*Analyst, Jefferies LLC*

Kenneth B. Worthington
*Analyst, JPMorgan Securities LLC*

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

Glenn Schorr
*Analyst, Evercore Group LLC*

Michael Carrier
*Analyst, Bank of America Merrill Lynch*

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

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

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

Brent Dilts
*Analyst, UBS Securities LLC*

# MANAGEMENT DISCUSSION SECTION

**Operator**: Good day, ladies and gentlemen, and welcome to The Carlyle Group's First Quarter 2018 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session, and instructions will be given at that time. [Operator Instructions] As a reminder, today's conference may be recorded.

I would now like to turn the call over to Mr. Daniel Harris, Head of Investor Relations. Sir, you may begin.

## Daniel F. Harris

*Managing Director & Head-Public Investor Relations, The Carlyle Group LP*

Thank you, Chelsea. Good morning, and welcome to Carlyle's first quarter 2018 earnings call. With me on the call today are our Co-Chief Executive Officers, Kewsong Lee and Glenn Youngkin; and our Chief Financial Officer, Curt Buser. Earlier this morning, we issued a press release and detailed earnings presentation with our first quarter results, a copy of which is available on our Investor Relations website.

This call is being webcast and the replay will also be available on our website. We will refer to certain non-GAAP financial measures during today's call. These measures should not be considered in isolation from or as a substitute for measures prepared in accordance with Generally Accepted Accounting Principles. We've provided reconciliations of these measures to GAAP in our earnings release.

Any forward-looking statements made today do not guarantee future performance, and undue reliance should not be placed on them. These statements are based on current management expectations and involve inherent risks and uncertainties, including those identified in the Risk Factors section of our Annual Report on Form 10-K that could cause actual results to differ materially from those indicated.

Carlyle assumes no obligation to update any forward-looking statements at any time. Similar to last quarter, Curt will start our prepared remarks with a review of our quarterly financial results. And then Glen and Kew will each provide brief remarks before we take your questions. To ensure participation by all those on the call, please limit yourself to one question and one follow-up and return to the queue for any additional follow-up questions.

With that, let me turn the call over to Curt.

## Curtis L. Buser

*Chief Financial Officer, The Carlyle Group LP*

Thanks, Dan. Last quarter, Glenn and Kew outlined our objectives for 2018 and beyond. Our results in the first quarter advance our progress toward those objectives. Specifically, our carry fund portfolio appreciated 3% in the quarter, outperforming public equity markets. We invested $4 billion during the quarter, with half of that deployed in real assets. We raised $7.7 billion in the quarter with our large buyout funds driving about half of that total, and we generated realized proceeds of $5.6 billion in our carry funds, as we remained active, exiting investments.

Economic income in the first quarter was $169 million, or after-tax ENI per unit of $0.47 and $2.85 per unit over the last 12 months. We produced $139 million in distributable earnings in the first quarter, with DE per common unit of $0.36 and $2.11 over the last 12 months. Our distribution to common unitholders for the quarter will be $0.27 per unit. We generated $28 million in fee-related earnings, net of $19 million in fundraising expenses.

As you would expect, given our robust fundraising pace, fundraising expenses were $13 million higher this quarter than last year's first quarter. We continue to attract substantial amounts of new capital, and as always, recognize fundraising expenses upfront, while benefiting from the positive revenue increase over many years.

Management fees will noticeably grow as a result of fundraising beginning in the second half, as we turn on fees in certain of the newer funds. Pending fee earning assets under management, capital we have raised before which we have not yet turned on fees reached $27 billion, up from $22 billion at year-end. We continue to expect quarterly fee-related earnings to increase throughout the year, ramping to a run rate of more than $75 million by Q4.

Fee-earning assets under management increased to $126 billion, up 9% from a year ago. Importantly, this does not yet reflect the $27 billion in pending fee-earning assets under management. Total assets under management increased to $201 billion, up 24% over the last 12 months. Our available capital for investment now sits at $73 billion.

Now let's turn to a review of our business segments. In Corporate Private Equity, our teams are busy evaluating new investments, helping portfolio companies grow and exiting mature investments. We have an active pipeline of new transactions, and while we closed only $700 million in new investments in the first quarter, we have announced more than $4 billion in new investments scheduled to close later this year.

We continue to exit investments despite market volatility, resulting in realized proceeds for fund investors of $2.7 billion. We raised $3.9 billion in new capital for Corporate Private Equity during the first quarter, including additional commitments to our U.S. and Asia buyout funds. We expect to turn on fees for our latest vintage U.S. buyout fund towards the end of the second quarter and the new Asia fund in the second half of the year. These two funds alone will significantly increase management fees more than offsetting the first quarter loss in fee-related earnings of $13 million in the segment. We continue to build value in our Corporate Private Equity portfolio.

For the first quarter, economic income in Corporate Private Equity was $114 million, driven by 4% portfolio appreciation. We generated $87 million in distributable earnings that included $97 million in net realized performance revenues.

Turning to Real Assets. We were particularly active in our Natural Resources group with several large new investments in Europe and North America, a record for deployment in this space. In total for Real Assets, we invested $1.9 billion, realized proceeds of $1.1 billion, and received commitments of $1.3 billion during the first quarter. We nearly tripled fee-related earnings to $24 million from a year-ago period and expect further growth over the next year as we continue to raise incremental capital.

We produced $31 million in economic income in Real Assets for the quarter, lower than the first quarter of 2017, as appreciation of 2% was below the 5% level in Q1 of 2017. We produced $33 million in distributable earnings, as fee-related earnings drove results substantially higher than the first quarter of last year. Most of the exits in real assets occurred in funds not currently realizing performance revenues. Therefore net realized performance revenues were modest in the quarter. However, realized proceeds for fund investors were right in line with our longer term average.

Moving onto Global Credit. We continue to make progress delivering investment returns, raising capital, expanding our investment capabilities, and building our team. As we said last quarter, the growth of our credit business will take time, but this quarter's results demonstrate positive momentum. We raised just under $1 billion of new capital in Global Credit, largely in our structured credit and direct lending businesses.

Over the past year, we have price just under $5 billion of CLOs and directly originated $2 billion of gross new loans across our direct lending platform. As we continue to scale our direct lending business, our team can retain a larger share of their originations, thereby improving profitability. Global Credit increased management fees by 22% year-over-year during the first quarter to $59 million, a figure that should continue to grow. We generated economic income of $8 million and distributable earnings of $10 million, both driven by fee-related earnings of $9 million in the first quarter.

Turning to Investment Solutions. We raised capital and realized proceeds of $1.7 billion and invested $1 billion in the quarter. Economic income was $16 million, up from $12 million a year ago. Performance on the platform remains consistently strong with fund appreciation of 4% in the quarter. An increasing share of net performance revenues are now accruing to the benefit of Carlyle, as funds that launched since our acquisition of AlpInvest in 2011 begin to accrue carry. As a result, net performance revenues were $11 million, more than double the level in the first quarter of 2017. Net accrued carry in Investment Solutions reached a record $87 million, up 85% compared to Q1 2017. Distributable earnings and fee-related earnings were generally in line with the first quarter of 2017.

Before I hand it over to Glenn, I would like to provide additional color in two areas. First, our compensation expense trends, and second, the transition of realized performance revenues from one generation of funds to the next. First, on the compensation front. Following no significant increase in firm-wide compensation expense for the past three years, we did see both cash and equity based compensation expense across Carlyle increase compared to Q4 of 2017 and year-over-year.

The increase is largely attributable to three main drivers. First, the Global Credit build-out is increasing our segment scale and product diversity but is also driving an increase in compensation, a trend we expect to continue throughout the year. Second, along with the pace and scope of our fundraising, we are selectively hiring new resources to support a larger investment platform. And third, the level of first quarter actual compensation is reflective of our full year expected compensation and our full year revenue expectations, which as we have discussed is poised to increase sharply throughout 2018 upon the activation of management fees on newly raised capital.

On the performance revenue front. I want to make three main points. First, our newer funds are moving deeper into accrued carry, driven by continued appreciation and early investment realizations, both of which better position the respective fund to not only accrue carry but to realize carry. Second, I want to remind everyone that we expect a lower level of net realized performance revenues in 2018 compared to 2017, as we transition from the older vintage of funds to the newer vintage. And third, our portfolio is positioned to generate significant realized carry in 2019 and beyond, with accrued carry increasing this quarter to $1.8 billion and our in-carry ratio now at 71%. In sum, in addition to our expectation of growth in fee-related earnings this year, we see strong prospects for substantially growing net realized performance revenues in 2019 and beyond.

With that, let me turn it over to Glenn.

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

Thank you, Curt, and good morning, everyone. Last quarter, we laid out four priorities for the year. First, driving investment performance, especially in our latest vintage funds, which will underpin performance revenue growth over the coming years. Second, continuing the march towards our $100 billion fundraising goal by raising $25 billion in 2018. Third, building our credit business. And fourth, growing fee-related earnings with the expectation that we would reach at least $75 million per quarter on a run rate basis by the fourth quarter of this year.

As Curt explained, we made good progress in the first quarter on all fronts, and we are absolutely tracking to meet our objectives for the year. Given the importance of growing our fee-related earnings and the ramp expected this year, I want to highlight two key factors that underpin our confidence in achieving the $75 million target.

First, we see continued fundraising momentum and feel very good about raising our targeted $25 billion in new capital this year. This fundraising momentum is broad-based. The global LP community ranging from sovereign wealth funds to retirement systems, to high net worth investors continues to demonstrate its strong interest in our funds. Over 60% of our capital commitments come from investors in six or more funds. And yet in the last 12 months, more than 150 new institutional investors to Carlyle committed over $3 billion to our funds. Having raised $48 billion over the past 12 months, we see investor support across the platform, with our largest funds representing the bulk of the capital raised. Our latest vintage NGP fund is crossing over $3 billion in commitments.

Our most recent U.S. Realty fund moved past $5 billion and the latest vintage in U.S. Buyout and Asia Buyout have closed on a combined $22 billion, while Europe Buyout held its first closing at over $4 billion just last week. We anticipate additional commitments to all of these funds.

Tying this back to our fee-related earnings ramp this year and to reiterate a point Curt made earlier, a large portion of these recent closings are in the $27 billion of pending fee-earning AUM. Turning on these fees over the course of the year will drive growth in management fees in Q3 and Q4, which in turn will drive the ramp in fee-related earnings in those quarters. Second, we continue to scale our funds and expect improved operating leverage in our business. Scaling our funds will not only drive FRE growth, it also improves our ability to invest in both the targeted investment capabilities and critical growth areas like Global Credit.

Last quarter, we highlighted our expectation that on average the next generation of funds will be approximately 30% larger than the previous generation. A meaningful portion of this growth will drop through to FRE, providing the step change increase from this quarter's $28 million to the expected $75 million run rate by the fourth quarter. Equally important, the investments we are making today in Global Credit and other selected areas will provide the next stage of FRE growth that these businesses scale over time. In fact, we are already seeing this happen in Real Assets, where run rate fee-related earnings has increased from an annualized $50 million at year-end 2016 to $100 million today. Kew and I are keenly focused on growing our fee-related earnings.

Over the years, Carlyle's consistently strong investment results have generated a steady stream of performance revenues, and we expect that to continue. Importantly, as we execute against our goals for the year, we have an increasing conviction in our ability to drive growth in both performance revenues and fee-related earnings, which quite simply is good for Carlyle and for our investors.

With that, let me turn it over to Kew.

## Kewsong Lee

*Co-Chief Executive Officer, Head of the Global Credit segment & Chairman of the Executive Group, The Carlyle Group LP*

Thank you, Glenn. I want to focus my comments today on one major theme, namely, our investment platform continues to perform well for our fund investors despite difficult market conditions. We remain in an environment of high valuations and now increased volatility. As I stated last quarter, volatility ought to remind investors to not become complacent, especially as asset prices remain high relative to history. Despite these challenging conditions, we are pleased with our investment performance, specifically our deployment of capital, appreciation of our existing portfolio, and realizations from exits. Let me talk about each in turn.

With respect to deployment, Carlyle invested over $4 billion in the first quarter and approximately $22 billion over the last 12 months. Our long-term orientation enables us to look beyond short-term market gyrations, and our focus on creating growth and fundamental value in our portfolio companies helps offset the elevated price environment.

Let me walk you through a few recent transactions. Our Private Equity segment recently announced the carve-out of the global specialty chemical business from AkzoNobel, a $12.5 billion transaction that was amongst the most difficult deals Carlyle has ever executed. More than 100 Carlyle professionals across the United States, Europe and Asia worked together for over a year on this transaction, which is expected to close in the second half of the year.

Similarly, in our energy business, a Carlyle-backed E&P platform, Neptune Energy, executed an enormously complex €4.5 billion acquisition that took about three years to complete. Neptune carved out from a French energy conglomerate producing oil and gas assets dispersed throughout the North Sea, North Africa and Southeast Asia that collectively generate more than 150,000 net barrels of oil equivalent per day.

On the other end of the spectrum, in our Global Credit segment, we recently completed a $150 million non-traditional financing for a publicly traded U.S. corporate that needed capital to fund a fast-growing subsidiary. In-house regulatory and tax expertise aided our ability to pull this transaction together in just two weeks on a proprietary basis and to create a structure with significant downside protection for our capital.

Whether it's two weeks or two years, in the United States or across the world, in equity or in debt, these three transactions are just a few examples of the types of investments that Carlyle pursues, which quite frankly few firms have the expertise or resources to complete. While the actual level and mix of our deployment is difficult to predict in any given quarter, Carlyle's diverse platform has the ability to source interesting opportunities across sector, strategy and region to build well-constructed investment portfolios over time on behalf of our fund investors.

Now with respect to our portfolio appreciation, I remarked last quarter that our recent investment returns will be hard to replicate, and I stick to that cautionary comment. However, our existing portfolios do continue to generate attractive performance across the breadth of our investment platform. Our Corporate Private Equity carry funds appreciated 4% in the quarter and 25% over the last year, outperforming global equity markets in both periods.

Real Estate carry funds were up 1% in the quarter and 12% over the past year, a period in which many publicly listed real estate assets declined. Natural Resources carry funds were up 2% in the quarter and 23% over the last year. And in Global Credit, our direct lending team generated asset-level yields approaching 9% with an existing portfolio of loans currently exhibiting exceptional credit performance.

No doubt, movement in public markets has an impact on short-term marks of our funds. But keep in mind, we are focused on building value over the long-term. Short-term volatility in our portfolio is muted in part by two factors. First, our carry funds have only 14% of their current fair market value in public equities. And second, our portfolio companies continue to exhibit very strong underlying growth and results.

In our Private Equity segment, our portfolio companies, taken as a whole, generated median annual revenue growth of 11% in 2017, while EBITDA increased 17%. Of course, there are no assurances these trends will continue, but given the strong current fundamental underlying performance at the companies in our portfolio, we see substantial value creation potential from here.

Now finally, with respect to realizations, our volatility can make for more difficult execution. When we are successful with an exit, this current environment can be a tailwind. We generated $5.6 billion of realized proceeds during the quarter and $28 billion over the past 12 months. And returns for our fund investors have been very good even by our historical standards. For example, focusing on fully exited transactions in Corporate Private Equity over the past year, these investments generated a weighted average multiple of 2.9 times and a gross IRR of 27%.

In conclusion, performance across our funds remains strong. We are attracting a significant amount of new capital and are making great progress towards our fundraising goals, and we are tracking towards a meaningfully higher level of FRE by year-end.

We're now happy to take your questions.

# QUESTION AND ANSWER SECTION

**Operator**: [Operator Instructions] Thank you. And our first question comes from the line of Bill Katz with Citigroup. Your line is open.

William Katz
*Analyst, Citigroup Global Markets, Inc. (Broker)*
Q

Okay. Thank you very much for taking the question this morning. So two-part question, I guess. Appreciate the commentary about the FRE outlook. So maybe to break that down a little bit more, as you exit the fourth quarter and you think about the early part of 2019, how should we be thinking about the FRE in concert with your commentary on compensation? And does that FRE exiting the year include sort of the full cost of the credit build-out?

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

Hey, Bill, it's Curt. Hey, thanks for your question. So, first, we're real pleased with the performance that we've been having. We feel like we're on track. The $27 billion of pending fee-earning AUM really kind of paved the way for a strong increase in fee revenue here in the second quarter – second half of the year. So very comfortable with the $75 million per-quarter rate at the end of the year. $300 million – that translates really into the $300 million run rate.

And look, we hope to ultimately do better. Things are on track, but that's a forecast, and that forecast needs to be hit first before we reset higher. So again, very comfortable with kind of where we are. All of the costs that you see have been baked into that $75 million. So our comp levels and everything are included in that number as our fundraising expectations. The thing that you'll obviously see here in this first quarter is a high level of fundraising cost, $19 million, and those are a little bit hard to predict, but the ramp in revenues will more than offset. So we're real comfortable with where we're going to end up.

William Katz
*Analyst, Citigroup Global Markets, Inc. (Broker)*

Q

Okay, thank you. And just a follow-up would be, just on the $100 billion sort of longer term guide in terms of capital raising, obviously doing very well based on sort of where you've been even this quarter. What's sort of left to gather and then where do you sort of see that greatest opportunity by maybe asset class or geography?

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

A

Hey, Bill, it's Glenn. Thanks for that question as well. So, first of all, on the $100 billion, as I said, we are tracking. We should be at about $80 billion by the end of this year. This leaves us $20 billion for 2019 to raise.

Of course, fundraising year-to-year is driven by the products that are in the market. Many of our big private equity funds will hopefully have been fully raised by then. But we have a great slate of products also coming to market in the back half of this year and into 2019, which include our long-dated Corporate Private Equity fund, which is called the -- which is called global partners; our International Energy fund. We're still raising our European Real Estate fund. Lots of offerings and credit, as you can imagine, as that's an incredibly important part of our business. So, really across the business, we still have a strong product slate, and we'll bring those to market in the back half of this year and into 2019.

William Katz
*Analyst, Citigroup Global Markets, Inc. (Broker)*

Q

Okay. Thank you for taking the questions.

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

A

Thanks, Bill.

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

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

Q

Hi, good morning. Thanks for taking the question. Just wanted to circle back on the portfolio company held some strong trends you mentioned. I think you had said 11% topline and 17% EBITDA growth, I think if I heard you correctly for 2017. So just curious how you're seeing that trending looking out over the next 12 months into 2018?

And then it's been a couple of months since we've had tax reform passed. Just curious how you're seeing any sort of impact from that across the portfolio companies and to what extent that is resulting in any sort of new corporate investment initiative at the portfolio of company levels?

Kewsong Lee
*Co-Chief Executive Officer, Head of the Global Credit segment & Chairman of the Executive Group, The Carlyle Group LP*

A

Sure, Michael. It's Kew. I'll start, and then Glenn will tackle the tax question. With respect to the portfolio, let me just give you a little bit of color. Global – from our perspective, global portfolio company growth is stronger than most recent 12-month period than any time since 2010. So, as I said, [ph] meeting (26:38) operating earnings advance 17% while sales grew by 11%.

And if I were to break it down a little bit for you, by region, in Asia, performance was especially strong as EBITDA was up 44% year-over-year, and in Europe, 24% year-over-year. And I'd also like to point out in some of the emerging markets we're also starting to see some pickup, as in South America, growth was up 23%, and in Africa, 11%.

If you were to do it by sector, energy was probably our top performing industry, thanks to the rebound in energy prices. Also want to point out that increased mining activity and rebound in China helped contribute to industrial sector growth of about 16% and 22% growth in our transportation portfolio.

So basically taking a step back, we are continuing to see synchronized growth kind of around the globe. We are seeing that the acceleration has stopped, and it's more a steadying out of growth as opposed to any signs of a deceleration. Hopefully, that's a helpful color for you.

---

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

A

And Michael, it's just underpinned by the effects of the tax bill. We expect that the tax bill to be pro-growth. Cash flows for the portfolio companies as a whole are expected to improve. Of course, each company has a slightly different impact from the tax bill. But as we said last quarter, the net effect of the tax bill, we expect to be positive for our portfolio.

---

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

Q

Great. If I could just ask as a follow-up, given the strong synchronous growth, as you articulated, just curious what key risks do you see out there. What kind of keeps you up at night? And what sort of cracks, if any, do you see starting to form, either asset classes, geographic regions, et cetera?

---

### Kewsong Lee
*Co-Chief Executive Officer, Head of the Global Credit segment & Chairman of the Executive Group, The Carlyle Group LP*

A

Well, look, that's a question that keeps us ahead. There are lots of things that keep us up at night because that's the business we're in, which is to try to be thinking about all this. Obviously, I'm not going to talk about any of the one-off geopolitical things that could happen.

Are we focused on the potential for rising rates and what that could mean? Sure. Are we focused on what's happening over in Europe and whether Brexit will or will not happen? Sure. Are we focused on politics in America and what's happening here? Of course. But it's really early days to be talking about whether or not any of this stuff really has a big impact on our activities.

Quite frankly, thus far, we are not seeing really any large impacts on our ability to invest or, quite frankly, fundamental values at our portfolio companies. So our performance continues to remain on track. But needless to say, the investing business is the most important thing we do, and we are keenly aware of a lot of the risks around us. And like I said, making sure we don't become complacent is the most important thing I think we can do.

---

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

Q

Great. Thanks for taking my questions.

---

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

Gerald Edward O'Hara
*Analyst, Jefferies LLC*

Q

Thanks. Maybe just really one for me, kind of looking at the growth obviously of the Global Credit market – I'm sorry, segment. And the $5 billion of CLOs that you cited for the past 12 months, if I'm correct, just maybe you could kind of talk about that – the demand in that market, the overall environment, maybe some of the risks as well just given that there seems to be a fair amount of issuance and characterized as wide open by some and clearly a lot of pricing in that market, but kind of seeing what – or maybe if you could comment on what you're seeing there and demand trends and whatnot, that'd be helpful. Thank you.

Kewsong Lee
*Co-Chief Executive Officer, Head of the Global Credit segment & Chairman of the Executive Group, The Carlyle Group LP*

A

Sure. I'll try to give you a little bit of color there. We're seeing very strong growth in our CLO business, which is one of the strongest businesses in the industry. 16% growth over the last 12 months. In Q1, we closed on one $500 million CLO and reset four CLOs totaling more than $2 billion. And I think this year we're on pace approximately to issue about $4 billion of new CLOs this year. Risk retention rules have changed, as you're aware. This does have the impact that becomes less capital consumptive to us, but it also could attract new entrants into the market.

I think we're comforted by the fact that our position in the market is so strong and our ability to obtain allocation is obviously quite important. And the liability side, quite frankly, could be more challenged as spreads do what they will do in this interest rate environment. But thus far, we're seeing very strong demand in the CLO business. And if – obviously, if M&A picks up or if deal activity continues the way it seems to be progressing today, that's probably good for our business in terms of financing activity.

Gerald Edward O'Hara
*Analyst, Jefferies LLC*

Q

Great. Thanks for taking my question.

**Operator**: Thank you. And our next question comes from the line of Ken Worthington with JPMorgan. Your line is open.

Kenneth B. Worthington
*Analyst, JPMorgan Securities LLC*

Q

Hi, good morning. First, to some extent, Chinese investment firms have gone from higher profile buyers and investors to higher profile sellers. So what do you think are the implications for private equity and maybe private asset investing broadly, and maybe how might this change impact or influence Carlyle more directly?

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

A

Ken, it's Glenn. Thanks for that question. First of all, the change of foreign direct investment in the United States over the last 18 months by Chinese firms has been meaningful. And that's just not the U.S., that's globally, as the phenomenon you described has taken root. Of course, that's been a result of both currency matters in China and, of course, some of the global political topics that Kew referred to earlier. In reality, the Chinese investors around the world have just been one of many competitors.

And so, in the world today of investing across all of our asset classes, it's competitive. And whether the Chinese firms are competing or selling, there's always somebody else who's going to be competing. So I just pivot back to Kew's comments, which is the breadth of capabilities that we bring to bear when we're investing is the most important aspect of making a decision.

How do we get conviction to in fact feel very confident about making an investment in today's world? Prices are high, and therefore we bring to bear all of the capabilities that we have. So a deal like the AkzoNobel deal that Kew mentioned, which draws on an extraordinary resource base across the whole firm, are areas that we see great opportunities for investments. So while the buyers and sellers may change for a variety of reasons in any given moment, it's competitive out there and we think we're very, very well tooled to compete well.

---

**Kewsong Lee** A
*Co-Chief Executive Officer, Head of the Global Credit segment & Chairman of the Executive Group, The Carlyle Group LP*

Yes. The only thing I'd add, Ken, is – first of all, I would separate issues at specific companies and their need to dispose of assets versus an overarching – I wouldn't extrapolate necessarily from one or two examples and generalize about behavior of Chinese companies. Second of all, I would just point out that not only is China a source of capital for us, but it's also – the region is a destination of real investment opportunities for us. And we do see real opportunity for continued investment by our – what we believe to be one of the leading investment teams on the ground there to continue deploying capital in that region of the world as it obviously continues to grow much faster than the developed markets.

---

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

Great. Great. Thank you. Maybe for Curt, how should we think about catch-up fees for 2Q and 3Q, maybe where might we see them, and any help you can give us on magnitude?

---

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

Thanks, Ken. Hey. Catch-up fees are always critical when you've already turned on the fees. The biggest driver of our fee growth is the $27 billion of pending fee-earning AUM, which we haven't yet turned on fee. So catch-up management fees are going to be more powerful once those fees are turned on, and then we have subsequent closings. You'll see a little bit. But it really hasn't been that much noise here thus far. Otherwise, I'd have been talking about them like I've done in the past that that's been kind of small thus far.

---

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

Okay. But for 3Q, so you're going to turn on the big fund in 2Q. Any expectations as we look maybe to the second half of the year?

---

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

Yes. The expectations are that will fall through to FRE. So we'll see a lot of growth in management fees because we're turning them on. It won't generate catch-up because there's nothing to catch up to, but it'll lead obviously to the $75 million of FRE that we're expecting in Q4.

---

Kenneth B. Worthington
*Analyst, JPMorgan Securities LLC*

Q

Okay. Okay. Thank you very much.

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

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

Q

Good morning, Kew, Glenn. We have a follow-up on FRE, and this one's on the revenue side. Historically, your FRE has been highly cyclical. Do you see this continuing in 2019 and 2020? Or do you think the build-out of some of your newer evergreen businesses like private credit could potentially mute this down-cycle going forward?

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

A

Craig, it's Curt. Hey, look, as we look forward, we see far less cyclicality to the business. So good news is the strong buyout piece that's growing that's going to turn into a nice strong piece. But we're also building things like our Global Credit business, which we'll work to minimize those peaks and valleys.

Look, you're always going to have a little bit of cyclicality in this business, but I think on a go-forward basis, far less than what we've historically experienced. And if you think about us from a carry perspective, this is the only real year dip in realized carry. We've had a very stable history of realizations to carry. And I think 2019 and thereafter, we return to that stability that we've historically seen.

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

Q

And then your dry powder balance is the highest in our coverage relative to your size. And the capital deployed this quarter was also lower than the back half of 2017. And it was just one quarter. And the AkzoNobel deal could be your largest equity check ever. But do the first point indicate any more conservative standpoint from the investing side? And I know dry powder is a function of the strong fundraising over the last couple of years. But I just want to see if you're getting a little more conservative here just given the expensive equity markets globally.

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

A

Let me just start with maybe some basic numbers. So over the last 12 months, we've invested $22 billion, which is up from the prior LTM of $17 billion. Quarter-to-quarter, not really the right way to think about things. As I even talked about in Corporate Private Equity, it was a little bit like this quarter. But we've got over $4 billion of announced deals that will close later this year. I would say that the investment pipeline from what I am seeing remains very robust. The key is, is making sure that we're picking our spots and finding those investments where we bring value to the table.

Kewsong Lee
*Co-Chief Executive Officer, Head of the Global Credit segment & Chairman of the Executive Group, The Carlyle Group LP*

A

Yes. Hey. Craig, it's Kew. It's a great question. And yes, we do have a lot of dry powder. But the activity levels throughout the firm around the world are quite robust. And you're quite correct in pointing out it is a high priced environment. But if you think about our returns and we've looked at this, two-thirds to 70% of returns in private equity are generated not by financial engineering or multiple expansion, but by fundamental revenue growth and EBITDA growth. And that helps to offset some of the prices that need to be paid for the great companies that we're buying because our thesis is literally take these great companies, make them even better, partnering with the exceptionally talented management teams.

So when you have that type of an orientation to drive and generate fundamental growth, yes, we don't love the fact that the environment is so high priced, but we can see our way and push our way through it because the value-add and the value creation potential that we're bringing. Now also keep in mind, it's really hard to predict quarter-to-quarter deployment, but we kind of view this over a five-year type of a timeframe where it's steady deployment and consistent deployment in order to manage through vintage risk and to properly construct portfolios from a risk perspective. So hopefully, that can give you – that gives you a little bit more color as to kind of what we're seeing in today's environment as well.

---

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

Q

Thank you, Kew.

---

**Operator**: Thank you. And our next question comes from Glenn Schorr with Evercore. Your line is open.

---

Glenn Schorr
*Analyst, Evercore Group LLC*

Q

Hi there. I wonder if we could talk global real estate for a second, just level set where you guys were at. I see there was a couple of key people departing last month, and there were some talk about reconsidering direction of the firm's real estate business. So maybe you could just talk about that a little bit. Thanks.

---

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

A

Sure. Thanks, Glenn. It's Glenn. The – first, as you can see, our Real Assets segment is really progressing well. And when we look at $44 billion of AUM, which was up 24% year-over-year, we are pleased with the progress we're making broadly in Real Assets. A big portion of that is real estate. The real estate portfolio was up 12% over the last 12 months, as Kew mentioned. That's against a backdrop of many public real estate valuations that were down.

Of course, at the heart of our real estate business is our U.S. real estate business, and really driving a lot of that AUM growth is the strong fundraising behind U.S. Realty VIII. That fund has crossed over $5.3 billion. That's versus the last fund, which is $4.2 billion, 25% increase. But also we've had very strong take-up in our open-ended core-plus fund, which we call Carlyle Property Investors, which just crossed over $1.4 billion. And that fund is open-ended or evergreen. It's a great structure for us. So the U.S. real estate business is really moving from strength to strength.

Europe has been a really strong performer over the last year from an investment standpoint. And as a result, our new team that we put in place has been able to launch a new fund. Fundraising is progressing well there. And we have strong expectations of that business over the course of the next number of years. It will really begin to grow.

And then finally, as you mentioned, in Asia, we've refocused the team on China. We have a strong team in China, we have a very good track record in China, and we think the Chinese real estate market over a long period of time will offer a great investment opportunity. So focused on those three areas, we have expectations to grow the business and we're pleased so far with performance over the last 12 months.

---

**Glenn Schorr** Q
*Analyst, Evercore Group LLC*

That was great. Thanks. Just maybe one follow-up on the evergreen fund you mentioned, could you share a little bit where your – where it's being sold and what type of fee structure we're looking at? Because I do think there's a big opportunity there.

---

**Kewsong Lee** A
*Co-Chief Executive Officer, Head of the Global Credit segment & Chairman of the Executive Group, The Carlyle Group LP*

Yes. It is – first of all, it's a U.S.-focused fund. It's focused on value-add or core-plus investments. And it is roughly a 1% fee and a 10% carry fund.

---

**Glenn Schorr** Q
*Analyst, Evercore Group LLC*

And distributed where?

---

**Kewsong Lee** A
*Co-Chief Executive Officer, Head of the Global Credit segment & Chairman of the Executive Group, The Carlyle Group LP*

Both institutional and high net worth. And again, as it's – it's open-ended and so investors can stay in forever if they choose.

---

**Glenn Schorr** Q
*Analyst, Evercore Group LLC*

Okay. Awesome. Thank you.

---

**Operator**: Thank you. Our next question comes from the line of Mike Carrier with Bank of America Merrill Lynch. Your line is open.

---

**Michael Carrier** Q
*Analyst, Bank of America Merrill Lynch*

Hi, thanks, guys. Just first question, just on the – I guess the realization in the distribution outlook, Curt, you mentioned this 2018 you expect the realized performance fees to be lower and you guys have said it before. But just wanted to get a sense, because when we look at the build, the net accrued – like the funds seem to be performing well. So when we're thinking about heading into, say, 2019 and beyond, I don't know if there's any way to kind of size up like the potential for the outlook of distributions when you look at the FRE base plus the net accrued building relative to maybe historical levels. But just trying to gauge maybe this soft patch as you're transitioning from the legacy to the new funds this year versus the next few years?

---

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

Mike, thanks for the question. Look, we've had real nice growth in the accrued carry as you point out. So $1.8 billion now, up from just over $1 billion at the end of 2016. So that's been real good. We've also – and that's really been driven by very strong appreciation and continued realizations really at the same time.

The newer funds, which – so there is the funds that we have been exiting from that have driven historical carry. Those we've had, they've been great funds and they've done really well. The current generation of funds are now essentially almost fully invested. They're fundamentally larger than the predecessor funds. They're also doing incredibly well. And they have more run rates still to go. And there are additional products like especially out of the energy platform that will also be driving that accrued carry and realizations.

A lot of those funds are just on the cusp of being able for us to take carry because they're now returning roughly getting to where they're, A, deep enough into accrued carry; B, they've returned a bunch of capital where we're comfortable with the next round of exits to be able to take carry. But that's going to really be end of this year, beginning of 2019, and you'll see that ramp really through 2019.

The new generation of funds that we're raising now, as Glenn mentioned before, are 30% -- targeted to be 30% greater. So we see that build continuing further. And as you point out, really this current generation of funds that we have now, that we're now raising and investing, they've been performing better than their prior generation.

So the dip that you have here in 2018, which we thought was important to point out, is not what is going to be seen going forward and that's why I made the comments around 2019, returning to a higher level. It's hard to call into exact kind of timing because predicting exit forecast is really hard, but I would say in 2019, especially in the latter half of 2019, you get back to realizations that turn into carry comparable to what you've seen from us before. Hopefully, that gives you some color on that.

---

### Michael Carrier
*Analyst, Bank of America Merrill Lynch*

Q

Yes. That's helpful. And then maybe as a follow-up, maybe for Kew, just you gave a lot of detail on the portfolio companies and that was helpful. I think some of the market volatility that we've seen this quarter is kind of weighed unlike the sector. So just trying to gauge, like, when you look over time with portfolio company growth, whether it's high-single digits, low-double digits, like, what does that like typically translate in to fund performance? Because if we continue in this range and not expecting maybe the 2017 level with the 25% CPE returns, but just trying to get some expectation, because I feel like given the market volatility, that's kind of weighed on the outlook not for you guys but just for the whole sector in terms of what the funds can return. So just any kind of historical perspective given where the portfolio companies are producing in this current environment?

---

### Kewsong Lee
*Co-Chief Executive Officer, Head of the Global Credit segment & Chairman of the Executive Group, The Carlyle Group LP*

A

Okay. Let me try to – let me try to help you with that a little bit. The beauty of our business is we don't buy indexes – indices, and we get to pick very carefully after a lot of working diligence, very specific situations where we have conviction around what we can do with that company and the value that we can create in partnership with our management teams. And that is why when we construct our portfolios, it shouldn't be a surprise that our portfolios tend to perform better than GDP, better than average, which is why you're seeing I think some of the growth rates and the earnings generation of our portfolio companies.

Now, how that translates into ultimate value? I mean, commonsensically, if you're doing better than average and you're performing better than, quote-unquote, "the market," we should be rewarded for that. And so, historically, we've always thought about trying to outperform relative public market indices by 500 basis points to 1,000 basis points, I think we still believe that is a reasonable target that we keep shooting for. If you look at our current generation of funds and how they are performing to-date, nothing would dissuade you from coming to that type of a conclusion in terms of relative outperformance.

Now, clearly the past is not an indication of what the future could become. But as we sit here today, I've got to tell you, with the strength of our of our investment staff, with the breadth of our platform and with our ability to pick specific situations where we have tremendous knowledge and an ability to create and drive value, I feel pretty good about our chances to continue to outperform on a relative basis.

Michael Carrier
*Analyst, Bank of America Merrill Lynch*

Q

Okay. Thanks a lot.

**Operator**: Thank you. Our next question comes from Alex Blostein with Goldman Sachs. Your line is open.

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

Q

Hi. Good morning, everybody. I wanted to go back to the credit business for a second, as you guys have building it out, I was wondering if you could spend a couple of minutes on division for that business over the next, call it, two years to three years as currently obviously very much CLO kind of dominated business, majority of there you want them probably at least half of the fees. But as you build out some of the other products, maybe spend a minute on kind of what does the composition of the management fee profile kind of look like in the next couple of years.

Kewsong Lee
*Co-Chief Executive Officer, Head of the Global Credit segment & Chairman of the Executive Group, The Carlyle Group LP*

A

Sure. Let me start by saying, look, we're really pleased with the progress we've made in Global Credit. And look, this is a major strategic priority for us in years to come, and we're going to need time. But we really do see continued – we really do see significant upside from here. So just a level set.

Obviously we're starting to see fee-earning AUM grow 14% year-over-year. Management fees are already at a $230 million run rate, which is an increase of over 20%. And this is a huge space. We've only touched the surface of it. And we do have very large ambitions to grow. So if I can now break that down a little bit, clearly we're already large in the CLO business and we have no intention of giving up our leadership position in that market.

If you look at direct lending, 80% growth in AUM has occurred over just the past 12 months. We've had basically an increase in buying power of over 40%. We've established some very large strategic SMAs. And as you know, the rules have changed and leverage limits have increased from 1:1 to 2:1. And we're now with our shareholders at the publicly traded BDC that if we get approval, AUM for a public BDC could obviously grow by a potential another 50%.

We just launched our Credit Opportunities fund. It was a vital strategy to have on our platform. We have a nine-person investment team now in New York and in London. Already close to $0.25 billion deployed in just a relatively short period of time. And with potential more volatility in the market, as everyone has been referencing, we do see more opportunities emerging with that strategy. And so there are many other – and that doesn't even take into account the fact that we have a wonderful distress business, which is already on its fourth vintage of fund, each one having been top quartile. And if dislocations occur in the markets or if the economy does hit a speed bump, clearly we think there's going to be real opportunity there. This does not include obviously a lot of other areas in credit that we're exploring. And I look forward to telling you more about that progress in the future.

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

Q

Great, Kew. Thanks. Thanks for that answer. And just a quick follow-up for you guys, for Curt. So when we think about the $75 million kind of pre-tax run rate FRE, can you remind us what's the pre-tax margin that's underpinning that FRE run rate? And I guess more importantly, as you guys continue to scale and build out the platform, how should we think about the opportunity for FRE margin expansion into 2019 and 2020?

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

A

Alex, thanks. Hey, look, FRE, we're very focused on, and we're focused on both in terms of total growth as well as margin. But keep in mind we're still a little bit early in the game from a standpoint of where we are on margin. Margin this quarter overall is not where we want it to be. But if you look at it outside of Corporate Private Equity, it's 23%. So you add up everything, excluding Corporate Private Equity, where there is a loss in the current quarter and its 23%, that's consistent with where we were back in 2014. That's not an unreasonable expectation for us to be back at, although I'd like it to be more.

In terms of really where that will be, I mean, hard to say it's too early. Keep in mind that as we think about quarter-to-quarter now, right now we got fundraising expense of $19 million in the first quarter that's really been driving that we have no real benefit from the related management fees. So that depresses the first quarter. When those fees will turn on? We think we know. But in terms of predicting that and especially in terms of predicting margins because of that movement of fundraising expenses and timing of when we get all of the revenues makes calling out specific margins tough at this juncture, really think at the end of this year after we've achieved the forecast we're talking about, we'll be in a much better position to give you an FRE margin guidance going forward. But right now it's still – we got to achieve that target.

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

Q

Got it. Understood. Thanks, guys.

**Operator**: Thank you. And our next question comes from Brian Bedell with Deutsche Bank. Your line is open.

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

Q

Hi. Good morning, guys.

Kewsong Lee
*Co-Chief Executive Officer, Head of the Global Credit segment & Chairman of the Executive Group, The Carlyle Group LP*

A

Good morning, Brian.

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

Q

Most of my questions have been asked and answered, but just a couple more maybe. Maybe with just in the Real Assets segment and this might be hard to answer, but I'm just trying to get a sense of the timing of when you think you – some of the carry rates can – the overall carry rates and the realizations can improve in terms of hitting their hurdles on some of the firms?

### Kewsong Lee
*Co-Chief Executive Officer, Head of the Global Credit segment & Chairman of the Executive Group, The Carlyle Group LP*

A

Perfect. Thanks, Brian. So, first of all, the funds in the Real Assets segment and particularly the NGP funds and the latest vintage of U.S. Real Estate funds, actually have crossed over into accrued carry. And we are accruing carry in those funds. And as those funds then exit and return proceeds and move through our own carry realization assessment, we'll begin to take cash carry. But just to be clear, as of now, the largest funds in the segment actually are accruing carry and contributing to our accrued carry balance.

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

Q

Is that interpreted really – I guess that carry realization framework, is that something that you think would happen relatively near-term given that they're in an accrued state or that you're being conservative when you want to [ph] push that out with Glenn (56:58)?

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

A

So first, Curt and I are going to double team this. First of all, as he mentioned earlier, there have been solid distributions or exits in all of these funds. And as part of our own assessment of when we can comfortably take carry, having a solid exit base and therefore having returned a reasonable if not meaningful portion of each one of the invested capital for those funds is critical. So, earlier in Curt's comments, when he mentioned while we have not taken cash carry, we've had a good run rate of distributions, that is a very important milestone when combined with the fact that the funds are at or above their hurdle to taking cash carry.

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

A

Alex, just adding on to your question, this quarter was obviously very modest from a realized carry perspective for this segment. I fully believe that over the course of this year, that will increase in this segment. It won't change the overall profile for 2018. So in total, 2018 on a realized carry perspective is lighter than 2017. But we're going to see improvement in this particular segment over the balance of the year.

I think you get the real pickup though in 2019 and later really as a lot – all of the engines that are in that platform really start to contribute realized carry. And as Glenn said, they're really positioned really well, and we got a lot more of this kind of coming. So we're feeling very good about this segment on a go-forward basis.

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

Q

Great. Thank you very much for that. And then maybe just one follow-up question. There's been some buzz in the press on use of credit lines, commitment facilities from private equity firms that that is increasing in the industry. I know you – on page 12, you do you have a – the site that you [ph] use as (58:50). I just wanted to get a sense of the magnitude of that. Has that been increasing? And do you see the industry broadly increasing their usage of those facilities?

### Kewsong Lee
*Co-Chief Executive Officer, Head of the Global Credit segment & Chairman of the Executive Group, The Carlyle Group LP*

A

Yes. Hi. It's Kew. Let me offer up a few comments on the usage of fund line. So over the last few years, we have heard from several of our limited partners that they're very supportive of us using these lines of credit, both to minimize the number of capital calls. So in a way, it's kind of to help them out operationally. But in doing so, it does have the benefit of helping to optimize internal rates of return. Not all LPs have this view, but the vast majority of LPs have encouraged us to use these lines in the manner I just described. But to be clear, each of our funds have a set of agreements with our investors that govern how the fund operates, including how it uses lines of credit and other forms of leverage for that fund.

I just also want to point out we're very supportive of the ILPA initiatives to provide performance disclosure with and without the effect of such lines of credit and subscription lines. As you may know, we've been an early adopter of ILPA reporting template and have been very actively engaged with them in supporting their transparency initiative. So it is – these lines of credit are being used more, but I think it's very fair to say we are very prudent and careful in how we do so.

---

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

Okay, great. Thanks very much.

---

**Operator**: Thank you. Our next question comes from Robert Lee with KBW. Your line is open.

---

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

Great. Thank you. And thanks for your patience with all the questions. Two questions, I guess really in a way both around – and your capital, how you're thinking of your capital usage. So if I think of your payout ratio we call relative to other peers who have – also have a more variable distribution, it's understandably a little lower just given where your FRE is, where you are in your realization cycle and I guess maybe the composition of the balance sheet. But as you look to 2019 and beyond where you're having this acceleration and should have this acceleration in FRE, big acceleration in realization, so therefore big acceleration in cash distributions or cash you're generating, is there a thought or a possibility that we could actually start to see your payout ratio, the 75% start to migrate up as you get deeper into that cycle?

---

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

Rob, it's great. Thanks for your question. Look, we are comfortable with our current distribution policy. We have not considered a change or made any related announcements of any change in our distribution policy. We generally I think, as you know, pay out 75% of our after-tax distributable earnings, And that's really is in our practice.

If there's something that comes up that causes to rethink, we'll obviously make appropriate announcements and get that disclosed, but nothing has kind of caused us to rethink that. The one thing that I would just kind of remind everybody is we do have $200 million that has been authorized a couple of years ago for potential buyback. There's $140 million of that that remains. So we use $60 million of the authorization. And I think it's appropriate to expect that we'll – you'll start to see us be more active in using that remaining piece, as we look at potential dilution in our units and want to manage that potential dilution in our outstanding unit. So I think that's probably the more relevant question from a capital perspective. And we have more thought around that, but that's where I think you can kind of see some activity starting to pick back up.

---

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

Great. And then maybe it's just my follow-up. Just kind of interested in your updated thoughts on inorganic growth. so if I – and I think of your past to know you had NGP, you had the Investment Solutions business and then obviously you had some others that maybe didn't work out so well. But you don't seem – you clearly don't need it now to fuel your growth, but how are you thinking about the potential or interest in something inorganic to even accelerate, say, the credit business at a faster pace or is that just at this point "Why bother, it's too messy and too disruptive"? I mean, just your current bullets on that.

---

### Kewsong Lee

*Co-Chief Executive Officer, Head of the Global Credit segment & Chairman of the Executive Group, The Carlyle Group LP*

A

Okay, Robert. Look, acquisition is something that we're always looking at in terms of development and finding new strategic initiatives for us to pursue. But I think it's fair to say the way Glenn and I and the team look at it is, it's got to be an extension off of core capabilities and things that we're good at and where we can add value. So let's just start there.

Clearly on the credit side, we are looking to expand that franchise, but I think that the – it is a very high price environment right now. If there's something that's clearly strategic and very additive, obviously we'll be looking at it with interest. But I think you should assume the default case for us is that we're going to do this the old fashion way and build it out, which has a lot of benefits from making sure that our platform culturally sticks together and that we can actually execute against all the investment mandates that we're trying to build throughout our platform.

I will touch upon the fact that in the past, you guys have asked about are we exploring insurance and other types of ways of thinking about opportunities. Let me just state there is a big opportunity set there, we continue to be interested, there's a lot of work being done, nothing to report right now. And if there's any progress on that front, obviously you guys would be the first to know.

---

### Robert Lee

*Analyst, Keefe, Bruyette & Woods, Inc.*

Q

Great. Thank you for taking my questions.

---

**Operator**: Thank you. And our last question comes from Brent Dilts with UBS. Your line is open.

---

### Brent Dilts

*Analyst, UBS Securities LLC*

Q

Thanks. Good morning, guys.

---

### Kewsong Lee

*Co-Chief Executive Officer, Head of the Global Credit segment & Chairman of the Executive Group, The Carlyle Group LP*

A

Good morning.

---

### Brent Dilts

*Analyst, UBS Securities LLC*

Q

Given the strong fund – given the strong fundraising momentum, how often are you turning away LPs from specific funds due to hitting the cap? And is that money going to other Carlyle funds or is it going somewhere else, like outside the firm?

---

Kewsong Lee
*Co-Chief Executive Officer, Head of the Global Credit segment & Chairman of the Executive Group, The Carlyle Group LP*

A

Thanks for that question. I think you've hit on one of the great challenges that we face right now. And that challenges the fact that our investor base which actually would like to commit to our funds as much money as we could possibly take. We oftentimes have to limit, and we have to limit it because we have to size the market opportunity and make sure the capital we take, we can do a great job with, just as we've done historically.

Of course, we always try to capture that demand and hopefully present them with another Carlyle opportunity. I can't tell you whether it's coming to Carlyle or not coming to Carlyle. I think there's a handful of clear developments, however. One, our largest investors absolutely want to concentrate more and more of their activity with fewer and fewer firms. And as a result, we do continue to see our largest investors invest across a number of our funds.

I mentioned earlier that more than 60% of our capital commitments come from investors that are in six or more of our funds. I think second of all, we continue to see new investors come to the platform. And those new investors are truly right on the front end of the value creation for us where they can have a great experience in their first fund. And then we can introduce them to a second part of Carlyle and a third part of Carlyle. And that's just a critical part of growing our overall investor base.

And then finally, we have to do a great job investing. And that's just a critical part of growing our overall investor base. And then, finally, we have to do a great job investing. And that means, yes, sometimes capping funds at levels below which we have investor demand, and it's happening now on a number of our funds. We manage that as best we can. And hopefully, we can keep those investors interested in other things.

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

Q

Okay. Great. Thanks for that. And then, just last one. On the remaining capital left to be raised for the $100 billion target, how should we think about the mix of internal versus external fundraising costs going forward?

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

A

Yes. There Good. Great question in terms of mix. I think you will see a greater level of external fundraising cost here in the balance of this year versus what you saw in the first quarter. 2019, it's a little too early for me to even comment on kind of how I think about the mix at that point. But I think external cost will be a greater impact here in the second quarter.

Kewsong Lee
*Co-Chief Executive Officer, Head of the Global Credit segment & Chairman of the Executive Group, The Carlyle Group LP*

A

Yes. Let me just add a little color to that. The primary external fundraising cost has to do with accessing high net worth investors through what we call feeder fund arrangements. The feeder fund arrangements as a percentage of what we're raising generally has been constant. However, the dollar amount has gone up.

So, just to put things in context, we raised $48 billion over the course of the last 12 months. About 14% of that came through the high net worth channel and – or from high net worth investors. And for a reasonable portion of that, we will have external fundraising expenses. And so there's two factors, of course, that impacts external fundraising expenses. One is the absolute percentage that we use in order to raise our money, but the absolute amount we're raising is increasing. And so, on a relative basis, it will probably stay about the same in 2019. We have expected to go down just relative to the amount of money we're going to raise in 2019 versus what we've raised over the last 12 months.

---

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

Q

Okay. Great. Thanks, guys.

---

**Operator**: Thank you. And I'm showing no further questions at this time. I would now like to turn the call back to Mr. Daniel Harris for closing remarks.

---

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

Thanks, Chelsea, and thank you everyone for listening to this quarter's call, and for your participation. If you do have any other questions, feel free to follow-up with Investor Relations after the call and we look forward to talking to you next quarter.

---

**Operator**: Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program, and you may all disconnect. Everyone, have a great day.