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# The Carlyle Group, Inc. (CG)

Q4 2021 Earnings Call

### **CORPORATE PARTICIPANTS**

**Daniel F. Harris** 

Managing Director & Head-Public Investor Relations, The Carlyle Group, Inc.

**Kewsong Lee** 

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### OTHER PARTICIPANTS

**Alexander Blostein** 

Analyst, Goldman Sachs & Co. LLC

**Craig Siegenthaler** 

Analyst, BofA Securities, Inc.

William Raymond Katz

Analyst, Citigroup Global Markets, Inc.

**Chris Kotowski** 

Analyst, Oppenheimer & Co., Inc.

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**Patrick Davitt** 

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### MANAGEMENT DISCUSSION SECTION

**Operator**: Good day and thank you for standing by. Welcome to The Carlyle Group Fourth Quarter 2021 Earnings 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. [Operator Instructions]

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

#### **Daniel F. Harris**

Managing Director & Head-Public Investor Relations, The Carlyle Group, Inc.

Thank you, Shannon. Good morning, and welcome to Carlyle's fourth quarter 2021 earnings call. With me on the call this morning is our Chief Executive Officer, Kewsong Lee; and our Chief Financial Officer, Curt Buser.

Earlier this morning, we issued a press release and a detailed earnings presentation, both of which are available on our Investor Relations website at ir.carlyle.com. This call is being webcast and a replay will be available on our website. We will refer to certain non-GAAP financial measures during today's call. These measures should not be considered in isolation from or as a substitute for measures prepared in accordance with Generally Accepted Accounting Principles. We have provided reconciliations of these measures to GAAP in our earnings presentation 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.

Turning to our results, for the fourth quarter, we generated \$174 million in fee-related earnings, and \$903 million in distributable earnings with DE per common share of \$2.01. We produced net realized performance revenue of \$683 million and entered 2022 with an accrued carry balance of \$3.9 billion. And for the full year, we generated \$598 million in FRE and \$2.2 billion in distributable earnings with DE per share of \$5.01. We declared a quarterly dividend of \$0.25 per common share.

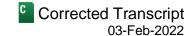
To ensure participation by all those on the call, please limit yourself to one question and one follow-up, and then return to the queue for any additional questions. And with that, let me turn the call over to our Chief Executive Officer, Kewsong Lee.

#### **Kewsong Lee**

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

Thanks, Dan. Hello, everyone, and thanks for joining us today as we discuss our fourth quarter and full-year 2021 results, as well as provide line of sight into 2022. We started last year by laying out our strategic plan for future growth, and I'm pleased to tell you that we are delivering on our goals. We had an exceptional 2021 with records across the board in fee related earnings, distributable earnings and every major investment metric. I am proud of our people and the results they have collectively produced.

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Our fourth quarter performance caps this strong year and illustrates the powerful growth trajectory across our more diversified platform. I want to highlight the key drivers underpinning our record year as our FRE has grown to new sustainable levels, our growth initiatives are starting to pay off and our performance has set the stage for robust distributable earnings over the next several years.

Let's start by underscoring our investment performance with valuations increasing 41% year-over-year and realizations of \$44 billion across all of our traditional carry funds. Portfolio construction continues to be a strength, especially as we enter a period of greater volatility. We're investing more capital as we expand our aperture and leverage even more effectively our global scale and sector expertise. This has resulted in record investment activity. We deployed \$14 billion in Q4 alone and \$34 billion in 2021 each, a record. This investment performed ability to send realized proceeds back to our limited partners has helped their fundraising efforts.

In 2021, we raised \$51 billion, nearly double what we raised in 2020. We aim to continue this momentum over the next few years as we focus on the substantial upside potential to our Investor Day target, which would help us drive financial results beyond our FRE ambitions. Alternative sources of capital formation, such as high net worth, retail, open-ended funds, permanent capital and insurance represent upside and are an increasing source of fundraising dollars as we pick our spots to grow these sources of capital. Stepping back, the headline is we ended 2021 with strong fundraising momentum that will carry over into 2022.

Our extraordinary performance across the board has established a new level of earnings power, which gives us the confidence to raise our dividend substantially. You'll hear more on this from Curt later. More importantly, this performance also gives us the resources to continue investing strategically to build the firm and accelerate growth.

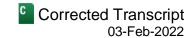
Now, turning to strategic growth opportunities, our investments in global credit are paying off both organically and through strategic acquisitions. For example, a credit opportunity strategy has grown to \$8 billion in about four years and with Carlyle Aviation we expect FRE to triple in three years since the acquisition. The growth continues with our energy now focused on building out infrastructure credit, which we are doing organically and jumpstarting growth in real estate credit. Another scalable platform initiative is Fortitude, which continues to progress as planned and given the current activity level and pipeline we're confident that 2022 could be a breakout year for this very scalable permanent capital platform. Several years ago, we asked for patience as we rebuilt our global credit platform. We're using the same playbook in other areas like infrastructure and renewables, where we see significant room for growth and similar to Fortitude, anticipate an active year.

Finally, our focus on building the firm includes investment and leadership in impact and ESG capabilities, which were increasingly required to drive returns and meet the needs of our LPs. At Carlyle, ESG is not one fund or product, but a part of everything we do. One example is the ESG Data Convergence Project, announced in partnership with CalPERS in September 2021, which has reached a milestone commitment of over 100 leading GPs and LPs globally to its partnership, representing \$8.7 trillion in AUM and over 1,400 underlying portfolio companies.

In just this week, Carlyle took another important step as one of the first in our industry to announce its commitment to achieve net zero greenhouse gas emissions by 2050 or sooner across direct investments. By integrating an ESG mindset across the firm in our investment processes and throughout our value creation, our approach benefits all stakeholders.

To wrap up, we enter 2022 better positioned than ever before. Carlyle is a stronger and healthier firm today because of our 2021 progress. Our focus remains on continuously improving how we drive value and generating

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attractive returns, and we are confident in our ability to grow FRE, drive investment performance and strategically build the firm for future growth.

We are focused on building the best investment firm possible and running it better than ever before. As the environment continually shifts around us, our diversified investment platform and global team have demonstrated the resilience and adaptability. I remain confident in our ability to thrive and capture opportunities in any environment. I'm proud of our team, and we remain focused on continuing to deliver for shareholders and all stakeholders. I appreciate the hard work as we accelerate our activity for another very active year of executing on our vision of thinking bigger, moving faster and performing better.

Over to you, Curt.

#### Curtis L. Buser

Chief Financial Officer, The Carlyle Group, Inc.

Thanks, Kew and good morning, everyone. I want to begin by reiterating many things Kew mentioned to emphasize what our strong performance this year means. We generated over \$5 per share in distributable earnings in 2021, well more than double the average generated in the last five years. In fact, the fourth quarter's \$2.01 per share would have exceeded a full-year in four of the past five years. These results are driven by attractive investment performance and are fortifying our balance sheet to help us deliver long-term sustainable growth on our global platform and Fee Related Earnings.

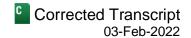
Let's dive deeper into all of this. This year, we focused on delivering strong, sustainable and growing Fee Related Earnings. 2021 was a record year for the firm's overall FRE, every segment generated record FRE and our full-year FRE margin grew to 33%, up from 30% in 2020. In fact, FRE grew more than 20% of the adjusted level in 2020, and our five-year FRE CAGR is 24%. This is the outcome of scaling our platform and positioning Carlyle for growth. As Kew noted, we also had a record year for fundraising, and much of that will have a stronger impact on fee related earnings in 2022. Record fundraising of \$51 billion, along with strong fund performance, helped drive total assets under management, up 22% over the past year. As we look ahead, we will continue to focus on running the firm effectively and efficiently. On an organic basis we expect to see FRE growth of more than 20% in 2022, driven by strong top line growth. 2021 fundraising underpins much of our expected growth in 2022.

Notably, we activated fees on our new US buyout and growth capital funds, as well as our most recent US real estate fund, all in Q4, elevating fee revenues in the fourth quarter and setting the stage for higher fee revenues this year. In addition, we expect to see a breakout year for global credit in 2022. The business has \$73 billion in assets under management as of year-end, more than two times larger than it was less than four years ago, underpinned by nearly \$17 billion in fundraising in 2021 for a broad spectrum of strategies as many investors continue to shift away from traditional fixed income to private credit opportunities.

This segment has several skilled products, structured credit, opportunistic credit, direct lending and aviation, as well as several newer products in infrastructure and real estate credit, including the recent iStar transaction that will close in the coming weeks that are all well-positioned for growth.

Our Global Investment Solutions business has the scale, global reach and data to help fund investors continually reassess and reconstruct their portfolios in pursuit of capturing returns. In a world where private capital has become mainstream and a significant portion of our investors' portfolios, this approach is more important than ever before and has abled this business to more than double FRE to \$84 million from \$37 million just a year ago. Performance has also been impressive with appreciation of 48% in 2021 and net accrued performance revenues of \$390 million at year-end, more than double from a year ago.

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Our Global Private Equity business is a diversified business with platforms supporting corporate private equity, real estate, infrastructure and natural resources all on a global basis. In corporate private equity, we're a builder of businesses pulling more value creation levers than ever, helping companies reinvent their business models and drive growth. You will see the results of this work in our record net realized performance revenues. Just in the fourth quarter, global private equity realized \$10 billion in proceeds fueled by exits in PPD, [indiscernible] (00:13:18) and sale of more than \$1 billion of Zoominfo.

As Kew said earlier, this success is a function of our investment in teams, technology, diversity and platforms. We have \$124 billion in remaining fair value of invested assets in just our traditional carry fund, which ended the year up 30% year-over-year and positions us for continued significant realizations in the future. 2021 was a special year with over \$1.5 billion in net realized performance revenues, which will be difficult to replicate, but we believe 2022 will be another strong year, and we should realize on average \$1 billion over each of the next several years. Of course, in any given year, the health of the global markets is likely to drive variance the upside or downside around that expectation.

Finally, I would like to spend some time on the strength of our balance sheet. After prepaying \$250 million of our 2023 bonds, our balance sheet reflects \$2.5 billion in cash and \$2.1 billion in firm investments. To put the cash balance in perspective, cash increased nearly \$1.5 billion from a year ago. In 2021, we generated realized investment income of \$210 million from our balance sheet investments or nearly triple what we earned the previous year. Again, this level of income realizations may not be easy to replicate, but we believe that we should routinely generate investment income at levels of \$150 million or more per year on average.

Our strong cash position and expectation for elevated earnings position us to deploy our capital as we previously discussed. This includes investing in next generation funds and new strategies, growing our adjacencies and pursuing accretive inorganic growth. We see various opportunities to drive shareholder value resulting from the improved strength of our balance sheet.

Our credit ratings at both S&P and Fitch are on a positive watch for a potential upgrade, highlighting the upward trajectory of our firm and our financial footing. The strength of our balance sheet along with the significant increase in FRE in 2021 allows the board to comfortably and sustainably raise our fixed dividend to \$1.30 for 2022, a 30% increase. The higher dividend will begin with Q1. As we continue to grow FRE from here and as we laid out in our strategic plan, we expect we will be able to raise the dividend further in coming years. We are outperforming our own expectations and believe we are well-positioned to do so for the next several years. Our strong momentum is allowing us to grow our Fee Related Earnings and Distributable Earnings and invest in Carlyle's longer-term growth. We are creating exceptional value for shareholders and we will continue to deliver on this growth in 2022.

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

### QUESTION AND ANSWER SECTION

**Operator**: Thank you. [Operator Instructions] Our first question comes from Alex Blostein with Goldman Sachs. Your line is open.

#### Alexander Blostein

Analyst, Goldman Sachs & Co. LLC

Hey, good morning everybody. Thanks for taking the question. So first question, just a little bit more strategic, I guess, Kew, 2021 was a really strong year essential on every front, but most notably FRE growth. One of the concerns we continue to hear from investors and Carlyle broadly is that you really won't be able to sustain that kind of growth momentum going forward, but from your comments, you seem to be obviously pretty confident in that. So where's the disconnect? How do you expect that dynamic to play out and maybe give us a little bit more in terms of the drivers that gives you that confidence?

#### Kewsong Lee

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

Yeah. Good morning, Alex. Look, I'm really confident and importantly, the entire team is confident in our momentum and the fact that we're going to keep this going. Look, FRE is already been growing 20% a year for the past five years. And I think that's mostly gone unnoticed. And if you get a little bit more granular, if you look at Q4, we generated \$174 million of FRE, that run rate, multiply that by four, it already positions us for a strong year of FRE growth in 2022, and that's before additional upside from our activities that we've got underway.

Look with respect to business building, I think you touched on it in your note this morning, and it's the right place to look. Our global credit business is about to have a breakout year. We've talked to you about the fundraising, it's got over \$70 billion of AUM, raised \$17 billion last year. But really the thing to look at, all the patience in building that business, this is the year where I think operating leverage really starts to kick in. And I think off of that growth, more is going to fall to the bottom line with respect to FRE.

And then turning to our incredible investment performance, it's across the board and despite the record realizations we had, we still have about \$4 billion of net accrued carry balances, it's very diversified across regions, across sectors, across funds. For me – for us, it's not a question of if this comes out, but when it comes out, as Curt alluded to in his comments.

And then let me just address the broader base momentum we have on fundraising. So we pointed out \$51 billion of fundraising. I want to note two thirds of that was away from corporate private equity, healthy fundraising in US real estate, in solutions, in credit, it's broad-based across all segments. And I point that out because I think folks aren't appreciating that we're much more diversified and it's a much broader business and a platform than ever before.

Now, of course, this is all before the fact that our balance sheet is about as strong as it's ever been. And I am very focused on driving the firm into new strategic adjacencies in markets that are large, that are scalable, and that can be very FRE generative.

So when you throw that altogether, yeah, I'm really confident and the last piece to all this you need a great team, this team is executing. So all of that is what gives me confidence that this is going to continue.

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#### Alexander Blostein

Analyst, Goldman Sachs & Co. LLC

Great. That's super helpful. Thanks for that. My follow-up is going to touch around just the operating leverage in the model, and I really want to zone in on competition philosophy. We've seen a number of players in the alternative space sort of shift the compensation structure toward paying out more carry and obviously maximizing FRE margins, including a recently listed large private equity firm as I'm sure you guys know. Although there is a degree of just P&L geography obviously in all of that, it does align compensation with fund performance and therefore LP. So what are your thoughts about that dynamic for Carlyle? And as you are a lot more scale today than in the past, just with respect to management fee base, why not pursue a similar strategy?

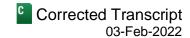
Kewsong Lee
Chief Executive Officer & Director, The Carlyle Group, Inc.

Alex, thanks for that. This is Curt, let me take that. So first, compensation structure, as you pointed out are really important in driving behavior, and we feel good about our structures and how they're aligned for stakeholders across all investment cycles. Of course, we're always thinking about compensation and alignment and how to better align compensation of our professionals with that of our shareholders and performance is what you pay for is likely were going to be what you get. At the same time, we do believe in pay for performance and have been consistent in saying that our split – our performance compensation shows strong alignment with limited partners on carry and fund performance with shareholders on driving Fee Related Earnings and using the firm capital to build our retained earnings.

So that's important for driving future growth, but we're going to continue to grow our business and our earnings, that's what we're focused on. We've been doing that really well, as Kew just outlined, have great confidence in the future. And to the extent that we decide to make any changes in our compensation models, we'll let you know. But the bottom line is we believe in alignment.

Alexander Blostein Analyst, Goldman Sachs & Co. LLC	Q
Great, thanks for taking both questions.	
<b>Operator</b> : Thank you. Our next question comes from Craig Siegenthaler with Bank of America. Your line i open.	S
Craig Siegenthaler  Analyst, BofA Securities, Inc.	Q
Good morning, Kew, Curt. Hope everyone is doing well?	
Kewsong Lee Chief Executive Officer & Director, The Carlyle Group, Inc.	A
Hey, Craig, good to hear from you.	
Curtis L. Buser Chief Financial Officer, The Carlyle Group, Inc.	A
Hey, Craig, nice to hear from you.	

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### **Craig Siegenthaler**

Analyst, BofA Securities, Inc.

So my first question is on credit, and a similar question to Alex's first one, but \$17 billion of fundraising in 2021, this is a pretty big increase year-over-year, and we see you keep expanding horizontally into new segments, we saw that with iStar this week. So how should we think about the forward run rate for fundraising credit given larger funds, wider offering and also some scale advantages on the distribution front, because I believe you will be doing new things on the retail side too?

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#### Curtis L. Buser

Chief Financial Officer, The Carlyle Group, Inc.

Hey Craig. It's Curt here. Just thanks to that question. Global Credit is set up really well, so let me just kind of tick through some of the areas in starting with fundraising. So you look at kind of our past, there's been a nice tick up in fundraising, in global credit over sequential years, something like \$10 billion or \$11 billion last year, \$17 billion this year and in our pending figure in AUM which is about \$16 billion, the vast majority of that is Global Credit. And it'll turn on mostly as we deploy capital during our next year. And so that will be underpinning a lot of growth.

But let's tick through some of the big components. First, the structured credit business, our CLOs, that business is just booming. So we issued 14 CLOs globally in 2021, it's currently managing about \$34 billion in liquid credit strategies. That \$14 billion of CLOs we issued is about \$7.5 billion, and we think we're taking market share in this space. That's really going to help underpin a lot of further growth in FRE in 2022, because you didn't get all of the benefit of that FRE growth this past year. And so you're going to see more in that space. So activity in the CLO is really good. As Kew mentioned in his opening remarks, our opportunistic credit business is already at \$8 billion, deploying really well, those fees again turn on as a deploy capital, so as that investment pace continues more increase in revenues, so good space in opportunistic credit.

Aviation business, boy, really nice, nearly a triple of run rate in fee related earnings, the size of that business has continued to go up, we've seen some of these big transactions that they've done of recent, FLY a year ago and the big one this year. So look, they're now at about – they should be after [indiscernible] (00:24:43) all of this close, increase in their total AUM from about \$8 billion as of the third quarter to more than \$13 billion, that all positions us to be able to triple the run rate of the FRE coming out of that business.

If you then further think we've got some newer products like CTAC, small, but growing really fast, really contributing to our results, our direct lending business continues to do well and is growing. And then we've got some new initiatives. So as you point out, iStar transaction that was announced yesterday for real estate credit and also our infrastructure credit business, these are new platforms, the transaction yesterday really allows us to jump start what we think over time will be a big business. So I wouldn't have high expectations for it for this year in terms of driving earnings, we've just gotten replaced in a really good spot where we have the AUM, the talent pool and really the platform is now in place [indiscernible] (00:25:48) able to launch it. So [ph] say 24 (00:25:49) and thereafter for when this business will really kind of really matters, so we're investing in long-term growth.

And from our firm capital perspective, it's about \$200 million in terms of firm capital. So I thought it was a good use of firm capital related to achieve those outcomes. And let's not forget the adjacencies. So Fortitude in capital markets, big adjacencies in global private, they're also performing really well and driving growth. So hopefully that answers your question, Craig.

**Craig Siegenthaler** 

Analyst, BofA Securities, Inc.

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Great. That's helpful. And...

### **Kewsong Lee**

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

Hey, Craig, this is Kew, and really good to have you back with us here. The only thing I would add and let me just take a step back, we're being very strategic and thoughtful on how we build out our credit business, it's a platform approach across big scalable strategies. You see how we're doing this. You've been very patient with us and it's really starting to pay off.

The other thing I would say, as I talk to LPs, we're in the early innings here. Credit is relatively – private credit is relatively underpenetrated relative to private equity. There continues to be secular tailwinds and more flows are coming in and wanting private credit exposure. So, we've got great momentum, Curt touched on this. This is an asset class with products that will fit particularly well to retail. It's an area where you can find permanent sources of capital, which we've done now with our BDCs and you noted that publicly. So we've got great momentum. It is sustainable. These are sticky FRE businesses that we think just keep growing as we have secular tailwinds behind our platform.

#### **Craig Siegenthaler**

Analyst, BofA Securities, Inc.

Thank you, Kew. And Curt, I heard your commentary on Fortitude being a breakout year in 2022. So does this mean insurance, M&A? Or is this really kind of robust, more organic growth in the institutional B2B channel? I was just hoping you could articulate that comment, and it probably relates to some of the stuff you just said in credit?

Curtis L. Buser

Chief Financial Officer, The Carlyle Group, Inc.

Yeah, so let me talk about Fortitude. First and foremost, that business is doing great. It's bigger and it's better at this point in time than what our expectations are. So let me step back a little bit, we completed the carve out, which was not easy to big business, really pleased with the management team there, they're executing really well. They've been able to execute a couple of acquisitions in the prudential assurance life product that was announced in Q3. And then there's another big reinsurance contract that just got done. They have a great pipeline for future deals. All of that – it's already it has a fee run rate to Carlyle, about \$50 million to our business. And there's about \$10 billion of total assets under management that are fee paying, \$7 billion of which is invested directly in the [indiscernible] (00:28:53) funds, \$3 billion of which is the – how we structured the actual Fortitude investment with our partners. So it's really set up well for further growth, the pipeline is there and we think this is going to be an active year for that business in terms of future scale and good things are happening.

#### Craig Siegenthaler

Analyst, BofA Securities, Inc.

Thank you, Curt.

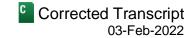
Operator: Thank you, our next question comes from Bill Katz with Citigroup. Your line is open.

#### William Raymond Katz

Analyst, Citigroup Global Markets, Inc.

Okay. Thanks very much. So Kew, I think you've mentioned now a couple of times and Curt, both sounds like the deal pipeline might be picking up, and you have certainly a good balance sheet. Could you maybe go down a

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layer and talk to, where you think you might see an opportunity? I think last quarter, so you had mentioned you want to monetize and take the free cash flow from the realizations and drive FRE, I think permanent capital, I think you heard that again today. But could you talk a little bit, maybe specifically what segments or products you could see that opportunity playing through?

**Kewsong Lee** 

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

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Sure, Bill. Thanks for the question. I mean, look, take a step back, the criteria for us is we're looking for strategic adjacencies in big and scalable strategies that are going to be generative of FRE that can be great growth drivers for us in the years to come, okay. So we're very focused and disciplined on that. If you recall back at Investor Day, which is about a year ago, I mentioned that I think the two best areas for this – for us are going to be in the credit asset class and in the solutions business, which continues to grow very fast in our industry. We're already a dominant global private equity player around the world. I think the bigger opportunities for scalability and FRE generation are going to come in the credit asset class and in solutions for us. Hopefully that gives you a little bit more color.

William Raymond Katz

Analyst, Citigroup Global Markets, Inc.



Okay, thanks. And then just to come back to the net realization guidance for the next couple of years. So it sounds like it's up a little bit from your Investor Day, which is nice to hear. When I look sequentially and this maybe too tactical view, but your net accrued carry balance actually dipped a little bit quarter-to-quarter. But when I look at some of your seasoning ratios, like in carry ratio, your percent publics in those aged four years and more, those also slipped a little bit. Maybe it's quibbling, but how do you sort of triangulate between [indiscernible] (00:31:27) appreciate 2021 is a great year to a billions of on average now when you have sort of a bit of a less public portfolio all else being equal? Thank you.

Curtis L. Buser

Chief Financial Officer, The Carlyle Group, Inc.

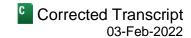


So, look, I really think that the overall platform is set up really, really well. The \$1.5 billion that we generated [indiscernible] (00:31:50) last year is far beyond anyone's expectations, just a phenomenal year. And if you look at kind of on a go-forward basis, I think we can continue to do really well and let's talk about some of those specifics. So we started the year [ph] not (00:32:10) at \$3.9 billion. And in fact, if you look at last quarter to this quarter, the fact that we still had depreciation that we had to keep it essentially rounded the same \$3.9 billion is pretty [indiscernible] (00:32:23) good when you realize \$683 million in a quarter.

Now, let's go back to when Carlyle's big realization years from when we went public to 2017, \$683 million of net realized performance revenues, that was an annual number. We did that in one quarter. And so as we look going forward, I'm very confident this \$3.9 billion of accrued carry, but more importantly, is the \$124 billion of invested capital in the ground at remaining fair value. That number is about double where it was during the last cycle, and it's 30% higher than at the beginning of this year. So all of the components to really be able to drive carry going forward are in place. So the in-carry ratio is still really good at like 75% the amount is still accrued, despite really strong realizations [indiscernible] (00:33:20) really good about.

And if you look at our GAAP numbers, even there, I mean, look at the GAAP EPS number, the nice forward indicator of things to come.

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### **Kewsong Lee**

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

Hey, Bill, it's Kew. Great exit activity is a function of great investment activity and hard work that's gone into three or four years prior. And our investment engine is really firing, and our deal teams, they're really performing. We're creating real value in our portfolios. And if you look at our investment pace and our ability to deploy more, I mean, \$34 billion in 2021, that's really the forward indicator, the setup for what our earnings power is going to be three, four, five years hence, right. So the \$3.9 billion of carry that we have now, the fact that it stayed flat despite record realizations talks to our business model that we are driving great deployment and great portfolio company appreciation. So the engine is really working, okay. So we're managing more money, we're investing more money, we're creating more value than ever before, and it's just going to be a matter of time before that comes out in our earnings over three, four, five years.

William Raymond Katz

Analyst, Citigroup Global Markets, Inc.

Okay, thank you, both.

Curtis L. Buser

Chief Financial Officer, The Carlyle Group, Inc.

Thanks, Bill.

**Operator**: Thank you. Our next question comes from Chris Kotowski, Oppenheimer & Company. Your line is open.

#### Chris Kotowski

Analyst, Oppenheimer & Co., Inc.

Yeah. Good morning and thank you. I wonder if you could give us a bit more color on the iStar transaction, just because I have a feeling this is kind of like a case study for your strategy of using balance sheet capital to try to drive FRE growth. So in the press release, it said that you acquired it for roughly \$3 billion and you just said on the call that \$200 million came from your balance sheet. So I'm curious about the remaining \$2.8 billion, does that come from a specifically raised third-party vehicle? Or does it come from just ordinary funds across the board? And then, how should we think about in terms of the Day 1 revenues that it generates at this level and in the press release, you say you expect it to scale to \$10 billion, what would it be at a mature fully platform level at that level? Kind of those — if you can give some color around those things?

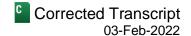
#### Curtis L. Buser

Chief Financial Officer, The Carlyle Group, Inc.

Sure. So, Chris, I think it's a great question and we're really pleased about the transaction and really overall what's happened [indiscernible] (00:36:05) kind of comment on a minute ago. The deal itself \$3 billion purchase price, really kind of setting us up for a good platform in real estate credits, one that we know well, Roger Cozzi has taken the lead in all of this, really built out in the past, bringing over some of the people that he knows really well.

So, from a personal perspective, really good, from an asset perspective, we know the assets, it's a leverage transaction. So, it's about 2:1 leverage. And from an equity piece that was funded by some of our LPs, both in existing products and a strategic investor and we're about 20%. We will be – the important part is we'll be the GP. So you kind of think about this as fund structures were the GP of that, this enables us over time to potentially use

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this to be in the retail channel, but more work to come on all of that. And it's going to take us, as I said before, two to three years before this really culminates, but we need to make investments like this now to be able to drive that kind of growth in 2024, 2025 and thereafter. So this is a good move for us as a firm and really jumpstarts what I think is going to be a very big business. Mark Jenkins who runs this, said, look, you're looking to build a \$10 billion business. And I know Mark pretty well and Mark is not going to stop at \$10 billion.

Chris Kotowski Analyst, Oppenheimer & Co., Inc.	Q
Ok. All righty. That's it for me. Thank you.	
Kewsong Lee Chief Executive Officer & Director, The Carlyle Group, Inc.	A
Thanks, Chris.	
Operator: Thank you. Our next question comes from Gerry O'Hara with Jefferies. Your line is o	ppen.

Gerald Edward O'Hara

Analyst, Jefferies LLC

Great. Thanks. Just maybe want to pick up a little bit on the investment solutions business, clearly I see some kind of growing momentum there as it relates to your net accrued revenue. But perhaps you could just kind of give us a little bit of an update on how that segment is evolving and where you might see that kind of headed into next year?

Curtis L. Buser

Chief Financial Officer, The Carlyle Group, Inc.

Gerry, hey, thanks for the question. Investment solutions has done really well. We've doubled FRE \$84 million this year, \$37 million a year ago. More importantly, this is in a very attractive space. So solutions products are really a good way for a lot of people to come into private equity, and their performance is phenomenal. 48% this past year, they've mastered, really data and how to help LPs construct portfolios. And so they've done a really nice job of that and their deployment pace has been really good this year.

You point out the [indiscernible] (00:38:53), obviously, that's a reflection of the 48% appreciation. And look, I think we're well positioned for carry in that business – realize carry to be a much bigger number. Now you start to see some of that really coming in here in the fourth quarter, still small and relative to overall Carlyle, but much bigger than what you've seen before. Remind you that this is all European-style waterfalls. When we bought AlpInvest, we didn't buy the historical carry and so it's really only on the [indiscernible] (00:39:26) where the participation rates, right? So that's going to really start to play off 2023, 2024, 2025 is when those numbers that's – most of that's 320-ish of net accrued carry will really pop in those years [indiscernible] (00:39:41) see a nice increase until that point, but it'll be those years where that number really comes through.

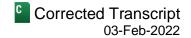
In the meantime, Ruulke and the team are really working hard on ways to continue to grow that business. The secondary platform and the co-investment platform are hot platforms. They're looking at other ways to kind of take advantage of what they know and do things, but more to come on that as that all kind of unfolds.

**Kewsong Lee** 

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

A

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Hey, Gerry, it's Kew. The only high level thing I'd add is, there's a theme that I introduced, which is or actually came with the first question, which is under appreciation. I think our FRE strength is underappreciated. I think the diversity of our platform is underappreciated and the breadth of it. And quite frankly, I think people are starting to figure out AlpInvest, which is a leader in the solution space, a great brand, a great platform. It used to contribute, oh, probably, I don't know, \$12 million, \$13 million of FRE three, four years back. Now it's closing in on \$100 million. It's a strong platform, one of the market leaders and that whole space [indiscernible] (00:40:51) got real tailwinds in our industry because as the Alp's business has grown, CIOs and CEOs of these big plans, they need tools for better deployment portfolio optimization and access to liquidity. And it just shows – it just talks to the maturation and the scale of what this industry has become that this part of the industry now is as vibrant as it is with real growth and momentum behind it. So we've got real – we got real – we feel really good about the prospects of AlpInvest. It's a great team, market leading and I think, like I said, we're underappreciated with respect to how important it is and what its opportunities for growth are within Carlyle.

#### Gerald Edward O'Hara

Analyst, Jefferies LLC

Great. That's helpful. And then, I guess, Kew sticking with you and as it relates to sort of strategic opportunities, the other deal I think that was announced was, I guess, a partnership with iCapital on all funds. Perhaps you could comment a little bit about how your vision into the kind of retail market, which is expected to evolve, I guess, in the coming years? Thank you.

#### Curtis L. Buser

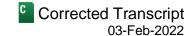
Chief Financial Officer, The Carlyle Group, Inc.

Gerry, let me jump in and take that. So look, alternative source to capital for us really include a high net worth capital, retail, open-ended funds, permanent capital and insurance, and they're all additive to our efforts to drive growth. And we have a number of initiatives in each of these areas, some of which we've already talked about. And thanks for pointing out the iCapital announcement yesterday. It's another one of these initiatives that we think over time will be meaningful. We're an investor in iCapital, but it's – I wouldn't think that this is a major revelation, it's just additive to the overall process here.

The bigger picture is the \$51 billion that we raised this past year, double of what we raised the prior year. Momentum is good and it's diversified, it's diversified across all of our businesses. And this coming year, we'll probably have about 20 different products in the market really enabling that strength and momentum to continue. And more importantly, we feel really confident about our ability to drive FRE.

Gerald Edward O'Hara  Analyst, Jefferies LLC	Q
Thanks for taking the questions.	
Curtis L. Buser Chief Financial Officer, The Carlyle Group, Inc.	A
Thanks, Gerry.	
Operator: Our next question comes from Patrick Davitt with Autonomous Research.	Your line is open.
Patrick Davitt  Analyst Autonomous Research LLP	Q

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Morning guys.

#### Curtis L. Buser

Chief Financial Officer, The Carlyle Group, Inc.

Good morning.

Patrick Davitt Analyst, Autonomous Research LLP There's a view in the marketplace that private equity broadly has been one of the most boosted asset classes by

this longer period of Central Bank accommodation. So [ph] in that vein (00:43:39), is now perhaps one of the more negatively exposed asset classes to this year's inflationary higher rate, less accommodative environment, particularly given the pivot to growth, a lot of firms appear to have taken. So could you give us your reaction to that perception and more specifically frame what you think Carlyle's exposure is to what might be considered growth year or higher multiple positions in the PE portfolio?

**Kewsong Lee** 

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

Sure. Hey, Patrick, great question, obviously, this is something we're really everyone is focused on us especially and it's a question about raising rates. It's a question about volatility, inflation all in one. So let me try to address it. So first of all, with some of the correction that's happening in the market, and we're all seeing it, the rotations that are occurring. Clearly, this will have an impact on [ph] marks (00:44:26), but I'd like to point out and Curt or Dan help me out here, I think only 11% of our portfolio are in public names right now. Is that correct?

Curtis L. Buser

Chief Financial Officer, The Carlyle Group, Inc.

Correct.

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

Okay. So about 11% of our names are in public names at the moment, but we really feel good about our portfolio construction, it's very well diversified across industry sectors, big companies, smaller companies across all regions and that type of portfolio construction with our long-term orientation where we don't have liquidity pressure because of marks gives me real good comfort that over the long-term, our portfolio, it will be guite resilient as we enter a period of volatility. Now, if you think about some of the corrections we're seeing, especially with respect to valuations quite frankly on the buy side of the equation we are meeting great companies and the entry points are now more attractive. So I think longer-term this bodes well and I'm on record of saying a healthy correction is not necessarily a bad thing with respect to our investment activity. So, with a long-term view, again, we're of a view that as multiples trade down, it could be more attractive to us from an investment perspective.

Turning to the credit business, I think folks have to appreciate a vast preponderance of our assets, they are a floating rate. So all else equal, assuming economic backdrop is benign, rising rates means that platform generates more profit. And then with respect to volatility, volatility with respect to the credit platform actually creates flow, especially in our special [ph] segment (00:46:23) credit opportunistic strategies, but more broadly speaking, I'd say, Patrick, there's one thing I've learned volatility creates change and change creates deal flow and our platform is very broad, it's around the world, it's very diversified across strategies, across industry sectors, and we've been able to pivot really nicely over the past several years to finding opportunities.

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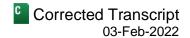


So as we enter this period of volatility and make no doubt about it, we're not being complacent, we're studying what's happening very carefully. Of course, we're focused on inflation, of course, we're focused on rising rates, of course, we're carefully tracking markets, but volatility creates changes that are creating opportunities for a broad-based platform, especially with a long-term lens. So hopefully, that gives you a little bit of color on the environment and how we're positioned to navigate through it.

controlled and not the to positioned to havigate allough in	
Patrick Davitt  Analyst, Autonomous Research LLP	Q
Thank you.	
Operator: Thank you, our next question comes from Schorr w	ith Evercore. Your line is open.
Glenn Schorr Analyst, Evercore Group LLC	Q
Hello there. A quickie first, you talked about this great growth ar Could we talk about the margin? You talked about in the past a scaling really well. I don't have to repeat all the things you said. margins can be in the next year or two as these scale starts cor	bout plans to increase that over time. I think you're Any specific thoughts on where you think the
Kewsong Lee Chief Executive Officer & Director, The Carlyle Group, Inc.	A
Glenn, it's Curt. So thanks for the question. At our Investor Day off of that target, that's for 2024. We grew from 30% beginning was 34%. We're well positioned. Yes, there's some increases in grow the top line faster than expenses and we feel really comfort going to see continued expansion in margin over the coming years.	of this year to 33% for the full year this year, Q4 is some costs in the fourth quarter, but our job is to ortable with our ability to do that. I think you're
Glenn Schorr Analyst, Evercore Group LLC	Q
I'll take this sooner on that bit. Okay. No problem.	
Kewsong Lee Chief Executive Officer & Director, The Carlyle Group, Inc.	A
Hey, Glenn, it's Kew. I read your note this morning. You had 15 away, if I counted correctly.	positives and only 4 negatives in your quick take
Glenn Schorr Analyst, Evercore Group LLC	Q
[indiscernible] (00:48:58). A question for you, I'm curious, this is	more theoretical, I guess. But if I look at your

private equity business, it's big, it's global, it's been, it's fully integrated, it's one [indiscernible] (00:49:11) wondering the share everything. I'm curious in credit, the growth is great, the capital raising is great, the performance is great, everything that you pointed out. I'm curious on how you're integrating it and whether or not it needs to be integrated, meaning does each sub asset class stand on its own, raise capital on its own, go to LPs on its own, or underneath the covers, years out, will it look just like private equity?

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### **Kewsong Lee**

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

Yeah. Glenn, it's a great question, and when I say and Curt says we are taking a platform approach, it's – we are being very intentional with that language. We have teams of investment professionals that are managing multiple strategies and we have a credit distribution capability set that is raising money across our platform strategies. And increasingly, we are also talking to LPs that are coming in to multiple strategies at the same time in SMAs and other type of structured programs. And so, it is with real intention that we've designed for the long-term a strategy that is platform driven, it takes time to get that going, build it the right way and to have it really pay off which is why you've heard me from the very beginning several years back to ask for patience. I think it's starting to pay off. Not only is the growth starting to happen, okay, and you're seeing that organically and also inorganically, we're going to be very thoughtful and take our shots inorganically, but you're seeing a consistent strategy around the platform and what that means is at some point in time, there's a tipping point where the AUM base and the

That has not yet occurred to date, but we are approaching that tipping point, which is why we are keep alluding to the fact that that we think we're going to have a breakout year in credit as it relates to the FRE drop from all the growth that we've been seeing and that we expect to continue, so hopefully that gives you really good color on not only the strategic design of the platform, but what we think the business model will enable this to do from a financial perspective, no longer long-term, but in the short to medium term.

Glenn Schorr  Analyst, Evercore Group LLC	C	
Thanks for all that.		

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

revenue base starts to drop more earnings because of the operating leverage that we've created.

### **Robert Lee**

Analyst, Keefe, Bruyette & Woods, Inc.

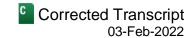
Great. Good morning. Thanks for taking my questions. I guess it's hard to believe there's any more questions left at this point, but real quickly on the capital markets business, I know it's a relatively small piece, but maybe this is another one of those underappreciated initiatives. Could you maybe just update us on that, kind of your current expectations for that over the next couple of years? And you gave an update, obviously in the Investor Day while back, but just like to get another update?

### Curtis L. Buser

Chief Financial Officer, The Carlyle Group, Inc.

Sure. So look really pleased with how this initiative is really commenced and gone on, and it's a good example of people teaming together, working across the entire platform. [ph] Brian Lindley [indiscernible] (00:52:45) this initiative, has really done a nice job of working with all of our credit and buyout professionals and also with our solutions teams. And it just capitalizes really on the deep activity that we see around the globe and really looking to add value in anything and everything that they're involved in. So adding value is the cornerstone of that. The other piece is obviously deal flow really makes this business drive. And what you're already seeing is, in total, we've about just shy of \$100 million this year in transaction and advisory fees with the vast majority of that coming from this capital markets activity.

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It's just been great in terms of what they've been able to do this year. I think as we go forward, a lot of the learnings in terms of how to make all the internal workings work right, how to have everyone incentivized right to work and coordinate together. And remember, we're not an investment bank. So I'm not going after other people's stuff, we're just trying to help and do the things that we're doing really well. So this just [indiscernible] (00:53:59) a really nice trajectory, I think it will continue to grow, it'll be somewhat dependent upon capital markets activity and deal flow. But given that all of that remains relatively strong, I think we'll continue to do some good things here.

Hopefully, that's the color you needed.

**Robert Lee** 

Analyst, Keefe, Bruyette & Woods, Inc.

Yeah. That was very helpful. That was my only question. Thanks for your patience.

**Kewsong Lee** 

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

Thanks, Rob.

Operator: Our next question comes from Adam Beatty with UBS. Your line is open.

Adam Q. Beatty

Analyst, UBS Securities LLC

Hello, good morning. Thank you for taking the questions. I just want to circle back to retail more from a product angle. In the release yesterday, you mentioned [indiscernible] (00:54:36) BDCs, sounds like you got a pretty full suite. So which of those is kind of gaining the most traction right now? Anything that you expected in terms of getting traction, not getting traction? And finally, if there are any product gaps that you might have to fill in? Or is it more about just expanding distribution at this point? Thank you.

Curtis L. Buser

Chief Financial Officer, The Carlyle Group, Inc.

Good question. Look as I said before, there's number of alternative channels we're chasing and working on, and we have initiatives in each of these. Some of the – and I would just say, look, a lot of this is not what we're dependent upon to drive the results that we're talking about. The conference that Kew expressed earlier is really from running the ship the way we've been running it and to the extent that we can execute really well on this, it's all going to be additive.

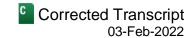
So in terms of specific products, look we have a very good product within our credit business, while we call it CTAC, and it's been growing really nicely throwing [indiscernible] (00:55:39) because the performance there has been phenomenal and has been bringing in new investors. And so, I'm optimistic about where that can go. We have a number of BDCs. They are performing well. Team is working really hard to ancillary products around them so that is also helpful and there's new things in the works across the broader platform of the firm that we're working on, but [indiscernible] (00:56:05) really ready for prime time in terms of talking about in detail. Thanks.

Adam Q. Beatty

Analyst, UBS Securities LLC

Got it. That's good detail. Appreciate it. And then just circling back, one of the phrases that kind of resonate in your prepared remarks is picking your spots. And so just wondering if you could talk about spots maybe that you

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didn't pick like certain opportunities either that other firms are doing or maybe just opportunities that weren't a good fit for Carlyle and how you're thinking about that? Thank you.

Curtis L. Buser

Chief Financial Officer, The Carlyle Group, Inc.

So, look where we're going to be picking our spots is we've now been focused on kind of building a big balance sheet, not for the sake of having a big balance sheet because that gets valued at not very much, but for the sake of being able to grow Fee Related Earnings. And so, the iStar transaction that you saw is the start of what we're doing there, more to come, but we're focused on kind of yes, in particular inorganic growth, but also then using that capital to grow a lot of our own internally developed initiatives and expand in terms of getting bigger scale out of funds and the like. So really we see a way that we're going to be using our capital to grow the firm.

Adam Q. Beatty

Analyst, UBS Securities LLC

Makes sense. Thank you very much.

Curtis L. Buser

Chief Financial Officer, The Carlyle Group, Inc.

Thanks.

**Operator**: Our next question is from Bill Katz with Citigroup. Your line is open.

William Raymond Katz

Analyst, Citigroup Global Markets, Inc.

Okay. This is just some fine tuning for my model. When you look at your management fees, they had a significant bounce sequentially, and I appreciate you turned on a number of funds. Was there any catch-up fees in there? And as we look at the expense side, anything unusual on the cash comp or the G&A line as we think about, into the next couple of guarters? Thank you.

Curtis L. Buser

Chief Financial Officer, The Carlyle Group, Inc.

Sure. So Bill, look, probably on your revenue question on fee management fees depends on how you're doing it. Remember, we turned on a number of funds here in the fourth quarter, not really catch-up management fees, because we turned them on, so there's nothing to catch up back to, just next to the fourth quarter, very light in catch-up management fees, very light, the whole year. Next year will be a little bit of a different story on catch-up management fees. I think you'll see a lot more in catch-up management fees next year, in parts because when we turn it on early and then you have a long fundraiser, that's where you'll have it. But in the fourth quarter, a higher effective fee rate, if you're doing it off of an average of fee paying in AUM beginning of the period, end of the period the denominator will get distorted there. So just be careful if that's the math that you're doing.

In terms of compensation, look, at the end of the year is the bonus period. We had just a great year, really, and I'll hit all of key records on, really all the metrics like what our people were doing and like their focus on driving FRE. And so we pay them and I feel good about that. And as you heard Kew and I talked about, we're very confident about our ability to drive growth and drive FRE and continue to be focused on margin and running the firm effectively and efficiently. And I think that also makes sense in the current market where talent and attracting and retaining top talent is important.

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On G&A, yeah, well, G&A tops all over, as you guys know. As you follow us, for the full year we are about \$270 million, which is about the same as last year when you adjust for the litigation cost recoveries. Fourth quarter did have some investments that were being made and some new initiatives and the legal costs associated with that, some extra fundraising costs. Actually, I hope that kind of continues because that's really then kind of what fuels long-term growth. And then we have some compliance costs that tend to be back end, because tax returns and all that kind of nonsense occurs more at the end of the year. And so you end up with a bit of more cost at that point in time. So hopefully, that gives you some color on how that plays through.

#### William Raymond Katz

Analyst, Citigroup Global Markets, Inc.

Yeah, that's perfect. Thanks so much.

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

#### **Daniel F. Harris**

Managing Director & Head-Public Investor Relations, The Carlyle Group, Inc.

Thank you everyone for your time today. Should you have any follow-up questions, feel free to call Investor Relations at any time. Otherwise, we'll look forward to talking to you again next quarter. Thank you.

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

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