The Carlyle Group(UPDATE)

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Corporate Speakers:

- Daniel Harris; The Carlyle Group Inc.; Head of Investor Relations
- Curt Buser; The Carlyle Group Inc.; Chief Financial Officer
- Mark Jenkins; The Carlyle Group Inc.; Head of Carlyle Global Credit
- Brian Schreiber; The Carlyle Group Inc.; Head of Carlyle Insurance Solutions

Participants:

- Glenn Schorr; Evercore ISI Institutional Equities
- William Katz; Citigroup Inc.; Research Division
- Patrick Davitt; Autonomous Research LLP
- Kenneth Worthington; JPMorgan Chase & Co
- Alexander Blostein; Goldman Sachs Group, Inc
- Rufus Hone; BMO Capital Markets Equity Research
- Samantha Platt; Analyst; Bank of America
- Michael Cyprys; Morgan Stanley; Research Division
- Adam Beatty; UBS Investment Bank; Research Division
- Robert Lee; Keefe, Bruyette, & Woods, Inc.; Research Division

PRESENTATION

Operator Thank you for standing by, and welcome to The Carlyle Group's First Quarter intra-quarter Analyst Call. (Operator Instructions) Please be advised that today's call is being recorded. (Operator Instructions) I would now like to hand the call over to Daniel Harris, Head of Public Investor Relations.

Daniel Harris Thank you, operator. Good morning, and welcome to this morning's call. With me today is Curtis Buser, our Chief Financial Officer; Mark Jenkins, Head of Carlyle's Global Credit business; and Brian Schreiber, Head of Carlyle's Insurance Solutions. Earlier this morning, we issued a press release and an accompanying presentation, both of which are available via the Shareholders section of Carlyle's website at www.carlisle.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 posted 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.

This morning, we announced the formation of a new insurance adviser that will provide strategic services to Fortitude Re, the Bermuda-based reinsurer we helped stand up in 2018, which has evolved rapidly over the past 3-plus years. In addition, we recently announced two additional strategic balance sheet acquisitions. CBAM in structured credit and iStar in real estate credit, both in our Global Credit segment.

Curt will discuss these three transactions in his prepared remarks, and then we will address your questions on these topics thereafter. Later in April, we will also be announcing and hosting our standard first quarter earnings call. To that end, please keep today's questions focused only on these three transactions and anything outside of that scope we'll handle later in April. With that, let me turn the call over to our Chief Financial Officer, Curtis Buser.

Curt Buser Thanks, Dan, and good morning, everyone. Thank you for joining us today on short notice to discuss further progress on our strategic plan to accelerate growth and drive shareholder value, specifically how we are capturing more growth through adjacencies in global credit and insurance solutions.

We will describe how the two other recent credit transactions and today's insurance solutions announcement fundamentally expand the size and profitability of our global credit business and position our credit and insurance solutions platforms for both near-term and long-term FRE growth. Upon our conversion to a C-corporation, we made strategic changes beyond our corporate structure that positioned us to pursue these recent transactions.

Notably, we adjusted our capital return policy to fix our dividend at approximately the level of after-tax Fee Related Earnings, allowing us to retain capital on our balance sheet that was needed to help grow our investment platform. Our capital generation has significantly increased due to our 2021 financial performance, and our balance sheet is a true source of strength that is now well positioned to help us accelerate growth.

At our Investor Day last February, we laid out our strategic plan, a multiyear roadmap for how we expect to accelerate both organic and inorganic growth to drive shareholder value. We identified our global credit and insurance solutions platforms as anticipated drivers of future growth with the potential to scale in the near term.

In addition to growing these businesses organically, we said we will look for M&A opportunities that are strategically adjacent to our business, have clear opportunity to scale and are FRE accretive. These three transactions demonstrate how we continue to do what we said we were going to do. Insurance Solutions, CBAM and iStar each meet the criteria in different ways, particularly as we look to drive FRE growth.

Let me provide context for how we think about scaling Carlyle's Fee Related Earnings. First, we want to scale up nominal FRE, make it a bigger percentage of overall distributable earnings.

Second, we want to position Fee Related Earnings to grow faster. And last, we want to improve the overall FRE margin. Some transactions we pursue may achieve all of these, others only one, but the overall portfolio of our organic and inorganic growth initiatives will be designed to address all of these objectives and over time, improve the quality, diversity and value of our Fee Related Earnings.

If you look at these three transactions in the aggregate, we spent a total of $1.2 billion of balance sheet capital to add an incremental and growing $65 billion of fee-earning assets under management and approximately $120 million of annualized run rate Fee Related Earnings. That's an attractive 10x multiple for these recurring fee streams. Equally as important, there is a real engine for growth behind that FRE run rate. I'll talk specifically about each of these three recent transactions to provide more color on how each fits into our strategy.

First, the transactions announced earlier today that position our Insurance Solutions platform for further growth. Our strategy started with our acquisition of an interest in Fortitude in 2018. We spent the past 3-plus years creating the leading, fully independent, high-quality Bermuda-based reinsurer.

We benefited from great performance from Fortitude as it continues to generate mid-teens ROE. Fortitude has acquired onshore licenses and brought their third-party administrator in-house. It has also grown to retain capital, announced and self-financed two reinsurance transactions and is pursuing a healthy M&A pipeline.

Today, we announced two milestones that advance our Insurance Solutions platform and better align Carlyle's financial growth with the strategic growth of Fortitude. First, Carlyle raised $2.1 billion in new growth capital for Fortitude, including up to $150 million from the balance sheet investment from Carlyle.

This new capital helps strengthen Fortitude's balance sheet, positions it to pursue substantial growth opportunities across this platform and offer its reinsurance expertise across a broader set of insurance liabilities and geographies. In addition, Carlyle has entered into a new strategic advisory services agreement with Fortitude, who will continue to focus on prioritizing policyholders' interest.

Fortitude will pay Carlyle a recurring fee on the entirety of its general account assets, and that fee will adjust within an agreed upon range based on Fortitude's overall profitability. We anticipate this new agreement will increase Global Credit's fee earning AUM by $50 billion and helped Fee Related Earnings grow by $50 million on an initial annualized basis.

This next step in our Insurance Solutions strategy is about alignment. With our asset-light capital structure and the fee that is tied to Fortitude's profitability, we have created a virtuous cycle that is good for all involved parties. When Fortitude grows, Carlyle will also grow and diversify our

Fee Related Earnings and fee earning AUM, and our investors and Fortitude's policyholders will benefit.

This transaction hits all three goals I laid out, adding scale, growth and margin enhancement. And if Fortitude grows, as anticipated, we expect to more than double the FRE generated by this advisory relationship by 2025, possibly sooner. We see a multitrillion dollar global market opportunity for legacy liabilities, and now have the capital to accelerate in a meaningful way.

Now let me shift gears and talk about the two Global Credit acquisitions we've announced recently. Earlier this month, we announced the acquisition of CBAM's $15 billion portfolio of assets comprised largely of CLO funds. The transaction increased Carlyle's CLO AUM to approximately $48 billion, making Carlyle the world's largest CLO manager.

We also acquired certain other CBAM private credit assets that fit strategically into our global credit platform. We negotiated with certain investors and the CLOs to secure the right to reset all of the CLO management contracts we acquired, effectively doubling or more the duration of these funds. This transaction closed on March 21, and is seamlessly integrated into the Global Credit platform.

The transaction was structured as an asset purchase, given us two additional benefits. One, we bought the management contracts and not the company. So we didn't bring over the investment team or expenses associated with the assets.

Second, we'll be able to amortize the value of those assets over 15 years, which provides a long-term cash tax benefit. CBAM is immediately accretive to FRE and DE per common share, hitting two of the goals, adding significant scale to global credit Fee Related Earnings and substantially increasing the FRE margin in that business. It provides a recurring high-value revenue stream that has a very long contractual duration.

We also announced the acquisition of iStar Inc.'s net lease business, a deal that positions Fee Related Earnings for higher long-term growth by continuing to scale our platform in an adjacent area like real estate credit. With iStar, we jump started this push by acquiring a diversified portfolio of triple net leases from a publicly traded financial services company while also hiring a seasoned investment team that is combined with our existing team to oversee that portfolio.

We expect to grow this asset acquisition into a $10 billion asset under management strategy over the next several years with a focus on making this product available to the retail channel over time. While this will take some time to manifest in a meaningful Fee Related Earnings, we see significant opportunity to drive further FRE growth and believe the combination of Carlyle's strengths in assessing credit risk and evaluating real estate investments position us to drive attractive returns for investors.

In conclusion, each of these transactions demonstrate that our balance sheet is a source of strength that we're leveraging to accelerate growth. increase Fee Related Earnings and drive long-term shareholder value. We said that our global credit and insurance solutions platforms were areas poised for growth, and we are delivering on that.

These transactions are expected to have a significant impact on Global Credit's future earnings generation. In aggregate, it will more than double Global Credit's fee earnings AUM and FRE on an annualized basis and increase its FRE margin by 1,500 basis points compared to 2021 financial results. In addition, Global Credit is even better positioned for future growth while further diversifying Carlyle's overall business mix.

Finally, taking our prior firmwide guidance into consideration, along with these transactions and their expected closings, we now expect Fee Related Earnings to reach approximately $850 million in 2022, more than 40% higher than the $598 million we generated in 2021. That is significant progress, and we will expect to see further growth as we head into 2023. Now let me turn the call over to the operator so we can take your questions.

QUESTIONS AND ANSWERS

Operator (Operator Instructions) Our first question comes from the line of Glenn Schorr of Evercore.

Glenn Schorr So I think we've all gotten used to companies in this space, making insurance investments and getting assets under management, and this is incredibly different than that. So I'm curious what you had or what you needed to build at Carlyle and Fortitude to do something like this because it's a differentiated suite of services that you're providing. And then how come IMA is not part of this relationship?

Mark Jenkins Sure. It's Mark Jenkins here. Thanks for your question. So I'll start off and then Brian Schreiber is with me as well to kind of add on. But I think you've heard from Kew that we've been asking Global Credit at least for patience as we've rebuilt the platform over the past 5.5 years.

And really over that time, as Curt told you, we've really taken our AUM from $28 billion to really $88 billion as of yesterday, and as of today, it's over $138 billion of AUM. And that's pretty substantial growth. And that FRE growth has really gone -- it's more than doubled over the past 3 years alone.

What we really love to do is build a true platform approach with all the new strategies that are really relevant not just to insurance, but also to our other investors. But it really allows us to service a very diversified array of clients, but insurance, in particular, has been pervasive across the whole platform. And it's really innately intertwined with the insurance strategy and not just for Fortitude, but also third-party insurers.

And so what that's really done is open up a wider audience of companies, one I was just sitting with before this call that are noticing what we're doing. And in particular, it's allowed us to grow that business not just directly from Fortitude, but also from other related parties who've looked at what we've done.

And Brian just recently helped us on a piece of business where the reinsurer like Fortitude was doing so much that they turned around and gave us a very big strategic account. So with that being said, we look at it as continue to be a driver of our growth going forward of the strategic plan and really, we're just demonstrating like everything we told you about in the 2021 investor call that we're going to deliver on.

I think when you roll in CBAM and iStar, those are, as Curtis said, it's just -- those are different components of an overall strategy to continue to grow and scale the overall credit platform itself. And you've seen really our fee earning income is -- or AUM has more than doubled over that period of time. So I think in 2021, we told you, we'd get to -- sorry, AUM that would be north of $80 billion by 2024.

We've far exceeded that because of the many things that we talked about on that call that we've been working on. And for us, this is really kind of the beginning of the pivotal moment and change the trajectory business as we continue to scale and lever off of the operating leverage that we've built into the platform so we can dedicate resources to Fortitude and others. So with that, Brian, I'll kind of pass it off to you because it's been really a great relationship.

Brian Schreiber Yes. It's been a terrific partnership and again, we have a firm really comes together to take advantage of these opportunities. And for the Fortitude side, we've been setting up this platform for several years with this vision in mind.

And it's about creating alignment from the ultimate policyholders, who were responsible for meeting our obligations to them, through our stakeholders at Carlyle. We've built Fortitude into a leading Bermuda-based reinsurer that approaches the market opportunity as a true partner to our counterparties, and I think this announcement further highlights that alignment of interest. Your question about the services being provided, what's different.

It is a wide range of activities that we provide to support Fortitude's growth, and that includes deal sourcing and execution sourcing of the critical investment content needed to match off against the very long-dated complex illiquid liabilities that Fortitude originates, portfolio optimization, working on innovative structures and products to better meet the needs of Fortitude's reinsurance counterparties and our investors.

And Carlyle and our partners have helped to sort of build Fortitude to what it is today together, and we're excited about the growth that is in front of us. We have capital in place now. And as you've heard, we believe it's sufficient to double the size of Fortitude today. So we're excited. We have a very deep pipeline of opportunities, and we think this is just the beginning of that.

Daniel Harris And I would just remind you -- this is Dan. If you go back to what Kew said on the earnings call last quarter, Global Credit with insurance now is a big part of that is really well positioned to grow substantially in '22. And this is just another piece and example of that.

So we continue to tell you that there's a lot of growth engines at the firm, and you're seeing that play out. And what we've been telling you for a while now, and I think today and all the announcements over the past quarter are further illustrations.

Glenn Schorr So Dan, I follow all that. I love the margins, the growth, the doubling the size, the excess capital. Can you tell us why the revaluation lower, the $277 million charge?

Curt Buser Glenn, it's Curt. Let me step into that. So if you read the note, this is a GAAP charge that we're going to take as really the result of the dilution. So if you go back, you'll remember that we bought in our 19.9% stake in Fortitude at $460 million or so, something like that.

That value has obviously increased on over time. So it's carried at probably north of $700 million or something like that now. And so while we're going to have a 10.5% stake of a much bigger pie, nevertheless, we're being diluted down from the 19.9% to the 10.5%.

And as a result of that, based on current fair value, it will be a $280 million or so charge, and that will occur as that dilution occurs to get there. So it's just a simple mechanics around that, but it really doesn't -- if you think about it, it's a noncash charge and what we're really doing is we're turning our balance sheet into driving Fee Related Earnings, and that's consistent with what Kew and I have been saying is really our goal all along.

Operator Our next question comes from Bill Katz of Citigroup.

William Katz It's a bit of a multi plotter, I apologize, but it will be one question. Can you speak to -- you made a couple of comments here that you could maybe double the AUM by '25, if not sooner. I'm just trying to triangulate with sort of the extra capital and triangulate that between sort of dry powder to understand the pacing thereof.

And then I think part of the original relationship with Fortitude really was the opportunity to migrate some of the general account into Carlyle product. I wonder if you could talk a little bit about the time line to that? And then finally, can you give us a sense of how to think through the parameters or the sliding scale or some of the key metrics we should be watching for that would sort of oscillate that 10 basis point when I think it's 10 basis point advisory rate?

Curt Buser Let me start, and then Brian can kind of fill in. So first, in terms of how to think about doubling the business, remember, key part of what Brian and the team just achieved was really putting the -- raising the $2.1 billion of additional capital for Fortitude.

That with just a little bit of leverage allows that business really the firepower to go and essentially double its business in a short period of time. And so we're very confident given the pipeline that we're looking at that, that will be achievable, and so that would create much more AUM within Fortitude for which we will then be earning an advisory fee based upon.

Second thing that you pointed out was really the migration of direct accounts, and that's what we've talked about, this is incremental. So we have about $7 billion of capital that has been invested right into Carlyle products.

None of that changes. In fact, we actually think that, that will continue to grow. And that's why what we're talking about here is initially just the incremental impact of this. Doesn't replace any of that $7 billion, it's just incremental on top of that. And then you talked about really the fee rates.

And again, what I talked about -- what we tried to explain here is the great alignment here, which is as the advisory services we provide help Fortitude earn more money, our fee rate will go up. And also as its size expands and those general assets that it manages, we will also then benefit from that from a larger size. So very good alignment helps benefit the Fortitude policyholders just as Carlyle being benefited. Brian, I don't know if there's anything you'd add to that.

Brian Schreiber^ Sure. Just a couple of points. One, there are trillions of dollars of legacy liabilities globally. I don't know if you've noticed, but this morning, Fortitude also put out a press release about a $4 billion benchmark reinsurance transaction it did out of Japan. It was one of the first of its kind in that market. We think there's a big opportunity there, and we're really proud of that transaction.

As far as Fortitude's firepower goes, we have much more than the $2 billion of additional firepower because keep in mind, Fortitude does generate significant excess capital, and we do have other financing sources to help us provide the capital needed for acquisitions and reinsurance. So by being the partner of choice for our counterparties and given the resources that both Carlyle, Fortitude bring to the table, we're really excited about the growth opportunities.

Operator Our next question comes from Patrick Davitt of Autonomous Research.

Patrick Davitt This might be difficult. Maybe you could try to give us a broad idea. Could you frame how much you would describe these deals as pulling forward the Investor Day FRE guidance versus being incremental to that guidance? So in that vein, could you now raise that kind of $800 million plus 2024 FRE guidance?

Curt Buser So Patrick, look, we're not going to change or give you anything on 2024 guidance at this point in time, but I will remind you that if you go back to our Investor Day, that was all essentially from organic business. And so the acquisitions that we're talking about here today in these transactions are incremental to all of that.

Operator Our next question comes from Ken Worthington of JPMorgan.

Kenneth Worthington The follow-up on Bill's question. So Carlyle raised $2.1 billion for Fortitude, and it looks like it's increasing the adjusted book value by about 50%. So can you talk about how you expect Fortitude to utilize the capital? Maybe more importantly, how quickly you think Fortitude could deploy the capital? And then how this sort of flows back into Carlyle? If the book value is up by 50%, does the Carlyle fee paying AUM, starting at $50 billion, also increase proportionally by 50% as well as you deploy just the $2.1 billion? I know you guys said you had more, but we can do the math if we know sort of the relationship.

Curt Buser So first part of your question, what is the timeframe for deployment? It's a bit of a tricky question to ask because probability, weighting some of the deals we're looking at could be challenging. But given our success rate and the deals in the pipeline, we think that, that capital will get deployed over the next couple of years.

When you think about the sort of asset leverage, depending on the nature of the business that we're originating, I think it's -- there could be a range of sort of anywhere from 10 to 20x the amount of assets generated per dollar of capital deployed in a reinsurance or transaction or acquisition. So you can kind of figure out. I mean some could be a little bit more at the higher end. It could be somewhere in the middle. But that's the general sort of high-level math we'd guided to use around this.

Brian Schreiber Yes. Remember, Ken, that we -- the advisory relationship and the fee rate is based on the general account assets, not the book value as you think about how the financial impact to Carlyle will run, not the book value of Fortitude.

Operator Our next question comes from Alex Blostein of Goldman Sachs.

Alexander Blostein I was hoping to maybe unpack a couple of numbers you said on the call and a couple of clarifications, really. So I guess, one, on the $50 million of incremental FRE from this transaction. Is that net of any noncontrolling interest? Because it sounds like there's going to be some of the additional kind of third-party investors participating in this. So is it net to Carlyle? Is it still $50 million? Or there should be something we're thinking about deducting for noncontrolling interest? And then when it comes to the $120 million for total, I believe the iStar's deal doesn't really have much FRE coming in upfront. So effectively, the majority of the rest of it is just CBAM. So -- just was hoping you can unpack that a little bit more.

Curt Buser: Alex, this is Curt. I think you got this right. $50 million is net of any noncontrolling interest, and that's relatively small. We gave you that, the incremental impact. And so that $50 million is net of all of that noise.

Second question was on iStar. Yes, initially small, but we have high expectations for how it can contribute in the long term and really grow FRE in several years from now. And that's a work in process, but we like the underpinnings of those assets, and I think that's a really smart step for us to set things up for growth.

Operator Our next question comes from Rufus Hone of BMO.

Rufus Hone Great. Can you talk through how you think rising interest rates might have an impact on the potential M&A growth trajectory of Fortitude?

Daniel Harris Rufus, this is Dan. We'll handle that question on the earnings call. We wanted just to really keep these questions specific to just the transactions versus something more macro. I apologize. If you have a question specific to the deal, we're happy to take it.

Rufus Hone Sure. Okay. So maybe more of a general one. I guess, can you give us a sense of how big the addressable market here is in legacy liabilities? And are you looking at any new pools of liabilities? And whether you see the liability mix of Fortitude evolving over time?

Curt Buser As I mentioned, we think it's a multitrillion-dollar opportunity. We think there's potentially $1 trillion in Asia. There's probably more than that here in North America. There's an opportunity in Europe, so it is big. And I think the reason why it's hard to sort of put a pin in it is because the insurance industry is creating future legacy liabilities today. So it's not as if there's a finite amount, and we believe that as our -- the industries evolve and new challenges emerge, new solutions will be required, and we'll be there to provide them.

Operator Our next question comes from Craig Siegenthaler of Bank of America.

Samantha Platt This is Sam on for Craig. As we're looking at Fortitude, can you give us some color on the types of assets that you can match against P&C and life insurance liabilities?

Curt Buser Sure. Fortitude is, in many ways, like other insurance companies and most of the portfolio will be in fixed income. What we tend to do is to match our liability durations at as far as we can go with good fixed income assets, and that's usually out to about 30 years, after which we tend to rely on private equity and real assets to generate the returns we need to weigh out. You have to keep in mind that these liabilities are highly illiquid, meaning that they don't come due sooner than you think they are.

So it's really the ideal way of matching of against the types of assets we generate here at Carlyle. And then for the shorter duration, there is plenty of opportunities in private and structured credit where we can pick up yield and quality. This is not at all about risking off, it's about superior relative value at the shorter end of the curve. Again, it's structured in private credit, which Mark and his team have been fantastic in generating for us.

Operator Our next question comes from Michael Cyprys of Morgan Stanley.

Michael Cyprys Maybe just circling back to your commentary around the assets in Fortitude doubling. Just curious how much of that you expect to come from M&A versus organic? And if you could maybe just clarify, how much you're seeing in terms of regular organic flows? And then on the outlook for M&A, which you alluded to earlier, some trillions of dollars you're seeing around the world and opportunities, I guess, what gives you the confidence that we're going to see that transpire?

Brian Schreiber Okay. So on the first part of the question, I just want to make sure I -- could you just repeat the first part of the question just for a second? I just want to make sure I answer it accurately.

Michael Cyprys Yes, sure. Sorry, I did put a bunch of questions in there. Just in terms of the doubling, how much of that's coming from M&A versus organic, was the first part.

Brian Schreiber Yes, it's the organic. First, Fortitude does not write prospective risk today. It doesn't issue new contracts. It is only solving legacy problems for our clients. So in some ways, we think of M&A and reinsurance as organic growth. That is the nature of our business.

And as you've seen in the last couple of years, there's been an increasing base of transactions like this as insurance company CEOs have found this as a great solution to get rid of these sort of complex, capital intensive and potentially volatile liabilities that the market just heavily discounts. We have an ability to manage them as a private company differently than the public companies can, and that's an important source of where the value creation is.

So I think the growth is -- again, we think of it as organic, but it's all M&A and reinsurance driven. We are likely to start entertaining some flow reinsurance transactions soon possibly this year, we're in conversations, but the bulk of it is going to be working with partners to help solve big chunky problems for them.

As far as why the market is likely to transact, I think if you look at some of the companies that have entered into these types of arrangements and transactions, the markets rewarded them.

And as the insurance industry, again, is fighting the investment headwinds that they have and need to sort of increase the velocity of capital in their businesses. This is something that is now becoming a viable and highly valued option for management teams to consider. So we're seeing -- we're getting transactions done. The pipeline is growing. We're seeing the market evolving in a very positive way. So I'll leave it at that.

Operator Our next question comes from Adam Beatty of UBS.

Adam Beatty A question on CBAM. Just wondering about the composition of the portfolio and whether it's different in any meaningful way from the CLO book right now at Carlyle, and if it moves the center of mass in an important way? Also, kind of to tack on a question around build versus buy. You've had great momentum in your existing CLO business. So just wondering about what made this deal an attractive place to deploy the balance sheet? It looks like the structure of it is pretty attractive. So maybe it was just opportunistic in that sense.

Mark Jenkins Sure. It's Mark here. I guess, firstly, we're looking, as we told the analysts -- you all before, we're looking to put strength on strength and Kew encourages us to make sure that we're putting strength on strength that we're already good. And we already had a world-class CLO business, and this was just a great opportunity to extend that. And it gives us scale.

It obviously is highly accretive and it's a synergistic strategy for us. So from that perspective it hit all the boxes. I would say that there's a lot of intangibles around being the largest CLO provider in the world, i.e., that there are things around on the asset side and the liability side that I think we benefit from, hard to quantify that. And there were a couple of other businesses that we didn't really speak of that we acquired along the way that we think will provide some upside for us. So I think that was the core of it for us.

In terms of your first question, I mean, there is a lot of overlap in the names, I would say, with respect to positions we're already managing, which made us so synergistic. But like any other acquisition we make in terms of a portfolio, there are some names that are new to us. But we've got a great analyst team and great portfolio managers, so we're managing through that, and that's been seamless since we closed that last week as well.

And I think Curt really hit on something that was really important is that the duration of these assets and the ability to derive persistent and consistent FRE for our platform is really beyond the norm with what we've seen out there. And we're partnering really with some best-in-class partners on the equity side, which is really terrific as well. So we're really excited about this, really excited.

Operator Our next question comes from Robert Lee of KBW.

Robert Lee Great. Just curious, I mean some of your peers who've gone down a similar path have seen the need to either take larger stakes in their insurance affiliates in part because I guess, at times, there have been questions about the sustainability of the contract. So I'm just curious, I mean your decision to bring that it's okay to bring down your equity. Is there any type of -- I don't know, maybe you have super voting rights or your voting power is greater than the 10% that we should be thoughtful of? Or what makes you comfortable that long term because these questions could start to come up at some point about the sustainability of the contract with an independent third party.

Curt Buser Rob, it's Curt. Look, my hats off to Brian and the team, this just took a lot of work to really think through how to structure this in the right way with all of the land mines that you're alluding to. But really, I think we came out with something really good here. And so the thing that I would tell you is, we have very strong protective rights. This advisory agreement, the way you should think about it as effectively permanent or perpetual in nature.

So very comfortable with that, very comfortable with the rights that we have that really protect what we're doing. But it all starts with kind of alignment, and as long as we're doing that, which is bringing value to Fortitude, we feel very secure with what we've created. It's a win-win for both Fortitude and policyholders as well as Carlyle and our investors.

Operator Our next question comes from Patrick Davitt of Autonomous Research.

Patrick Davitt My follow-up is on kind of thinking about the modeling of the change in fees with Fortitude earnings. Could you give a little more detail on what earnings metric it will be based off? As I assume that it's GAAP earnings that would have like negative marks at some point. And did I hear correctly, that the increase will come from both a higher fee rate and AUM growth? Like there are 2 components there.

Curt Buser So Patrick, I mean, this is -- I think you may be overthinking this a little bit. From a pure Fee Related Earnings perspective, I mean there's 2 big fee streams on Fortitude: one is, they'll invest directly into our products and our funds, and those fees were based on rack rate from those products; second is this advisory relationship that we've just articulated to you roughly an incremental $50 million of Fee Related Earnings on the incremental $50 billion of fee earning AUM. And as we do well, that will get bigger. So the modeling here is very simple.

The stuff on the mark-to-market on our investment in Fortitude is -- comes through our GAAP earnings mostly on an unrealized basis, and that's also where you'll see some of the dilution impact from the 19 to 10 that we call out in the footnotes in the slides and in the release. So hopefully, that answers your question. I think the math here is pretty simple.

Operator We have a follow-up from Michael Cyprys of Morgan Stanley.

Michael Cyprys I just want to come back to the point on the revenue, which I think you mentioned was a function of the profitability level. I was hoping you could elaborate on that in terms of like what scenario would it be less than that implied 10 basis points? Is there a scenario where it could be 0? How that sort of works? And then coming back to your point on the permanence of the contract. I guess, technically, how does that work? Is it like a 5-year duration? Was annual automatic extensions? Just how does that work?

Curt Buser So Mike, let me start and Brian can fill in the details. But really, the 10 basis points there that you can kind of imply, think of that as effectively a floor. And then from a governance perspective, the way it's designed is, there are some renewals. But as long as we're performing, we're in really good shape, especially in terms of the protective rights that we have. And so you can almost kind of think of this as, again, kind of permanent in nature. Brian, I don't know if there's anything you'd add to that.

Brian Schreiber You really said it, Curt. This is -- that is perpetual in nature as you can get.

Michael Cyprys And if I could just ask one final question in here. Just I was hoping you could elaborate a little bit on sort of the expanded services that you're providing to Fortitude today that you did not provide in the past.

Curt Buser I think we were doing most of this in the past. I think the things we were doing are just ramping up dramatically as a result of Fortitude's growth and that formalizing it under this agreement is a way to just ensure that everybody is delivering what they need to and simple as that.

Operator As there are no further questions in queue, I'd like to turn the call back over to Daniel Harris for closing remarks.

Daniel Harris Thank you, everyone, for your time this morning on short notice. We look forward to speaking with you again at the end of April on our earnings call. If you have any follow-up questions, feel free to reach out to Investor Relations. Have a great afternoon.

Operator And this concludes today's conference call. Thank you for participating. You may now disconnect.