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The Carlyle Group, Inc. (CG)

Q1 2021 Earnings Call
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MANAGEMENT DISCUSSION SECTION

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

I would now like to hand the conference over to your speaker today, Mr. Daniel Harris. Please go ahead.

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

Thank you, Mary. Good morning and welcome to Carlyle’s first 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. 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 release. Any forward-looking statements made today do not guarantee future performance and undue reliance should not be placed on them.

These statements are based on current management expectations and involve inherent risks and uncertainties, including those identified in the Risk Factors section of our Annual Report on Form 10-K that could cause actual results to differ materially from those indicated. Carlyle assumes no obligation to update any forward-looking statements at any time.

Earlier this morning, we issued a press release and detailed earnings presentation, which is also available on our Investor Relations website. For the first quarter, we generated $129 million in Fee Related Earnings and $215 million in Distributable Earnings, with DE per common share of $0.58. 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.

With that, let me turn the call over to our Chief Executive Officer, Kewsong Lee.

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

Thank you, Dan. Good morning, everyone and thank you for joining us today. We hope you are all doing well and that you and your families are safe and healthy. Our strong results this quarter highlight that we are making good progress against the strategy we outlined at our Investor Day in February.

We are encouraged by our early results and are committed to sharing transparently our progress. Our plan is focused on accelerating the scope and scale of our investment platforms, expanding our efforts in adjacencies like insurance and capital markets and institutionalizing the firm to drive higher incremental margins.
Over the next four years, as we execute this plan, we expect to raise $130 billion or more in new capital, generate at least $800 million in annual fee-related earnings, produce at least $800 million a year in net realized performance revenue and ultimately deliver $1.6 billion or more in annual distributable earnings for shareholders, all by 2024. We had a strong first quarter, and I am confident in our ability to achieve or exceed the goals we have set for ourselves.

Today, I'd like to highlight three areas of progress. First, our investment platform is firing on all cylinders. Second, our strong performance is translating into accelerating near-term results and setting the stage for growth. And finally, we continue to improve how we operate as a firm to drive sustainable and improving performance for all stakeholders.

Let me start with our investment platform. On performance, simply put, our funds delivered their best quarter in the past decade. Many of our largest and most significant funds appreciated materially in the quarter.

Our corporate private equity carry funds appreciated 15% in the quarter and our Investment Solutions carry funds appreciated 14%. And with Global Credit and natural resources carry funds each delivering 7% to 8% appreciation in the quarter, we saw strength across our entire global investment platform.

On new investments, deployment activity and our deal pipeline are as robust as they have ever been. Our global platform is an incredible advantage in sourcing deals, creating value at our portfolio companies and helping us navigate a rapidly changing environment.

We invested $5.5 billion of new capital in our carry funds this quarter and nearly $21 billion over the last 12 months. We saw significant regional activity in Europe, further ramp up in private equity growth opportunities in Asia and the United States, and strong activity across the tech, healthcare, and consumer sectors.

With respect to exits, we generated more than $6 billion in realized proceeds for our LPs this quarter, completing full sales of portfolio companies such as PA Consulting in Europe, PIB in the United States, and WingArc1st in Japan.

We took both Atotech and Ortho Clinical Diagnostics public in the quarter, increasing our public portfolio to more than $20 billion. And from that portfolio, we sold $1 billion in shares. Most importantly, our pipeline for future realizations continues to build with the maturation and seasoning of our portfolios.

Finally, on fundraising, we raised nearly $8 billion in new capital in the first quarter, with Investment Solutions and Global Credit driving a majority of that activity.

Early feedback is positive on several flagship Global Private Equity funds that are returning to market and we expect to have first closings in several of these funds over the next few quarters. It's fair to say that our strong investment performance and elevated level of investment activity positively impacts our fundraising efforts.

This brings me to the second point that success in these major business activities is generating strong financial results and positions us well to produce a material increase in future distributable earnings.

The strong start to our fundraising campaign increases our confidence that, as we raise capital as laid out in our plan, you'll see a commensurate increase in management fees, fee-related earnings and margins.
In the first quarter, we generated $129 million in fee-related earnings, which is an increase of 30% from an as-adjusted basis last year. We continue our focus on driving FRE, and growth in FRE should really gain steam as we activate fees on large new fund closings over the course of the next several years. But the real big news in this quarter is our record net accrued carry balance of $3.2 billion, an increase of 2.5 times from a year ago.

This record level of accrued carry, alongside our strong investment performance, positions us to see an acceleration in net performance revenues over the course of this year and beyond as our exit pace picks up.

Our momentum and continued focus on fee-related earnings and our better visibility on accelerating realization activity from the growth in accrued carry, all underpin our confidence in materially growing distributable earnings as we execute against our strategic plan objectives.

Finally, my third point is on the continuous changes and investments we are making at Carlyle to evolve and further institutionalize the firm to sustain improved performance. We have challenged our 1,800 people to think bigger, perform better, and move faster. We are running the firm more effectively, scaling everywhere possible and streamlining where prudent.

We are focused on continuing to attract, grow, and retain the very best talent across our entire global organization and have no doubt that our results will drive meaningful value creation for shareholders.

In closing, we feel great about our strategy, performance, and improving how we operate the firm. We are building on our solid momentum to accelerate growth and create lasting impact. We are excited, confident, and optimistic for what's ahead. Over to you, Curt.

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

Thank you, Kew, and good morning, everyone. In my remarks, I will address three areas to support and build upon Kew’s opening comments. First, I’ll provide additional context around the strong first quarter carry fund appreciation and our record accrued carry balance. Second, I will quickly review our first quarter results; and finally, leave you with some considerations looking forward.

So let's begin with the higher portfolio valuations. Our investment portfolios are generally in great shape, concentrated in high quality assets, diversified by sector and vintage, and managed by highly experienced investment teams.

Continued improvements in operating performance at the individual portfolio company level and increasing public and private market valuation levels were tailwinds to valuation this quarter. Add in greater economic certainty alongside historically low interest rates and our funds benefited from significant fair value increases in the quarter.

With the past few quarters’ strong appreciation, our most recent fully invested flagship buyout funds are all at the upper end of relative performance as compared to their predecessors, and the investing generation of these funds is also tracking favorably.

We believe this positions these strategies very well upon their return to the market. This appreciation resulted in a significant increase in our net accrued carry balance which we already noted rose to $3.2 billion, up 36% from $2.3 billion just last quarter.
The size of the accrual has accelerated and its composition has diversified. We currently have five funds that have more than $100 million in net accrued carry. Carlyle Partners VI remains early in its cash generation cycle and has a net accrued carry balance of nearly $1.4 billion. And we have not yet realized any carry from our latest fully invested Asia and Europe buyout funds, though both funds are performing very well and are also now in accrued carry.

Notably, three significant carry funds posted very strong appreciation and moved into carry this quarter, including our fourth generation Europe buyout and Europe technology funds, each of which appreciated more than 25%, and are currently investing seventh US buyout fund which appreciated 10%.

Keep in mind, however, that our seventh US buyout fund and our fourth Europe technology fund remain in their investment periods and could move in and out of accrued carry as they fully invest their capital.

Let me now move to a review of our first quarter results. We generated $215 million in distributable earnings and DE per share of $0.58 for the quarter, an increase of 21% over a year ago. The growth was driven by $30 million or 30% increase in fee-related earnings to $129 million when adjusting for the $30 million in legal recoveries a year ago.

Our FRE margin this quarter of 31% was up about 600 basis points from an as-adjusted 25% a year ago. Positively impacting FRE this quarter was a higher level of transaction fees, which at $15 million in the quarter and $36 million over the past six months illustrates the strong traction Carlyle Global Capital Markets is already experiencing, as we focus on growing this earnings adjacency. We are excited about this growth adjacency and believe we have significant room to continue to expand as outlined at our Investor Day.

Net realized performance revenues of $76 million for the quarter increased significantly compared to last year. But on a longer-term view, remain low by our historic standards. We expect to see both the pace of exits and performance revenues associated with those exits increase significantly.

Realized investment income was $30 million and was higher than any quarter in 2020. With investments on our balance sheet now at $1.8 billion on a projected healthy exit pace, investment income should remain higher than in prior periods.

Fundraising was also strong out of the gate, with $7.8 billion of new capital raised this quarter. Similar to last year, activity was driven mostly by Global Credit and Investment Solutions. Our fundraising mix should shift more towards Global Private Equity later this year, as several GP funds are expected to have first closings.

In the first quarter, we took advantage of a strong CLO market to issue four new CLOs; three in the US and one in Europe. And in April, AlpInvest held the final close on its latest co-investment fund at $3.5 billion, more than twice as large as its predecessor fund. Fees on this program will begin with second quarter results.

Finally, let me cover a few items to look out for over the next few quarters. First, we expect significant distributable earnings growth as our exit pace increases across our platform. For example, we have already announced exits for Ithaca, MedRisk, and PPD in Carlyle Partners VI and AMEOS in Carlyle Europe Partners III, all of which should close over the next few quarters.

G&A expense continues to benefit from lower travel and conference expenditures as well as lower professional fees. So we expect G&A will increase throughout 2021 as activity normalizes, but is likely to remain below prior peak levels.
Equity-based compensation expense of $35 million was up versus $32 million a year ago and reflects the impact of February’s strategic equity grants. Equity-based compensation expense will modestly increase next quarter to reflect a full quarter of expense amortization on these awards and will likely remain at those levels for the near to medium term.

Our effective DE tax rate, which was approximately 5% for the first quarter, reflects the ongoing utilization of existing tax operating loss carryforwards. But we continue to expect our full-year effective DE tax rate to wind up closer to a mid-teen blended rate.

We maintained our dividend at $0.25 per share for the quarter and expect it to remain at this level for the balance of the year. Over time, we would expect our fixed dividend to grow with FRE beginning as early as next year.

We are committed to maintaining a balance sheet-light approach and have ample resources to accomplish our organic growth objectives. And with the persistence of a low-rate environment, we continue to assess opportunities to optimize our capital structure and lower our average cost of capital.

And finally, subsequent to quarter-end, we completed the sale of Metropolitan Real Estate for a small game and subleased its previous office space in New York, which will result in a GAAP charge in the second quarter for the loss on the sublease.

Both the sale of MRE and the sublease will modestly improve our FRE margins prospectively. In sum, we’re pleased with our results for the quarter and the exceptional performance of our funds. We remain on track to meet or exceed our 2024 goals to grow our pre-tax distributable earnings to at least $1.6 billion, with an attractive mix of sustainable fee-related earnings and strong performance from our funds and investments. We’ll continue to keep you updated on our progress.

With that, let me turn the call over to the operator for your questions.
QUESTION AND ANSWER SECTION

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

Glenn Schorr  
Analyst, Evercore ISI

Hi. Thanks very much. Appreciate it. Maybe if we could just talk a little bit about Global Credit builds. You mentioned you got four CLOs off in the quarter as the market opened, which is great. Maybe if we could talk about what to expect over the next coming quarters maybe for direct lending opportunities to credit aviation, infrastructure credit, that'd be great.

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

Hey, Glenn. It's Kew. I hope you're doing well. Look, big picture, progress in Global Credit continues on track, and we're quite pleased with how things are going.

And right now, we've got about $60 billion of AUM. Just to remind you, it was at about $50 billion last year at this time, so about a 20% growth. As you pointed out, our CLO business is really doing well. It has priced a bunch of things in Europe and in the US, as Curt pointed out. We feel really good about that franchise. I just wanted to point out that the most important thing that is it is performing well. Its default rate and the performance for its investors is top-notch.

In terms of direct lending, we are looking for opportunities to continue to expand that platform. I think our BDC is performing quite well and our track record is such that we believe we are well-positioned to continue raising money into that strategy.

 Opportunistic credit is just doing great. Not only is the track record thus far living to our expectations, but more importantly, delivering for LPs. But they are in the market. So, I want to be careful. The reception continues to be quite strong, and we're confident in our ability to continue driving to build out that whole platform.

The one area that I would say is tougher in this environment is distressed credit. Obviously, with all the liquidity that's in the market, a rising tide lifts all boats. And I would say distressed credit is a little bit harder to see where we're going to find significant opportunities for ramp up in deployment in the current conditions that we're seeing.

And then, finally, you mentioned aviation, so I'll give you a little bit of color on that platform. We're really pleased. The funds are performing well. The most recent CSSAF fund just closed on a very large transaction, which I'm sure you read about.

The portfolio quality is through the most disruptive period of time you could have imagined in the travel business and the aviation business has performed in our view very, very well. And our LPs are quite happy with what they're doing. And so, that sets the stage for continued growth in that platform.

So, all in all, I think big picture, I just gave you a color – a bit of color across our platform, but big picture, we're feeling very good about our credit platform and our ambitions to continue doubling that business, as I laid out for you in our strategic plan.
Curtis L. Buser  
Chief Financial Officer, The Carlyle Group, Inc.

And if I can just add on just a little bit with some numbers, Global Credit raised $3.2 billion in new capital this quarter, almost $12 billion over the last 12 months; that really drives that business.

And one of the things that you’ll see here in the first quarter, those four new CLOs, they've been on in terms of management fees for the whole quarter. So, you got to keep that into account. And then the other thing that Kew pointed out on distressed credit, we did have one carry fund in there that had a step-down. And so, that is part of what you're seeing there. And then keep in mind that a lot of our global capital markets transaction fees, which we're feeling really good about, come through that segment.

And Q4 was a blow-out for that piece in terms of at least looking at it historically from a Carlyle perspective. Q1 was also strong, but a little bit of a step-down. So, very pleased with the trajectory in Global Credit.

Glenn Schorr  
Analyst, Evercore ISI

Appreciate all that color. Thank you.

Operator: The next question comes from the line of Patrick Davitt. Your line is now open.

Patrick Davitt  
Analyst, Autonomous Research LLP

Hey. Good morning, everyone.

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

And good morning.

Patrick Davitt  
Analyst, Autonomous Research LLP

I think you mentioned on your prepared remarks that you expect to maintain a balance sheet-light approach, which in my mind doesn't really jive with your shift to reinvesting most cash flow back into the business and having some book value compounding. So, could you kind of address what appears to be a little bit of a conflict with what you said in the call and the new cash distribution policy?

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

Hey, Patrick, let me start and maybe Curt will have a little bit of color to add at the end as well. Look, we are pursuing an asset-light model. We are an investment firm and we believe if we can achieve our strategic plan, we’re going to grow very nicely and drive high return on capital for our shareholders.

Now, that doesn't mean we're not going to use our balance sheet appropriately to grow. And you've seen what we've done with Fortitude, you've seen what we've done with the aviation platform. And yes, we do anchor all of our fundraising with significant investments from the balance sheet for purposes of alignment.
So the way I would phrase it is, while everyone's talking about asset light, I believe we are an asset-right type of approach, which is focus as an investment firm, drive high growth and high return on capital and strategically use our balance sheet in the right way, that's my asset-right categorization, in the right way to step-function our growth in the future.

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

And the only thing I'll add to that, Patrick, is we have ample resources to be able to fund our organic plan. And we're looking at, just as we talked about on our Investor Day, opportunities in an opportunistic matter. And we'll continue to review our capital structure in terms of what we think is best at the right time, take advantage of the market and to continue to really drive a growth trajectory for all stakeholders in the firm.

Operator?

Operator: Next question comes from the line of Craig Siegenthaler of Credit Suisse. Your line is now open.

Craig Siegenthaler  
Analyst, Credit Suisse Securities (USA) LLC

Good morning, Kew. Hope you're doing well.

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

Hey, Craig.

Craig Siegenthaler  
Analyst, Credit Suisse Securities (USA) LLC

So my question is on compensation. Several of your peers run with models that accrue compensation against performance fees where they shifted more towards performance fees relative to the management fees. So I'm just thinking what is your thought on reallocating compensation out of that foray, which could improve the CG stock valuation, while also incentivizing employees more through performance?

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

Craig, hey. Thanks. Let me start and then maybe Kew will add in. What we have really done is really try to grow fee-related earnings and distributable earnings the old fashioned way by earning it one step at a time, growing the business, doing the things right. And we're not trying to hide the ball in terms of our true compensation.

So all of our base and bonus is clearly spelled out and that is all within fee-related earnings. And within our performance revenues, there's a portion that generally is 45% is shared with the deal teams and with people, and so that's the basic compensation model. That's not been tweaked.

Obviously we grant equity awards on top of that. But it's right down the center of the fairway kind of approach, earning it as we go. We'll continue to look at ways to incentivize our people in different ways. But right now, we're feeling pretty good about our overall plans in terms of how to attract and retain key talent.
Kewsong Lee  
Chief Executive Officer, The Carlyle Group, Inc.

Yes, Craig. I would just say at a higher level, we're just going to be very transparent and very direct about these types of issues. We really feel solid and we feel great about our alignment. And accounting is accounting, but we're not going to use accounting in lieu of substance.

And so, our investment professionals, they receive cash compensation. If the performance of their funds is strong, they will benefit with carry. That's in complete alignment with our limited partners and our shareholders who get a good share of that as we perform.

And then, of course, finally, we have broader distribution of stock in the hands of those leaders that can really help drive performance on behalf of their whole enterprise. And we feel good about, overall, how we compensate our professionals and how we've aligned them appropriately.

Could we find different ways to optimize and better align as our objectives shift and as our plan evolves? Of course, and that's what we will always be looking to do. But as Curt laid out, we are very comfortable with the transparent and the clear and, quite frankly, the right down the middle of the fairway way that we've laid out compensation for all of you.

Craig Siegenthaler  
Analyst, Credit Suisse Securities (USA) LLC

Thank you, Kew.

Operator: The next question comes from the line of Ken Worthington of JPMorgan. Your line is now open.

Kenneth B. Worthington  
Analyst, JPMorgan Securities LLC

Hi. Good morning. I wanted to follow up on Patrick's question. With Carlyle entering the next fundraising cycle, how does seeding of this next vintage of flagship funds look? I think the founders were big investors in the earlier funds and might not participate to the same extent in the next generation of funds.

So, how much would Carlyle have to contribute in terms of incremental capital to the next round of fundraising, and to what extent is these commitments really generated from the investment gains in the prior funds versus what is the sort of the new incremental investment dollars that you think you'll need to contribute?

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

Hey, Ken, it's Curt. Thanks for your question, very astute. One of the things that I've always been really proud of Carlyle is just the level of commitment of all of our investment professionals as well as really all of our employee base to invest in our product.

So we eat what we sell. So, huge alignment in terms of being invested in. In fact, it's clearly the majority of the capital that goes into our funds really comes out of those after-tax dollars from our people.

And guess what? That's highly diversified. And so we're not dependent upon any single person, and the balance sheet is obviously there to fund it. So as I look forward, the real issue is we're going from $100 billion to $110
billion before to $130 billion-plus and to incremental on that, which is really what's key and I'm comfortable that our strategies are appropriate to build a fund in all of that.

Kenneth B. Worthington  
Analyst, JPMorgan Securities LLC

Okay. Great. It makes sense. Thank you.

Dean Stephan  
Analyst, BofA Securities, Inc.

Hey. Good morning. This is Dean Stephan on for Mike Carrier. Just given the fundraising guidance at Investor Day and some first close is expected later this year, just wondering if we can get some color around the fundraising pipeline for the remainder of 2021, maybe the potential size of successor funds and what percentage of current vintages have been invested or deployed thus far. Thanks.

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

Sure, Dean, it's Kew. Look, obviously, it's hard for me to talk specifically about anything in light of the rules and regs with respect to fundraising. So let me just put it this way and don't let the brevity of my answer – don't read anything into that.

Look, we feel really good about our fundraising and our fundraising prospects. Early reception has been quite positive. Our performance from our investment platform, as we laid out, is quite strong and that provides good backdrop for all of our fundraising discussions.

The numbers that we posted this quarter, as Curt pointed out, are mostly from our Investment Solutions and our credit business, and so our very large flagship products in GPE have formally announced and are in market as we speak. So hence, I'm going to be careful. We feel very good about our prospects.

And there's one other thing that I'd like to point out. Over the past year, across our broad platform, right now, I'd say about 70% or more of our LPs have committed to more than three funds at Carlyle. That's up from about 60% at the end of 2020. So, we're seeing broad positive reception. The environment is strong for fundraising. Our performance is very good. And let me just leave it at that and tell you we're pretty confident about our fundraising prospects.

Dean Stephan  
Analyst, BofA Securities, Inc.

Got it. Thank you.

Operator: Next question comes from the line of Gerry O'Hara of Jefferies. Your line is now open.

Gerald Edward O'Hara  
Analyst, Jefferies LLC

Great. Thanks and good morning. Kew, perhaps you could give us a little bit of an update on your strategy with respect to kind of streamlining fund structures.
I think you've touched on it in recent history as well as in some of your prepared remarks. But if you could perhaps give us a few specific examples or perhaps how we should think about that going forward, that'd be helpful. Thank you.

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

Sure. Appreciate the question. Look, as I laid out in our strategic plan, we are focused on building and scaling our strongest and our best platforms. And if we can do that, big will become bigger, but we will benefit from operating leverage. And you saw an example of that in this quarter, when Curt announced the final closing of the sale of MRE out of our Investment Solutions business. Great franchise, but not in keeping with our strategic plan principles of focusing on our biggest invest and scaling the biggest invest even more.

So for example, in the past, you've seen us stop investing out of or move or sell fund complexes or fund products, I meant to say, that are in our opinion subscale and not really going to be moving the needle for us in a big way with respect to what our strategic ambitions are.

In Asia, we've done this with certain growth product. In the Middle East, in Mexico, and there are numerous examples throughout our Global Private Equity franchise and in our credit franchise where we've made the tough decisions but the strategically important decisions to say these are not part of our strategic plan.

And now, you've seen a platform with our redesign focused on Global Private Equity, Global Credit, and Investment Solutions which we've streamlined and where our best strategies and teams are the ones that we are going to really support, grow and scale.

And that really sets the foundation for the first big leg of our strategic plan, which is accelerating the growth of our best and strongest investment platforms. So hopefully that gives you a bit of color of how focused I am on this principle and how we continue to drive and build Carlyle around this moving forward.

Gerald Edward O'Hara  
Analyst, Jefferies LLC

It does. Thank you.

Operator: Next question comes from the line of Michael Cyprys from Morgan Stanley. Your line is now open.

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

[audio gap] (34:36) question. I wanted to circle back on credit. I was hoping we could dive in a little bit more on the performance of the different credit strategies. I see in the presentation deck you mentioned the 8% carry fund appreciation for the quarter.

But I was hoping you might be able to elaborate on the performance of some of the other credit strategies, particularly the ones you're looking to build out including CLOs, direct lending and some of the real asset credit strategies. How is the performance in those strategies during the quarter and how does that compare versus key benchmarks, and again how they did last year as well? Thank you.
Kewsong Lee  
Chief Executive Officer, The Carlyle Group, Inc.

So, a great question. And why don’t I suggest we do this. I’ll start, and between Curt and me, we will give you a pretty good sense. And so, I’ll start with our CLO business, and you’ve specifically asked about performance.

So our long-term default rate since 1999 is 1%, which is less than a third of the LSTA Index which stands at 3.3%, so clearly great performance relative to that index. And our net implied loss rate at the moment is 40 basis points versus the index at 1.2%.

So we’re one of the biggest investors in the CLO market in large part because our performance is great and we’re recognized for that which is why we’ve been, I believe, so busy and why this platform will continue to grow. Go ahead, Curt.

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

So, look, I think, just as I said before, Mike, the fundraise has been really strong and that's really – in this business you have to perform in order to fundraise. The CLOs have done really well despite some of our concerns a year ago. But the team is really kind of done what it's always done which is manage default rates.

And then in a lot of our other products like we talked about aviation before, but if you really talk about some of the retail products that we have as well as in direct lending, those are performing very well.

And the new dollars that are coming in continue to track. Not to mention things like infrastructure credit. And we are even starting to put together some things in other asset-backed lending areas. So, more to come around some of that in terms of building out not just aviation and infrastructure but in other places as well. So, all of that has really been put together by fund and by actual performance.

I need to be a little careful, Mike, in terms of how specific I can be, because the BDC has not yet reported and I don't want to front-run our own BDC from a public perspective.

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

Got it, any color maybe on last year where it has been reported just in terms of what the private credit direct lending performance had been? And also on the real estate credit, the infrastructure credit, just all these strategies you’re looking to build out, just hoping to get a little bit more granularity on the performance on those.

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

I don't have all that on my fingertips, Mike. So, maybe we can do something at some point in time.

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

That'd be great. Thank you.

Operator: Next question comes from the line of Adam Beatty of UBS. Your line is now.
Adam Q. Beatty  
*Analyst, UBS Securities LLC*

Good morning. I want to ask about Investment Solutions. In the context of fundraising, the release mentioned the closing of some separate accounts. And we tend to think in terms of discrete funds, where the fundraising in solutions has also been quite strong.

But I want to get your comment on the potential for separate accounts to kind of provide a drip-drip in the background, if you will, of fundraising for solutions. And also, if I could squeeze it in, maybe the outlook for realizations, just in the context of the legacy agreement with AlpInvest. Thank you.

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

All right. Let me appreciate the question. Look, estimation is an important part of our business, specifically as it relates to solutions. We raised I think a little over $2 billion just in SMAs with respect to AlpInvest. And that's part of the success we've been having in that business.

Over time, we expect to see larger and larger comingled funds. But this is an asset class that is growing and we have real interest from very large LPs who would like to structure unique programs with us. And of course, to the extent we can do that in an economically attractive way and something that makes sense for our business, we will engage in those types of discussions.

But more broadly speaking, SMAs as it relates to solutions but also in the credit business is something that we've been having real success in and we carefully are growing that to ensure that we're doing that in a way which is building the business, but is doing it in an economically accretive way.

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

Just picking up on the comment around distribution pays for Investment Solutions, so again a lot of that we're dealing with primary fund-to-funds, secondary co-invest. And so, it's really kind of, as you see the overall markets returning, [ph] there isn't getting (39:56) any cash.

Now, one thing I want to point out to you is on page 10 of our release, you'll see that the net accrued performance revenue with respect to solutions has gone from $110 million net a year ago to $191 million. And so that's very good improvement from the net-accrued carry. And more and more as we – as these new programs, a much larger percentage, 40% comes to Carlyle as that's realized.

Now, keep in mind, these are European-style waterfalls, so it takes a while for that to flush through and come to us. So I would not expect a huge increase in the immediate future, but I do think that the amount of carry that Investment Solutions contributes to the firm will be more meaningful especially next year and the year thereafter than it has been in the recent past. But look, Global Private Equity will continue to be the lion's share of our realized carry.

Adam Q. Beatty  
*Analyst, UBS Securities LLC*

Excellent. Thank you for hitting all those points, especially including credit SMAs. Thanks.
Operator: The next question comes from the line of Robert Lee from KBW. Your line is now open.

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

Great. Thanks so much for taking my questions. I guess the – and I apologize I got on the call late, so you may have covered this earlier. But clearly, accrued carry continues to kind of ramp pretty substantially – had a good quarter from realizations.

But is there any change or update in terms of how you’re thinking about the pace of realizations. The market's being pretty buoyant. I mean, I know we’re kind of expecting it to scale into 2022 and beyond. But any sense that maybe could come on faster than you thought even a quarter or two ago? And then – well that’s my question. Thanks.

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

Yes, hi Robert. It’s Kew. Look, the environment right now is very robust in the capital markets. And when you marry that with the fact that we’ve been working really hard on the investment platform side, investing, working with our portfolio companies, and our funds that we think have been constructed well, those portfolios are maturing and they’re seasoning.

And so, to the extent that we can take advantage of these capital market conditions, you should expect that we will be doing that. And that is why I made the comment that the pipeline of realizations continues to grow and we intend to be active.

Now, look, my crystal ball isn’t perfect with respect to capital market conditions in the future. And so, I just want to point out that a big part of the appreciation and our views on realizations are dependent in large part on making sure – dependent in large part on the environment being healthy. And to the extent that that is the case, we do expect to see a meaningful ramp up in exit activity, which should drive strong distributable earnings for the balance of the year and beyond.

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

And just to add on there, Robert, I mean I think we gave very clear color that we expect increases in both distributable earnings and really being driven off of our expected realization activity.

And the pipeline that I called on in my prepared remarks AMEOS in Europe Partners III, Ithaca, PPD and MedRisk, and Carlyle Partners VI, those are deals that are already announced and they’re in funds that are taking cash carry.

So, you can just kind of see, obviously, that there's clear pathways to very good realization activity in the near term.

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

Right. Thanks so much.

Operator: Next question comes from the line of Chris Kotowski of Oppenheimer. Your line is now open.
Chris Kotowski
Analyst, Oppenheimer & Co., Inc.

Yes. Good morning and thank you. On Investor Day, you highlighted kind of strategies for a drive to kind of add to the core strategies. And I wonder if you could update us on that because, I guess the – like your core-plus real estate fund is a 2016 vintage fund. Should we be expecting kind of a more permanent vehicle that's always raising capital quarter in quarter out?

And I'm also curious just is the investor base for those core strategies different than the periodic private equity funds?

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

So, let me maybe start just our core-plus real estate platform is doing really well, growing very good, and that is one that's just ever open. So, that's not one that we need to redo. So, it's a core-plus strategy, it's evergreen and the trajectory here has been fantastic in terms of [indiscernible] (45:14) and the team have done a really nice job of how they've invested that. And so, we're very optimistic with respect to that.

In our private equity space, that's where it is more, as you pointed out, traditional from – you need to reload, but those are a longer duration investment period and longer life funds. And so, what – at least in terms of my [ph] professional career (45:38), when you start getting up in 10 to 20 time periods, that gets the feel of very kind of permanent.

And look, even our regular funds that generally have a six-year investment period and then take another five or six years thereafter to fully realize, they're very sticky, and 90% of that – 98% of that is really very sticky capital. Management fee is coming from that. So, it's – the business from a permanence perspective, I think, feels really good. Kew, if there's anything you want to add to that.

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

Chris, the only thing I would add is, I thought where you're going with your question is in terms of adjacencies above and beyond our core businesses. Curt did point out the success we're having in vehicles like CPI, which is our core plus real estate fund.

But also our global capital markets business, only six months in, we feel really good about. We've established a globally coordinated team, we know what we're trying to do in terms of risk, and we're executing at a revenue run rate right now, which is beating our expectations quite frankly. So we've got – we feel really good about momentum there.

And obviously, we hadn't talked about it in this call, but everything we're doing at Fortitude and in the insurance space continues to be exciting for us. We're very busy. Fortitude, the platform, is performing very well. And I believe it's just a matter of time before we see growth in that platform, which then comes back to benefit Carlyle and our investment management activities. So, it's a fulsome answer for you, Chris, but we feel pretty good about what's happening above and beyond the first major leg of our plan, which is our core investment platform.

Chris Kotowski
Analyst, Oppenheimer & Co., Inc.

Okay. Okay. Thank you.
Operator: There no further questions at this time. Daniel Harris, you may continue.

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

Thank you everyone for your time and attention this morning. If you have any follow-up questions, feel free to reach out to Investor Relations at any time. Otherwise, we'll look forward to speaking with you again next quarter.

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