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The Carlyle Group, Inc. (CG)

Q3 2022 Earnings Call

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Brian McKenna

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and thank you for standing by. Welcome to The Carlyle Group Third Quarter 2022 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation there will be a question-and-answer session. [Operator Instructions]

At this time, I would like to turn the conference over to Mr. Daniel Harris, Head of Investor Relations. Mr. Harris, you may begin sir.

Daniel Harris

Head-Public Market Investor Relations, The Carlyle Group, Inc.

Thank you, Howard. Good morning and welcome to Carlyle's third quarter 2022 earnings call. With me on the call this morning is our Interim Chief Executive Officer, Bill Conway; our Chief Financial Officer, Curt Buser; and several leaders from the office of our CEO. Pete Clare, Chief Investment Officer for Corporate Private Equity; Mark Jenkins, Head of Global Credit; and Ruulke Bagijn, Head of Global Investment Solutions. Bill and Curt will begin with some prepared remarks and then the entire Carlyle team will be available for your Q&A.

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.

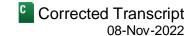
Earlier this morning, we issued a press release and a detailed earnings presentation, which is also available on our Investor Relations website. I'm going to begin with a quick discussion of our results and then hand the call over to Bill.

For the third quarter, we generated \$213 million in fee-related earnings and \$644 million in distributable earnings. Fee-related earnings of \$213 million increased 40% compared to the third quarter of 2021. Year-to-date FRE of \$632 million is 49% higher year-over-year, through a combination of strong organic growth, as well as the positive impacts of various strategic transactions completed earlier this year. FRE declined sequentially from the second quarter, largely due to two items we signaled last quarter. Catch-up management fees totaled \$10 million compared to \$19 million in the second quarter and fee-related performance revenue was also lower sequentially.

Distributable earnings was \$644 million this quarter and year-to-date DE of \$1.5 billion is 10% ahead of last year's \$1.3 billion and is already more than double any prior full year results other than our record results from last year. On an after-tax basis, we generated \$1.42 in DE per share for the third quarter and \$3.33 year-to-date. We declared a quarterly dividend of \$0.325 per common share.

With that, let me turn the call over to our Interim Chief Executive Officer and Co-Founder, Bill Conway.

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William E. Conway, Jr.

Co-Founder, Interim Chief Executive Officer, & Co-Chairman, The Carlyle Group, Inc.

Thank you, Dan. Good morning, everyone, and thank you for joining us today. It's been a while since I've spoken with many of you, but I am pleased to be on the call today to discuss Carlyle's results for the quarter. While Carlyle is in a transition period as we move towards a new CEO, the firm is operating well. And I'm proud of our teams around the world as we continue to perform for all of our stakeholders.

There are two important points I'd like to focus on today. First, I'll touch on the results and highlight the strength and diversity of Carlyle's global business. Second, as we navigate challenging markets in a difficult economic environment, I'll discuss how our approach and investment experience is helping us manage through economic uncertainty and positioning the firm for the future. I'll also give a brief comment on the status of our search for a permanent CEO.

First, let me provide some perspective on Carlyle today. In the third quarter, Carlyle delivered solid results for our fund investors and our shareholders despite the market volatility. And year-to-date, our results are just as strong, with FRE up almost 50%. None of this is by chance. We were able to deliver this outcome due to the breadth and depth of our businesses, strong business leadership and highly capable investment teams around the world. Let me be very clear. The firm's strategic focus on growing fee-related earnings, diversifying our business mix and earnings stream, and improving the way in which we operate has not changed at all. These core tenets will not change regardless of who is leading the firm.

We have three global business segments that are run by three strong leaders, each of which serves as stewards of investor capital and drivers of growth for our shareholders. Ruulke Bagijn in Global Investment Solutions; Pete Clare in Global Private Equity; and Mark Jenkins in Global Credit are all in the call with me today and you'll have the opportunity to ask them your questions later.

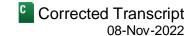
As we navigate through more challenging markets than any of us have seen in a decade, the firm is in an enviable position. Carlyle and I have been doing this for 35 years and we've seen all types of markets and economic cycles. We are confident that each of our businesses have the resources, investment talent and capital of over \$74 billion of dry powder to capture opportunities for our stakeholders. Our teams are highly experienced and have worked together through various cycles. In fact, the partners of our investment teams have worked together at Carlyle for more than 15 years on average, with decades more at firms across the globe.

Moving on, let me discuss the broader environment and how that impacts our investment outlook. All of you see the same things we do, rising interest rates, high levels of inflation, geopolitical uncertainty, each of which lead to increased market volatility and headwinds for investors and operators. This is unlikely to resolve in the short term, so our teams are not sitting back and waiting for better days.

Certainly, this market is tougher for some parts of our businesses than others. But on some parts of our business, this environment will create opportunities. And two examples come to mind, our Credit Opportunities business, which should see far more lucrative places to put money to work, and our Solutions business, which will have even more chances at attractive returns to finance buyers and sellers of existing fund positions.

One of our core strengths has been in the area of investment risk management, particularly in the construction of our portfolios. We certainly take risk. You can't make money without doing so. But we need to get paid for the risk we take. Until recently, the investors who have made the most money have taken the most risk. That isn't our style. Portfolio construction matters. It's a differentiator that continues to position our business to deliver outsized relative performance for fund investors across market cycles. Our portfolios are built with diversification by

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geography, industries, deal size and risk. And portfolio construction isn't just in our Private Equity business, but in Global Credit and Global Solutions as well.

For instance, in our CLO businesses – CLO portfolios, where we manage hundreds of credits, this investment strategy has led to default rates at half the industry average. Another example would be our US real estate business, which is investing its ninth closed-end fund with committed capital of \$8 billion. This is an experienced team with a long and successful track record. In terms of portfolio construction, they favored demographics over GDP. Their current fund has almost no exposure to [ph] office (00:08:20), hotel and retail, which represents 60% of a typical real estate fund. In volatile markets like today's, our fund results should reflect the benefits of our strategy. And so far, they have.

Before I close, let me comment on our search for a permanent CEO. In short, the search continues. The board and search committee are making good progress finding the right leader, and we do not have any additional information to provide at this time.

I'll finish where I started. Carlyle has the capital and expertise to have a long-term focus, which has served our investors well for decades. We have three strong segments that are well positioned to navigate the current environment and capture value. Our quarterly and year-to-date results underscore the strength of this platform, and Carlyle has delivered through various market cycles and transitions. I'm proud of where we are today and feel that we can continue driving long-term shareholder value.

With that, I'll hand things over to Curt Buser, our Chief Financial Officer.

Curtis L. Buser

Chief Financial Officer, The Carlyle Group, Inc.

Thanks, Bill, and good morning, everyone. As you've heard, Carlyle delivered strong third quarter and year-to-date results in a particularly challenging quarter, a testament to the strength of our investment platform and quality of our three global business segments. While economic and geopolitical uncertainties are creating headwinds, our business continues to deliver impactful results.

Consider the following, fee-related earnings of \$632 million year-to-date are up almost 50% from the same period last year and are already higher than any full year in the firm's history. Our carry funds across asset classes and geographies have appreciated 10% year-to-date. As Bill noted, our portfolio construction and proven investment approach is why we are delivering outsized returns, and we are well positioned to continue to do so. Our net accrued performance revenue of \$4.1 billion is up from \$3.9 billion at the end of last year. And that is after realizing \$780 million of net performance revenue year-to-date. And while fundraising is clearly more challenging this year, we have raised \$25 billion in new capital year-to-date. That translates into almost \$90 billion in new capital formation when you include completed strategic transactions such as Fortitude and CBAM.

With that backdrop, let me provide an update on each of our global business segments, and then I'll dig into the financial results. Our Global Private Equity business continues to deliver solid results across corporate private equity, real estate, infrastructure and natural resources. Fee-related earnings year-to-date in Global Private Equity of \$409 million has increased 45%, with both top line growth and margin expansion. Our current vintage of funds taking carry has led to current – strong current carry generation. And as we look forward, we note that we have an equivalent amount of net accrued carrying funds that has not yet taken carry, as we do from those currently generating cash carry. So we believe we are well positioned to continue to generate strong performance revenues in future periods.

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Global Private Equity is also poised for future growth, having raised almost \$10 billion in new capital year-to-date and having deployed almost \$16 billion into new investments. While in the near term the pace of corporate private equity deployment and realizations is likely to slow given challenging capital markets and we've already seen the impact of slower CPE fundraising, over the long term, we see significant opportunities for continued growth across our Global Private Equity investment platform.

In Global Credit, our assets under management have nearly doubled in just this year to \$141 billion and FRE has more than doubled year-to-date as the impact from our strategic transactions has been highly accretive. Our investment teams are active across the liquidity spectrum, taking advantage of market dislocations to invest in opportunities with increasingly desirable risk reward characteristics. Many of our largest strategies are floating rate in nature. So, fund investors benefit from increased current yields. At the same time, while current credit quality remains good, we are actively positioning our portfolios to withstand worsening economic conditions and potentially higher default rates. We do not anticipate any near-term challenges that put existing management fee streams at risk, though a slower pace of activity may slow capital markets transaction fees.

Looking at future growth, Global Credit has raised \$12 billion of new capital this year across 11 strategies. Year-to-date CLO formation has been strong, with seven new CLOs priced for \$3 billion, though velocity is slowing due to market conditions. Direct lending generated near record originations in the quarter with gross new loans of more than \$1.5 billion and we are seeing significant demand for private credit across our asset type and geography. And Fortitude continues to perform well with a robust pipeline of growth opportunities. And we continue to expect it can double its size over the next few years.

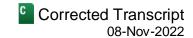
Moving to Global Investment Solutions, this business is well-positioned to support the increasing liquidity and portfolio management needs of global fund investors. Secondary investment activity is poised to accelerate as fund investors seek to optimize their own portfolios given market volatility. Global Investment Solutions has seen year-to-date FRE tick lower to \$55 million, partially owing to the negative impact of foreign exchange rates. However, AlpInvest is making strong progress, investing in their current vintages of co-investment and secondary funds, and are likely to be back in the market to raise their next generation of funds sooner than expected.

Global Investment Solutions appreciation was flat in the quarter and is up 9% year-to-date, with net accrued carry of \$365 million, up more than 14% year-to-date. To summarize, we expect the pace of activity to slow over the next few quarters in certain areas, while others will remain active. This is why our diversification strategy remains core to our future growth. And importantly, as we've seen in past cycles, the work and diligence we do now positions us to come out on the other side that much more ready to act.

Turning back now to firm-wide results. Let me dig deeper into third quarter earnings. Let's start with fee-related earnings. As Dan mentioned, third quarter fee revenues are down about \$24 million from the second quarter due to lower catch-up management fees and fee-related performance revenues. That said, fee revenues are up a robust 31% from a year ago. And as a reminder, more than 90% of our management fee revenues are in closedend fund structures and not subject to redemptions.

Cash-based compensation expense in the third quarter was down sequentially, largely as a function of lower feerelated performance revenue and the impact of foreign exchange on translation of compensation in Europe. G&A expenses of \$101 million in the third quarter increased as we hosted our Global Investment Conference, and travel and entertainment largely returned to pre-pandemic levels. Expenses continue to be impacted by inflationary pressure and a strong labor market, that will continue to impact expenses into 2023. FRE margin was 37% in the third quarter. And year-to-date, FRE margin of 38% increased more than 400 basis points year-over-year.

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For the full year, we now expect fee-related earnings to be between \$825 million and \$850 million, with the headwinds from foreign exchange translation, slowing buyout fundraising and unit transaction fees, each impacting expected full year results. That said, we still expect 2022 FRE to increase more than 35% compared to 2021. And we remain confident that our long-term FRE growth trend remains intact.

Net realized performance revenues of \$391 million in the third quarter were our third largest quarter on record. Year-to-date net realized performance revenues of \$780 million highlights the strength of our portfolio and our team's ability to monetize investments despite difficult conditions. I said last quarter that I expected our second half of 2022 net realized performance revenues to exceed the first half of the year. With just the third quarter's result, we've already surpassed that goal.

Our net accrued performance revenue balance of \$4.1 billion and remaining fair value of investments in our carry funds of \$136 billion gives us confidence that over time we will realize a high level of performance revenue and distributable earnings. Our accrued carry remains near record levels, despite significant declines in public market valuations and increasingly higher discount and cap rates used in our valuation process. Today, our accrual represents over \$11 per share in future earnings power.

So let me wrap up. We're performing well against a challenging backdrop. We're focused on growing and diversifying fee-related offerings and expanding the capabilities of our firm to drive long-term shareholder value. More broadly, each of our three global business segments are well positioned to deliver growth and outsized returns for our stakeholders.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question or comment comes from the line of Bill Katz from Credit Suisse. Mr. Katz, your line is open.

Bill Katz

Analyst, Credit Suisse Securities (USA) LLC

Okay. Thank you very much for taking my questions this morning. Maybe first question, Bill, thanks so much, I could hear your voice again. Just as you think about – I appreciate you have nothing else to say, but maybe you can help us understand what factors or dynamics you're looking for in a new CEO? How are you thinking about internal versus external candidates? And what, if anything, did you learn in terms of this transition about where the franchise is headed? Thank you.

William E. Conway, Jr.

Co-Founder, Interim Chief Executive Officer, & Co-Chairman, The Carlyle Group, Inc.

Thanks for the question, Bill. And you know I really can't answer it. Because of that, we're going to give you a bonus question. But having said that, we are making good progress on finding the right leader. We want to find somebody that is better than I am would be one of the comments I'd make. And we don't really have anything additional to add at this time. But as soon as we do, we'll report to you. And of course, in the interim, the firm is operating well and from a position of strength. But take your bonus question.



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Bill Katz

Analyst, Credit Suisse Securities (USA) LLC

Oh, thank you. I gave a shot. So just maybe in terms of one of the biggest things we hear on the story line is that without the leadership, it's going to be very difficult to grow the business on top of sort of a very difficult backdrop and your AUM [ph] skew (00:20:29). So I appreciate you running through the three businesses. But can you sort of level set where we are in terms of your prior goals to raise assets? And as you look ahead, help us understand where you see the best opportunities, maybe, it sounds like the Investment Solutions side, but just anything to help us frame out sort of path to higher fee paying AUM. Thank you.

Curtis L. Buser

Chief Financial Officer, The Carlyle Group, Inc.

Hey, Bill. It's Curt. Let me kick it off and then I'm going to ask some of my partners maybe to join in afterwards. So let me just bring you back to the beginning of 2021, which actually wasn't that long ago. And we set a goal for 2024 to generate \$800 million of fee-related earnings, \$800 million of net realized performance revenues and \$1.6 billion of pre-tax DE. We've met those goals. This year, year-to-date, \$1.5 billion of DE, and that's just through three quarters. Last year, obviously, record numbers.

From a fundraising and capital accumulation perspective, we generated about – we raised about \$50 billion last year. This year, \$25 billion year-to-date. But more importantly, roughly \$90 billion of capital accumulation when you consider the strategic transaction we've also had. Our relationships are good with our LPs. We're continuing to work on those relationships. Pete's on the road as we speak here today doing just that. And I would just say that the prospects for the future remain really good. And I'm eager about all of the market dislocations that we're seeing here, because I know that my colleagues are going to really take advantage of this.

So I'll pause there and see if any of my colleagues want to join in on what I just said.

Peter J. Clare

Director, Chief Investment Officer-Corporate Private Equity & Chairman-Americas Private Equity, The Carlyle Group, Inc.

Hey, this is Pete. Bill, thanks for the question. And I'll just add a perspective on fundraising on the Global Private Equity side that overall our – as you heard from Curt, our funds are performing really well with 10% appreciation across all of our carry generating funds, a little bit higher than that across the Global Private Equity business. As Bill mentioned, the portfolio construction really matters. And one of the hallmarks of our investment strategy is to build portfolios that have less risk and really resilient earning power in the businesses that we invest in and that will outperform in tougher economic times, as our funds have done historically in tough economic times.

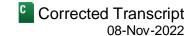
And I think that track record of really consistent returns in tough economic environments is going to help us on the fundraising front. So even though the market's clearly congested, fundraising for large buyouts has slowed down, we do expect that, ultimately, all of our funds that we're currently raising now will, in aggregate, come in at a similar size to the current vintages. But it's important to remember, [ph] even Carlyle's (00:23:34) a lot broader today than just buyouts and we're growing in many other areas. Our US retail estate business is growing significantly. Our Europe technology business has grown a lot. And you'll probably hear more from Mark and Ruulke how – the growth that we're seeing in Credit and in Global Solutions.

Mark David Jenkins

Managing Director & Head-Global Credit, The Carlyle Group LP (Global Credit)

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Yeah. Hi, Bill. It's Mark Jenkins here on the Credit side. I would say, similar to Pete, I've been on the road talking with our investors. There is a sense of opportunity when we talk to our investors about what's going on in the credit markets in particular as they've seen a repricing of risk, and we're taking advantage of that.

Similar to Pete, we have a broad platform here at Carlyle that spans everything from liquid to illiquid or private credit and real assets. And I would say across the opportunistic [ph] slate (00:24:27) and frankly even on the CLO space, we continue to see growth. And as we go down the various channels, whether that's institutional, insurance or retail, we continue to see those as great avenues of growth for the business and opportunities for our investors.

Ruulke Bagijn

Head-Carlyle's Global Investment Solutions & Chair of the Board-AlpInvest, The Carlyle Group, Inc.

Yeah. And this is Ruulke. In terms of growth, our platform is very well positioned to benefit from the market conditions, especially with liquidity needs increasing across markets. And let me also remind you a bit about AlpInvest. We manage \$63 billion of assets under management. And secondaries is our largest and most profitable part of our business, managing \$21 billion of assets under management. But we also have leading co-investment and primary fund investment businesses.

Our performance has been strong with long-term net outperformance across [ph] our (00:25:22) strategies of around 500 to 1100 basis points for the last 10 years but also over the last 20 years. And we continue to deploy also despite the current macro conditions. And we expect actually to be back in the market next year with several strategies and being able to fund the opportunities that we see in the market, which are especially obviously also present in the secondary business where liquidity needs are increasing across markets at this point in time.

Bill Katz

Analyst, Credit Suisse Securities (USA) LLC

Thank you very much.

Operator: Thank you. Our next question or comment comes from the line of Ken Worthington from JPMorgan. Mr. Worthington, your line is now open.

Kenneth B. Worthington

Analyst, JPMorgan Securities LLC

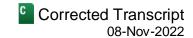
Great. Thank you. Good morning. Public shareholders seem to be concerned about the leadership uncertainty and I think we can see that in the underperformance of the shares. Commitments this quarter seems so-so and logic would suggest that leadership uncertainty could be a factor here. So the question is, do you think leadership uncertainty is having an impact on fundraising? If so, how meaningful is that uncertainty having on either the size or timing of commitments? And then, I guess, most importantly, do you think the choice of a new CEO can win back concerned clients, or is the damage somewhat irreversible for funds in market right now? Thanks.

William E. Conway, Jr.

Co-Founder, Interim Chief Executive Officer, & Co-Chairman, The Carlyle Group, Inc.

Thanks, Ken. Well, the short answer would be no in terms of the impact of the CEO change on fundraising. I've been on the road a lot myself talking to investors. Pete was right when he said that it has slowed down due to the congestion in the markets, but I think I don't see any long-term damage at all in this. And remember, I'm an investor. I've been an investor for 35 years. I was the Chief Investment Officer of The Carlyle before I was the

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CEO the first time. And I think the investors in our funds, they like seeing somebody at the top who they know understands exactly what they're trying to accomplish.

Curtis L. Buser

Chief Financial Officer, The Carlyle Group, Inc.

And let me just add on to Ken. It's Curt. Look, I think there is a couple of things that are really important here. First, the aggregate dynamics that are affecting lots of the private equity players, not just us. The denominator effect, the congestion in the market, et cetera. So look, we're falling prey to that like others are, but our diversification and other products, whether it's in energy, natural resources, credit solutions, as you've heard, the experience is very different based on that performance and industry and sector matter a whole lot. We're seeing a lot of good opportunities there. And so, I think that the comment that you started out with was around leadership. People are seeing the very strong leadership that we have across our funds and our teams. And who is at the top matters, but not to the extent that you're implying your question.

Kenneth B. Worthington

Analyst, JPMorgan Securities LLC

Okay. Great. Thank you. Appreciate your comments.

Operator: Thank you. Our next question or comment comes from the line of Patrick Davitt from Autonomous Research. Mr. Davitt, your line is now open.

Patrick Davitt

Analyst, Autonomous Research LLP

Hey. Good morning, everyone. My question is on solutions. You and others are, obviously, hyping up how big of an opportunity this could be as investors increasingly look for liquidity. But to your point on AlpInvest needing to be back in the market, there's obviously another side of the equation, right? You need to raise the dry powder to take advantage of that. So why is this a strategy that you think will really have a lot of demand given where we are in the cycle as it seems LP demand is really skewing more towards things like real assets, infrastructure and private credit?

Ruulke Bagijn

Head-Carlyle's Global Investment Solutions & Chair of the Board-AlpInvest, The Carlyle Group, Inc.

Yeah. I think that's a great question. Let me also be clear. We do have a very significant dry powder at this point in time for the strategy, which is good because the market is changing as we speak. What we've seen is that, public market valuations have decreased much faster than private market valuations. And I think as you are aware, the percentage of illiquid holdings of total AUM of larger investors in the US has increased very significantly. As a result of the denominator effect, LPs are considering their portfolios. They consider portfolio rebalancing. They consider selling part of their portfolios. And that's typically an area that, to the extent that LPs are considering to sell part of their private equity exposure, that is an area we can obviously greatly benefit as a platform with our secondary business.

At the same time, it's broader than that. I think the liquidity needs in the markets are increasing. Also, private equity managers, GPs do see the market changing. Their exit opportunities generally are becoming narrower, which actually is a positive support for significant trends like continuation vehicles in which we play a very market leading role. So whether you look at the GP side of the market or the LP side of the market with our secondary and portfolio financing platform where we have market leading positions, we think we can benefit.

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Curtis L. Buser

Chief Financial Officer, The Carlyle Group, Inc.

And Patrick, I'll just add on really briefly. Ruulke is not going to trumpet her own great performance, but the performance in our solutions business has been really strong. And so, once the time for those products to come back to market, feeling really good about how they'll be positioned. And so very optimistic about the future and it's been a really good story for us. The growth really since 2019 has been very strong in this business and we've taken it from almost nothing to a really interesting story and one that we remain really optimistic about going forward.

Patrick Davitt

Analyst, Autonomous Research LLP

Thank you.

Operator: Thank you. Our next question or comment comes from the line of Brian McKenna from JMP Securities. Mr. McKenna, your line is now open.

Brian McKenna

Analyst, JMP Securities LLC

Great. Thank you. So I know the broader capital management strategy will likely be determined by the new CEO, but how are you thinking about the trajectory of the dividend into next year, particularly given the level of FRE growth in 2022 and what will likely be some incremental growth in 2023? And then related, just given where the stock is trading, how are you thinking about buybacks here?

Curtis L. Buser

Chief Financial Officer, The Carlyle Group, Inc.

Hey, Brian. It's Curt. Hey, thanks for those good questions. So first, let me just remind everybody, we increased the dividend from \$1 per share to \$1.30 per share at the beginning of this year, 30% increase. We are very much focused on continuing to grow our business. We want our dividend to be sustainable, fixed. We want it to move in one direction, up. It's something that the board will consider typically at year-end in terms of how much and also in terms of viewing kind of our various capital needs and requirements to grow the business and also consider buybacks, as you talked about. But, look, we're thinking about just that in terms of how much to grow, but expect us to think about that in that context of how to appropriately allocate capital.

From a buyback perspective, look, there's a good opportunity here. We actually think that, we'll continue to manage our dilution from equity grants. And as we think about balancing those buybacks with other capital needs, we're going to lean into growth. But clearly, the attractive price of the stock right now really raises the bar in terms of how we think about the acquisitions and the other external uses of capital to grow the business. But make no doubt about it, we're focused on shareholder value, growing shareholder value, and you point out a couple of the levers in the toolbox to do just that. So thank you for your question.

Brian McKenna

Analyst, JMP Securities LLC

Yeah. Thanks, Curt.

Operator: Thank you. Our next question or comment comes from – I'm sorry, let me remove you. Our next question or comment comes from the line of Glenn Schorr from Evercore ISI. Mr. Schorr, your line is now open.

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Glenn Schorr

Analyst, Evercore ISI

Thanks very much. So I heard from you and heard from others about the pace is likely to slow. That goes for deployment, fundraising, monetization. It's kind of everything in this backdrop. Also heard, it's going to take a while from you and others. So I get it the world is pretty disruptive. I'm curious on how you might attribute this slowing to? Is it the lack of available funding? Is that the absolute cost – higher cost of funding that's producing these wide bid/ask, and then maybe turn it into a potential positive? What are going to be the signs that you look for, or we should look for, to see that the environment is improving?

Peter J. Clare

Director, Chief Investment Officer-Corporate Private Equity & Chairman-Americas Private Equity, The Carlyle Group, Inc.

Sure. This Pete. And I'll take that question, give you the perspective from the private equity side of our business. I think it's certainly a combination of factors that leads to a slowdown in deal flow. First, I would say that, the level of deployment and investment activity in 2021 was unusually high. So that was really a peak. So there's no doubt that we're going to come off that. The level of overall investment activity this year was more in line with our typical annual run rate for deployment and investing on the private equity side.

Looking forward into 2023, I do expect the investment pace to slow a bit further, which is really two or three factors driving that. First, obviously the increase in interest rates has an impact. But for all private equity buyers, the impact of that you can assess. You know what the – you can go out and get debt financing commitments. You know what the cost of it is. But because that cost is higher, prices come down a bit ultimately because we're going to require the same rates of return or higher rates of return in this environment. So prices to sellers would be lower. Because of that, you get less people coming to market to sell businesses right now because they know they're not going to get top [ph] TIC (00:36:04) valuations given what the public markets have done in terms of trading off a bit and higher interest expense. So you've got less sellers willing to sell in that environment.

And then third and last factor I'd touch on is, of course, the uncertainty out there in the environment or certainly the expectation that the economy is going to slow. And because of that, buyers and sellers are less likely to agree on the price for a business today which makes fewer transactions happen. But I don't want to be overly negative. A lot of transactions are still happening. And we have invested a lot over the past quarter. And every single one of those deals, we got debt financed. And yes, the financing was more expensive, but deals are getting done. But I do expect across the market to see a slowdown on deployment in 2023.

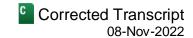
Mark David Jenkins

Managing Director & Head-Global Credit, The Carlyle Group LP (Global Credit)

Yeah. Hi, Glenn, it's Mark here. On the credit side, I would say that we've got a different dynamic going in that. We think the opportunity set is increasing, specifically in private credit, where the capital markets has effectively become less liquid, if you want to call it that. I wouldn't say [ph] that's eased up (00:37:12). And until really the banks get most of those commitments off their balance sheets, it's going to be a very good opportunity. And we see that as very good opportunity, not in the next 6 to 12 months. We think that'll be, given the slowdown in the economy, a 12- to 24-month opportunity where the pace of employment can pick up over that period of time.

I think when you look into liquid book, we still have had good formation on the CLO side despite what's going on in the marketplace. And as we see liabilities adjust, which we expect they will, we'll see probably a more continued pace on that side as well. So, I think for credit, we feel very good about the opportunity set and the funnel of opportunities that are coming down to us right now, and we're quite bullish on what we see.

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Glenn Schorr

Analyst, Evercore ISI

Mark, I wonder if we could just follow-up on that. A question I was going to ask was going to be on CLO performance was decent, okay, hung in there in the quarter. It's down a few percent on both US and European for the last 12 months, which is a lot better than the public markets, but still down. I was curious, just that kind of performance profile and then just the higher rate environment, how the typical CLO investor interprets that. And so I wonder if I could get a specific CLO formation thought process over the next year or two. Thanks.

Mark David Jenkins

Managing Director & Head-Global Credit, The Carlyle Group LP (Global Credit)

Yeah. I think, obviously, two components of CLO formation is the asset level right now, which is very attractive and then it's where we form the liabilities as well. And I think the past six months in particular has been more challenging on the liability side, so the leverage that we put on those vehicles. And we're going through a period where that formation has been more challenged. That being said, as Curt said, we've completed seven CLOs this year-to-date, which would be more in line with a regular year for us.

And so, I think the challenge will be for managers, just generally, is that access to the liability side, which Carlyle, given we're the world's largest CLO manager and one of the better performers and have positioned our portfolios quite well, we're able to track those liabilities, in particular, the equity as well. And we commit to the equity ourselves off the balance sheet. So that does perpetuate the formation of CLOs for our business in particular.

Glenn Schorr

Analyst, Evercore ISI

Okay. Thanks, all.

Operator: Thank you. Our next question or comment comes from the line of Chris Kotowski from Oppenheimer. Mr. Kotowski, your line is now open.

Chris Kotowski

Analyst, Oppenheimer & Co., Inc.

Good morning. Thank you. Most of mine have been asked. But I noticed that on CP VIII there is another couple of hundred million of commitments there. And I'm wondering, is the fundraising on that done or is there a chance to extend the fundraising into calendar 2023 so that LPs could use their next vintage year commitments to come into that fund?

Peter J. Clare

Director, Chief Investment Officer-Corporate Private Equity & Chairman-Americas Private Equity, The Carlyle Group, Inc.

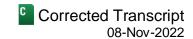
Thanks for the question. This is Pete. And, yes, on CP VIII we do intend to keep fundraising going into 2023. That was our intention all along. And so we will do that. And you're right, that will open up a number of investors. And a number of investors have come to us and said, please, come back and see me in 2023, I have more allocation then. So we do intend to keep fundraising going in 2023.

Chris Kotowski

Analyst, Oppenheimer & Co., Inc.

Okay. And that'll be with full catch-up fees and all that?

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Peter J. Clare

Director, Chief Investment Officer-Corporate Private Equity & Chairman-Americas Private Equity, The Carlyle Group, Inc.

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Yes. I mean, that's – yeah, according to the terms of the LP agreements and that would be included.

Chris Kotowski

Analyst, Oppenheimer & Co., Inc.

Okay. Great. Thank you. That's it from me.

Operator: Thank you. Our next question or comment comes from the line of Jerry O'Hara from Jefferies. Stand by.

Gerald Edward O'Hara

Analyst, Jefferies LLC

Great. Thanks. I was hoping maybe we could get a little bit of just an update around the Fortitude outlook and kind of how you're balancing what you see or where you see the opportunities for both organic or organic [ph] versus (00:41:23) block transactions in what appears to be an increasingly competitive market, but also more attractive one. So any comment or context would be helpful there. Thank you.

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Curtis L. Buser

Chief Financial Officer, The Carlyle Group, Inc.

Hey, Jerry. It's Curt. I'll start with some numbers and then Mark will provide some color around it. So Fortitude is doing really well. Just as a reminder to everybody, there's about \$45 billion of fee earning AUM. There's also about \$9 billion that they've invested directly into our funds. And maybe more importantly, they have over \$4 billion of capital within Fortitude itself. And that's important because that's the capital that they can use to essentially double their business, which we think we can accomplish over the next couple of years. And so we're optimistic in terms of kind of how they're doing and both from – and also just from an adjusted book value and from a return on equity perspective, that business is continuing to perform well.

But Mark, I don't know if you have more color to add.

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Mark David Jenkins

Managing Director & Head-Global Credit, The Carlyle Group LP (Global Credit)

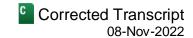
Yeah. The only thing I'd add Curt – and this is Mark here, is that the macro backdrop and what [ph] affects with these (00:42:31) transactions is that insurers are looking for ways to better manage their capital and their operations in a more efficient manner. And that hasn't changed. And in fact, in this higher rate environment, all else being equal, it's generally made it more attractive or more favorable for sellers to transact on these legacy blocks, which is what we traffic in from Fortitude's perspective. So that pipeline that we see continues to be very strong and the timeline on these transactions is traditionally longer than a regular corporate M&A process, just given the complexity of these books. And we're involved in many processes right now and we feel very positive about what we see in that regard that we're quite comfortable with how Fortitude is doing.

Gerald Edward O'Hara
Analyst, Jefferies LLC

Great. Thank you for that.

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Operator: Thank you. Our next question or comment comes from the line of Adam Beatty from UBS. Mr. Beatty, your line is now open.

Adam Q. Beatty

Analyst, UBS Securities LLC

Thank you and good morning. Just wanted to follow-up on capital management. Appreciate Curt's comments earlier about wanting to maintain a steady dividend and kind of ratcheted up year-after-year. My understanding is that, that's primarily - that process has been primarily based around FRE in the past. I just wanted to ask about the potential for incorporating realized carry in the level of the dividend. You've managed to maintain that fairly well this year, indicated that maybe averaging \$1 billion or so in the out years. So seems like something that might be able to be incorporated in capital distribution to investors, but wanted to get your thoughts on that. Thank you.

Curtis L. Buser

Chief Financial Officer, The Carlyle Group, Inc.

Adam, this is Curt. Thanks for that. And thanks for recognizing the strength, really, of our accrued carry and the carry generation that we've had. \$4.1 billion of net accrued share on the balance sheet, roughly \$11 per share in future earnings power. Look, we think that, that's going to come out, capital markets permitting, roughly \$1 billion per year. But just as Pete noted, what – we'll see some slowdown, so next year could be a little lighter than that.

Our approach on the dividend, however, really is one [ph] in making this (00:44:47) a fixed dividend that we – that is fully sustainable, that we can grow. And we think using really kind of recurring revenues primarily FRE is the way to look at that. But we also have to balance it amongst all of the capital needs that we see, how to invest in growth? How to consider buybacks and managing dilution? And also how to return capital to shareholders? And look, there's a variety of levers, as I said before, to grow shareholder value. And that's what we want to do.

Adam Q. Beatty

Analyst, UBS Securities LLC

Fair enough. Thank you, Curt.

Operator: Thank you. Our next question or comment comes from the line of Mike Brown from KBW. Mr. Brown, your line is now open.

Michael Brown

Analyst, Keefe, Bruyette & Woods, Inc.

Great. Thank you for taking my questions. So I appreciate the updated FRE expectations for 2022. Any early read on expectations for next year or any color on how we should think about that FRE growth and the FRE margin as we think about 2023? Thank you.

Curtis L. Buser

Chief Financial Officer, The Carlyle Group, Inc.

And Mike, its Curt. Thank for the question. Look, just as consistent with our past practice, we'll provide more granular detail on 2023 at the beginning of 2023 after we completed all of our year-end processes and the like. But let me just reiterate, this year we've grown FRE 50%. Past decade it's a 15% CAGR. So, we're focused on you heard Bill say, we remain committed to growing FRE. We think our diversified business model helps us do that. We're very focused on efficiently and effectively running the business. We'll continue to make investments,

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whether that's in growing our distribution platform or in technology to help us operate more efficiently. But, we're going to make sure that we're continuing to focus on how do we grow FRE in the aggregate, because that matters more to me than just margin. But margins are also important as a tool to grow more FRE dollars. And I'm confident that we'll continue to – our FRE growth trend as we go forward.

Michael Brown Analyst, Keefe, Bruyette & Woods, Inc. Okay. Great. Thank you for taking my question. Operator: Thank you. Our next question or comment comes from the line of Alexander Blostein from Goldman Sachs. Mr. Blostein, your line is now open. Ryan Bailey Analyst, Goldman Sachs & Co. LLC Good morning. This is Ryan Bailey on behalf of Alexand maybe piggybacking off the prior question a little bit. So

Good morning. This is Ryan Bailey on behalf of Alex and maybe piggybacking off the prior question a little bit. So, if we come back to private equity fund raising, obviously, and you've reiterated this, it's a challenged environment for the industry. You have a number of flagships in the market over the next 12 months and you've had fairly strong realizations year-to-date out of private equity. With the delayed fund raising, do you still expect management fees to be able to grow in 2023 versus 2022 within private equity?

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

So, Ryan, it's Curt here. Let me take that. So we're focused on a lot of things to grow the business. I'm going to give you more granular detail on 2023 next year. We've had very nice top line growth this year in private equity. Any given quarter, and really any given year, is always tough to call exactly, but we're focused on long-term trends. And what I really like here in private equity is we have a number of things to focus on, natural resources, energy, our real estate business, our technology initiatives. Our European technology platform, very strong. So there's a number of things for growth in that business. And we're focused on growing FRE on all of our big businesses in the aggregate and believe we can do that in 2023 as well. I'll give you more detail next year.

Ryan Bailey Analyst, Goldman Sachs & Co. LLC	C
Appreciate it. Thank you.	
Operator: Thank you. Our next question or comment comes from the line of Michael Cyprys from Morgan Stanley. Mr. Cyprys, your line is now open.	

Good morning. And this is [ph] Truman (00:48:51) standing in for Mike. Thank you very much for taking the question. My question is more about how you think about the way the market's valuation of carry or lack thereof? How – what do you think the market is missing around how – the way they think about carry and as an addendum to that, how should they be thinking about Carlyle's ability to realize the \$4 billion of accrued carry you have on the balance sheet right now? Thank you.

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Curtis L. Buser

Chief Financial Officer, The Carlyle Group, Inc. I love your question. The mystery around valuation of carry, look, I think it's been underappreciated for a long,

long time. This is a battle that we have fought for years in terms of trying to educate people. I'll just reiterate, look, what we got over \$4 billion [indiscernible] (00:49:39) carry on the balance sheet, underpinned by a \$136 billion remaining fair value in our funds. This has been a tough, challenging market on a lot of fronts. But even in all of that, our funds have appreciated 10% year to date which is really good.

And if you think about how Pete and Mark, and Ruulke, and all other teams have built their funds, portfolio construction, as Bill said in his opening remarks, really matters. All three have done it really in ways that are key to there. I think it just really positions us well. There is no – I don't have the magic perfect crystal ball on the future, and I wish I had better. But I'm feeling really good about how we continue to drive carry. You saw almost \$400 million of realizations this quarter. It'll probably slow a little bit here or there, but overall really strong even with the difficult backdrop. So, I fully agree with you why this is undervalued. It's \$11 of value in terms of future earnings and it continues befuddle me. So thanks for your question.

Of course. And if I could just sneak in a quick follow-up. Assuming this undervaluation carries on for an extended period of time, what levers [ph] have to (00:50:56) I guess either better align the incentives of the carry perhaps with those who may place a high value on it or in terms of kind of returning that back to shareholders in some way, some shape or form?

Curtis L. Buser

Chief Financial Officer, The Carlyle Group, Inc.

Look, alignment matters in terms of compensation strategies, but also in terms of being able to drive continued growth in our business. And so, while we continue to embrace a balance sheet light model, being able to use capital that has generally been generated from carry production to be able to reinvest that into fee-related earning businesses to grow, just like we did with Fortitude and CBAM earlier this year, we'll continue to look for those opportunities. Obviously, today, the bar for how we look at those things is higher than before. But we're going to continue to aggressively use our balance sheet to grow, but also balancing that with growing dividends, buying back stock and in other tools to grow the firm it. But carry is the key component of generating that capital to enable us to do all of those things.

Thank you so much for all the color.

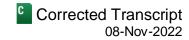
Operator: Thank you. Our next question or comment is a follow-up from Mr. Patrick Davitt from Autonomous Research. Your line is now open.

Patrick Davitt

Analyst, Autonomous Research LLP

Hey, thanks for the follow-up. Could you give some perspective on the underlying corporate PE portfolio operating trends kind of from quarter-to-quarter this year, revenue, EBITDA growth, margin vis-à-vis inflation?

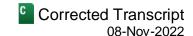
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Curtis L. Buser Chief Financial Officer, The Carlyle Group, Inc.	А
Hey, Patrick. It's Curt. I presume you're asking about the underlying portfolio companies. And if that's the question, then I'll have – Pete will chime in here on that.	
Patrick Davitt Analyst, Autonomous Research LLP	Q
Yes, that's what I'm asking.	
Peter J. Clare Director, Chief Investment Officer-Corporate Private Equity & Chairman-Americas Private Equity, The Carlyle Group, Inc.	A
Sure. Sure. Across the corporate private equity portfolio, the companies have continued to perform very stream growth overall has been in the low-double digits across that portfolio as many companies are passible price increases. But also demand has remained really strong in most areas of the economy so far.	
On margins, there's – clearly, there is some cost pressure. So on margin, margins are growing in the mid-sidigits. So roughly half the level of revenue growth is the level of earnings growth that we're seeing. So busicontinue to perform well. We continue to get earnings growth, and that's what's supporting the valuations in portfolio is that earnings growth that we're seeing across the portfolio. That's corporate private equity. And overall across natural resources and infrastructure, the results have been even better with what's happene energy prices and that part of the portfolio has performed even stronger.	inesses n the I'd say
Patrick Davitt Analyst, Autonomous Research LLP	Q
And that's LTM, I assume, the revenue and EBITDA growth?	
William E. Conway, Jr. Co-Founder, Interim Chief Executive Officer, & Co-Chairman, The Carlyle Group, Inc.	A
Well, can you repeat that, Patrick?	
Peter J. Clare Director, Chief Investment Officer-Corporate Private Equity & Chairman-Americas Private Equity, The Carlyle Group, Inc.	A
I'm sorry [indiscernible] (00:54:07)	
Patrick Davitt Analyst, Autonomous Research LLP	Q
That's LTM, I assume, the revenue and EBITDA growth, or is that the 3Q?	
Peter J. Clare Director, Chief Investment Officer-Corporate Private Equity & Chairman-Americas Private Equity, The Carlyle Group, Inc.	A
That is year-to-date. So that's	
Patrick Davitt Analyst, Autonomous Research LLP	Q

Year-to-date, got it. Okay.

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Peter J. Clare

Director, Chief Investment Officer-Corporate Private Equity & Chairman-Americas Private Equity, The Carlyle Group, Inc.

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...year-to-date results.

Patrick Davitt

Analyst, Autonomous Research LLP

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Thank you.

Operator: Thank you. I'm showing no additional questions in the queue at this time. I'd like to turn the conference back over to management for any closing remarks.

William E. Conway, Jr.

Co-Founder, Interim Chief Executive Officer, & Co-Chairman, The Carlyle Group, Inc.

Thank you all for your time this morning with us. And should you have any follow-up questions, feel free to reach out to investor relations at any point. Otherwise, we'll look forward to speaking with you again on next quarter's call.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may now disconnect. Everyone, have a wonderful day. Speakers, stand by.

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