The Carlyle Group

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Patrick Davitt: I'm the U.S. asset manager analyst here at Autonomous. It's my pleasure to welcome the Carlyle Group CEO, Harvey Schwartz.

Harvey Schwartz: Patrick, great to be here. Good to see everybody. I think this was my first conference last year.

Patrick Davitt: It was.

Harvey Schwartz: So, it's good to be back. Happy anniversary.

Patrick Davitt: Happy anniversary for our annual breakfast date.

As a reminder, if you want to submit any questions, you can do it on the Pigeonhole website and they'll show up here, and I'll try to work them in as we get through the questions I've prepared.

So, maybe to start, Harvey, given we have most of the big alternative manager CEOs here, let's start with a higher-level macro question. I sense increasing concern with my client base that sticky inflation, higher for longer rates, slower economic growth could be particularly bad for levered risk assets. Do you guys agree with that view? Higher level, what's your outlook for inflation rates in the economy? And do you think we've achieved a soft landing?

Harvey Schwartz: Okay. Well, first of all, everybody, great to be here with all of you again.

I think (inaudible) get lost when you're in the forest is kind of really what's driving the biggest macro factors in the world. I'm of the personal view that we're in the very early stage of a pretty significant paradigm shift. And what I mean by that is many of the macro paradigms that have driven economic growth, low inflation are either shifting or they're reversing.

And so, I celebrated my 60th birthday this year – two grandkids now, by the way. This is a tight group. So, we'll just play it without the coffee.

If I look back over my lifetime, basically declining interest rates, declining inflation, globalization, a couple billion people came out of poverty, regulation was reduced. These

are incredible drivers of sort of reduced economic friction. And then when you take in geopolitical sort of trends over the past 30 years and globalization, all these things contributed to economic growth, more frictionless economic growth, and reduced inflation.

In many regards, these things are shifting and not likely to reverse back anytime soon. So, if you think about just two very, very big ones – globalization and the geopolitical climate today versus what we've had over the past 30 years – I think these are hugely significant trends.

And so, when you start asking questions about, okay, well, what's the inflation outlook or the outlook for interest rates, I often get asked this question, Patrick, like, what are the riskiest things out there that I see in the world? And I think one of the riskiest things out there in the world is recency bias. So, if you're looking through – again, just my personal opinion – if you're looking through the lens of, hey, we just went through 15 years of quantitative easing and relaxed monetary policy globally, if that's your recency bias, you're in the forest.

And so, what's really driving inflation? It's many factors. But it's post pandemic, it's deficits, it's onshoring, but it's all those factors that simultaneously were contributing to deflation are in the process of reversing. And I don't think it's particularly exotic when asked, well, why are interest rates higher? Like, it's almost like people are very perplexed by this.

It's actually, on the one hand, quite a good thing. It's a good thing because the economy is growing, unemployment is low. I don't think as market participants we should be celebrating, "Hey, it'd be great to go back to zero." We ended up at zero because we ended up in 2009. So, I don't think anybody should be wishing for zero.

And if you think about what's happened structurally with deficits, that's another reason why interest rates are higher. That's not such a great thing, right? If you go back to, I don't know, '90s, 2000, 2.5% deficits. And then, pre-pandemic period, 3%, 3.5%. Now we're tracking 6%, on our way to 7%.

So, we've been in the camp for interest rates – when I was here last year, we were calling for interest rates higher for longer. That's the way we've been running the business. Now, we have a pretty big edge because we have hundreds of portfolio companies, with 1.3 million employees around the world, and we roll up that data every month. And we could see very precisely coming out of the pandemic the inflation spike. Now, when we see the inflation spike, we see it very differently than the way we see it in the broader economic news, but we would see inflation spike, like, up 80%. Because it'd be component parts that might be $1, all of a sudden $2.

And what we saw in that process was operators, CEOs for the first time really in a generation realized they had pricing power. They didn't know it. And they passed those prices along successfully. And so, when we look at the portfolio companies today, there's nothing flashing there that says imminent recession. There's nothing flashing there that says inflation is going to cool immediately to 2%. EBITDA growth is high single digits.

And I think bigger picture, stepping back, we're in the early stages of some very significant paradigm shifts, which we should all be informed by, which really in the end I think are actually quite good tailwinds for the business. And I say that because as micro investors and one of the largest participants in private capital, when you go through these

kind of shifts, the opportunities to deploy capital over many years I think are extraordinary.

In a quarter, it doesn't matter because as you go through the transition, the opportunities then reveal themselves. When you're transitioning very quickly – and we went from zero to 5% interest rates – everybody is sort of like, "Okay, I need to digest this." And so, you get a slowing of M&A, you get a slowing of risk appetite. That's all quite normal.

But as rates settle in – but if we were sitting here a year from today and we had two cuts, it wouldn't surprise us. Now, the good news for everybody that wants cuts, this is a Fed that knows how to cut. Like, there's a lot of policy flexibility for this Fed. If they want to cut, they're going to cut. And so, I don't know. I'm a little surprised people are so surprised.

Patrick Davitt: Helpful. Thanks. So, we mentioned it's our one-year anniversary.

Harvey Schwartz: I missed you.

Patrick Davitt: Me, too. So, it's been just over a year, obviously, since we were here, since you took the – sorry. So, I think it would be a good start after that maybe to update us on your key takeaways from the first year on the job, what you've learned, biggest surprises, biggest challenges, and things you're most excited about.

Harvey Schwartz: Sure. So, how did I approach joining Carlyle? I did a lot of due diligence. I spent a lot of time with the founders. I knew a lot about the firm, obviously, from my prior roles and just being in finance for a long time. Huge respect for the firm.

When I joined the firm, I very specifically said to myself, "new CEO, new firm." The firm has been through a lot of stress with CEO succession, which is never easy for the clients, it's never easy for the teams, and it's not easy for executing strategy. So, I was keenly aware of the circumstances, obviously.

And my only prerequisites when I came in were, in no particular order, one, I wasn't going to make any decisions quickly, at all, which was very frustrating for people like you, and I understand it, but I wasn't going to do that. Because I needed to be much more informed about all the competitive strengths of the firm and the firm's positioning. That was one.

Two, I was going to spend a lot of time getting to know my clients and my partners internally and my business heads and the teams.

Three, it was a prerequisite that I get the founders very involved in the business. They had built the business. The teams are very attached to the founders. They had a huge amount of value. And so, that was a prerequisite.

And four, I said – I was aware that everybody knew there had been friction before with the founders. It got, I think, disproportionate publicity, like a lot of things do. But I basically said, "Listen, I just want to be perfectly aligned with all of you. You own 30% of the company." So, I want my compensation basically to be virtually all aligned with them.

Other than that, I approached it – I basically tried to drop any prebiases and say, okay, just start with a white sheet of paper in terms of my own education. So, I spent the first year approaching it that way. It pretty quickly emerged a couple of things.

One, the organizational design needed to be addressed in a way that would allow growth execution to be mobilized much more quickly And I had no anticipation of this, but in retrospect ended up being some fairly meaningful changes. John Redett came in as our new CFO and Head of Corporate Strategy. It was really a change in job description and role; 17 years with the firm, 16 years as an investor. So, internal move. Changed the head of technology. Changed the head of HR. Changed the organizational design. And changed the head of global affairs. Brought in someone new that I had worked with for many years to basically do everything client-facing. Reorganized that. Reorganized and brought in a new head of wealth.

And so, a big part of it was repositioning the organizational design in a way that – a new COO, in transition now – reposition the team so the team could really unlock the energy in the company, because it had gotten a little stagnant.

Two, then we started working on very explicit initiatives. We had an expense review that we started. We reviewed the entire compensation plan, made those changes. Launched a whole bunch of new initiatives on the back of that and sort of really just repositioned the organizational architecture and some of the businesses. Tweaked some of the businesses from an investing perspective where we had had some underperformance. Shut down some parts of the business. Added to a lot of parts of the business.

In the end, it ended up being a great outcome. We had our best financial performance of the year – sorry, on record – and third-best fundraising year ever. I don't know if I would have felt that exactly if I was sitting here a year ago with you. But the team really came together. I'm super proud of the leadership group and all my business heads, and I'm grateful for my LPs and their support.

And then we launched a capital plan, and we've kind of completely redesigned the way we think about capital deployment.

But other than that, not a lot going on.

Patrick Davitt: So, I guess, summing it up, what do you think you're most excited about now that you've made all these changes?

Harvey Schwartz: So, I view my role at the highest level, overly simplified, it's my responsibility to mobilize human capital and financial capital. I think that's every CEO's role. So, one of the things that would come up when I arrived at the firm when I would talk to teams internally, they'd say, "Difficult to make decisions here." There's a lot of reasons why that can be the case. Having worked in a lot of different businesses, I've seen that in a lot of my prior roles. A lot of it is just unlocking the potential of the firm.

So, you had asked me before – I didn't answer it – I think the thing that was – which I was quite confident of was the power of the brand. The most surprising thing about the firm is the extraordinary power of the brand. You didn't do it, but I think one of your competitors just came out with an analysis. We're one of the top recognized brands from a reputation perspective in wealth.

But the brand – I know the power of working with a great brand. The brand reach and access is truly one-of-a-kind. And so, now it's just a question of how do we unleash all the strengths of the firm systematically, again, in a very disciplined way. And I think over the past year I'm really proud of the teams for doing all that work.

Patrick Davitt: Okay. That's a nice segue into the big changes you've highlighted. First, the compensation structure. Probably one of the most tangible actions you've taken thus far, moving to tie more compensation to performance fees, thus boosting the margin on fee earnings. So, how should we think about the cadence of getting to that new 30% to 35% FRE comp ratio target? Does it depend on big improvement in the realization outlook? In other words, are employees committed to these new ratios even in a low realization environment like we're in now?

Harvey Schwartz: So, one of the most important things in our business, all of us who are in the same business, is compensation. And when I first showed up, I got two questions pretty much every meeting from anybody who was interested in the stock, and they just repeated them and repeated them. One would be, "When are you going to change the compensation plan?" And, "When are you going to buy back stock?"

And what I would say to people in the compensation plan is you're really talking about – having been in this industry for a long time, you're really talking about the spinal cord of the institution. And so, you have to do these things, most importantly, with an exceptional level of care. So, we spent an enormous amount of time thinking through how to do this, because we want this truly to be, as we described it when we announced it and internally and to all of our clients, a win-win-win. We want better alignment from a performance perspective. Our investors with their clients, our clients, they want it. Our clients want it. So, that's a win.

I personally hugely value the couple of billion dollars that the firm has in carry, but we know from a multiple perspective that the Street value is the fee stream more. And that's fine because we can deliver more fees. And so, it's a win across the board.

The execution is the piece that we want to be super thoughtful about. So, the reason why we introduced it the way we did is because this is not something where – we're not going to allow it not to be a win-win. And the only way that happens is if we overaccelerate this because we press too hard on the gas pedal. So, this is going to be a super systematic, orderly transition, and we're going to be patient with it. So, you shouldn't expect us to – as we described when we announced it, you shouldn't expect us to hit this as a goal, like "Oh, we're going to do this by 'x' quarter." Because this is a very methodical, systematic change and we're going to do it with care.

Patrick Davitt: Got it. The other big tangible change you made was on capital return, with the new $1.4 billion authorization and what sounds like a firm commitment to use it. On the other hand, stock comp remains a big bugaboo with many investors I talked to. So, taking those two offsets together, do you expect to meaningfully reduce the share count? And what is a reasonable cadence to think about putting that $1.4 billion to work, given the price is now meaningfully above where you announced?

Harvey Schwartz: "Bugaboo," is that, like, a technical research term?

Patrick Davitt: It is.

Harvey Schwartz: Okay. Well, this is like a "proof is in the pudding" thing. So, I went back and had studied what you just referenced effectively, which is since the date the firm went public, I think every year there's been dilution in the firm, and last year was the only year we reversed it since the new team was in place.

I'm super focused on how we think about the capital deployment. And again, this is a First Principles exercise. It's truly just about – our capital, again going back to my responsibility and the team's responsibility in terms of financial resources and talent, in terms of the financial capital, I think of every dollar as a precious resource. And so, we are going to be very disciplined about the deployment of that capital into growth, that deployment of that capital in how we manage it to shareholders, and if we do things that we feel are really accretive from an inorganic perspective.

And the way we designed this plan was we wanted to have enough flexibility to have a meaningful impact if we need to. And that's why we came out with the $1.4 billion. I think in the first quarter – and John can affirm – I think that we bought back around $150 million. I think that's almost as much as we ever bought back in a year as an entire firm. And I think the most we have ever bought back as a firm was the first year I showed up.

So, this is a pretty big shift in terms of the way capital management is being deployed. Now, internally, everybody should understand there's a very big shift also. So, John and the team have put in a whole different approach to how we think about marginal capital deployment in terms of business selection. So, this is bigger than just the $1.4 billion, but obviously that's quite important.

But it gives us a lot of flexibility, and that's the key. So, the key is where do we want to be on any given moment on the efficient frontier of buying back stock versus deploying it back into the business, and we gave ourselves that flexibility.

In terms of forward path – because that's really what you want to know – I'm not going to give you one, because I want the flexibility along with the team to toggle, right? If we see accretive opportunities, we're going to invest in those, and we're continually investing in the business. But also, we want to be very cognizant of how much float is out there. So, we're a little bit constrained by float. And so, we don't want to be unnecessarily driving the price up.

Patrick Davitt: Got it. Let's move to private wealth, a topic that everyone is focused on. How are you thinking about differentiating Carlyle's product from the others that have probably been in the market a lot longer? You often mention the brand as a differentiator, but your major peers also have that. So, how do you see the global wealth strategy playing out over the next few years?

Harvey Schwartz: So, I think again this is one of these mega trends where wealth is coming into the space, and it's not just a U.S. phenomenon. It's everywhere in the world. We were the first to launch a partnership in Korea last October in terms of distributing wealth products in credit. And so, this is a global phenomenon.

I'm not a big TAM person. I never liked the TAM argument. I do think there's a real TAM argument here, just because the migration and the interest in differentiation in terms of how wealth advisors are thinking about working with their clients in wealth is real, and I do think there's so much to play for globally in terms of the TAM. However you want to cut the numbers, I think the opportunity set is huge for the industry.

In terms of the brand, we've been in the wealth space for many, many years, and we've raised over $50 billion in the wealth space. And that is, in part, why the Carlyle brand is so recognizable and the reputation is so strong.

I think to be successful, you need a couple of things. You need brand recognition. You need a very keen understanding of what the wealth advisors want for their clients, and I'm going to come back to that in a second. And then the third thing you need is a portfolio of solutions that those wealth advisors can look at and use as a toolkit. And you have to perform. And performance is not optional, and that means in all respects. What they expect from a performance perspective, what you advertise, how you deliver it, how you reinforce it, how you support it with knowledge, how you provide liquidity, all those things.

And I do think we're really I think as an industry in the first inning of this. And I know this because about six months into the role, I started spending a huge amount of time in this space; so much so, for people to understand, that I've met with hundreds of advisors at this stage: one-on-one, groups. I really wanted to understand from them exactly what they need for their clients.

And there's a lot of ways you can approach this marketplace, and our strategy may evolve over time and certainly will evolve over time, but the way we're thinking about it is a core suite of a credit solution, which for us is CTAC. A secondaries solution – we have this extraordinary business that you all know about, AlpInvest, tremendous track record; that's a new solution for wealth clients. And then, in '25, we'll likely come out with a private equity solution. That's kind of, like, the cornerstone of your toolkit.

And let me just run through, for example, CTAC. CTAC is basically a horizontal slice of everything we do in credit. Last year, like, a 14.5% return. CAPM, which is the secondaries product we launched a year ago, first-year returns, 17.5%.

But if you're a wealth advisor, you cannot possibly as a firm create every product that wealth advisor wants – I actually think that's a completely misguided strategy – and you can't be pushing product. These are our partners. So, we're on a platform. We're on a platform. I view it these are partners for life. And what we want to have is key partners we work with where we get the benefit of our historical performance, the iconic power of the brand. And then, alongside this suite of core solutions, there will be feeder funds, like there's always been. Because if you talk to a lot of wealth advisors, they don't like the open-ended products. They'll say, "Listen, I like the one-off things for my client." And so, you can't be all things to all people, but you have to be enough things to enough people, and that's how we're thinking about it.

Patrick Davitt: On that point, KKR made a bit of a splash last week with its announcement of a partnership with Capital Group to build retail products for more the mass affluent market, with more liquid credit combined with the illiquid private credit. Do you think this is a path Carlyle could take as it seeks to broaden the franchise? Or do you think it makes more sense to do this internally? Or neither? Do you even want to do the mass affluent?

Harvey Schwartz: I think that again this gets back to where we are in the first inning. This partnership that we established in Korea a year ago actually targets basically the mass affluent, and we work with a firm, KIS, there and their private wealth clients. And they have an extraordinary franchise and they're great, great partners.

I think that – the ecosystem of finance is fascinating because of the way it changes all the time. And again this goes back to these paradigm-shifting things. One of the paradigm shifts is that if you went back, I don't know, only to 2000, 1999, for those who have been in the business that long, people paid, like, three, four, five cents to trade a share of stock. And then, no one could have predicted the advent of ETFs.

Again, but put yourself in the mind of the wealth advisor or the wealthy client. They want to avail themselves of the whole toolkit. So, you're going to see insurance, more insurance-wrapped product. You'll see retirement-based product. But they want to have the full solution kit for their client. And it is really about paying attention to that.

And so, I think we're going to see a number of partnerships evolve over many, many years, and I think again it's all about providing incremental alpha and portfolio diversification to that end client through those partnerships. And yes, I'd expect you to see us do more of them. I think the industry will do more of them.

Patrick Davitt: Quickly, before we move on – this is something I think investors are very focused on – on CTAC and CAPM, where are you in terms of the breadth of distribution? And is there specific (inaudible)?

Harvey Schwartz: So, right now it's predominantly U.S., although going international. RIAs in the U.S. and a number of platforms. I'm under some restrictions as it relates to CAPM, but we shortly are announcing a couple of more platform partners.

David Rubenstein and I did a whole tour up and down the West Coast three weeks ago, right after Milken, meeting with wealth advisors. And I've got to tell you that's super important because you really get to hear what is most important to them. And that's what makes this durable. And I think these partnerships are exactly that. Incredibly valuable partnerships.

Patrick Davitt: Makes sense. Thanks. Moving to credit, you've tripled the size of this business over the last five years, but a large part of this business is still CLOs and Fortitude. So, what do you see the biggest opportunity to kind of grow this business, increase the diversification? And can you do that organically? Or do you think you would have to do more tactical M&A? Or maybe just lift out teams from other firms?

Harvey Schwartz: So, super comfortable with the organic footprint. If you again step back for a second, what's really happening? So, the word "private credit" I think has become a little bit confused. But let's just think of ourselves as an industry as credit providers. There's no particular mystique about private credit.

But as credit providers now, this has really gone over a 20-year trajectory from direct lending to sponsors, mostly middle-market sponsors, to a full build-out of the CLO business, the direct lending business, asset-backed finance, and opportunistic credit. And we're in all of those spaces, growing quite nicely.

A lot of this is about again the ecosystem of finance. And not to, like, become a technocrat, if you look back at what's happened over the past 20, 25 years, 40% of the companies go public as often as they used to – or the population of public companies is down 40%. And if you went back again, like, to '99, 2000, back then a company from the first time they got capital, private capital, might go public in, like, three or four years. Now it's 11 years.

So, this trend is reinforced – the need for private capital is reinforced by the fact that companies are much more likely to stay private.

And then you have some other overarching big, big factors, which is the regulation of the banking system and the fact that the more efficient capital provider is often the private capital provider: us and our industry. And so, this is really just the ecosystem of finance finding the efficient deployment of capital.

And we want to be in that full breadth, and we are. So, our asset-based finance business after three years is over $7 billion. We're in some extraordinarily interesting flows. It fits quite nicely with the Venn diagram of Fortitude and the insurance complex, because you need all that expertise. But I would argue a lot of the firms are growing because of their insurance franchises, just like we are with Fortitude.

But it's about having that full breadth across the capital structure. And again, that gives us the ability to create solutions like CTAC, which touch across that whole horizontal. And I like that because it gives more diversification and less concentration for the wealth advisor. Again, when you're from the CLO through asset-based finance through direct lending through opportunistic credit, I like that for the wealth client. I personally own it.

Patrick Davitt: Good.

Harvey Schwartz: Thank you.

Patrick Davitt: That's a nice segue to insurance, obviously. You've taken a little different tack in the insurance opportunity than some of the other large alternative managers, with Fortitude partnership. Could you contrast maybe how you're approaching this channel relative to the others? How you see it growing from here? And to what extent you have the breadth of asset management capabilities to fully service the insurance opportunity?

Harvey Schwartz: Well, I think we've already demonstrated we have the asset management capabilities to service it. So, I would knock that question off.

Patrick Davitt: Okay.

Harvey Schwartz: But I think the strategic question fundamentally for the industry with this convergence of asset management and insurance companies is the degree to which – how much do you want to be a vertically integrated insurance company? I think that's the big strategic question for the industry, and I think the answer to that will be defined over 5, 10, 15, 20 years.

I think that the – again, not to be boringly technocratic – I think the question that really needs to be asked is, what is the source of financing and how diversified is your financing? One way of talking about the wealth space is the way which I think is most important, which is what's most important to that customer and that client and how do you deliver expertise to that client. The other way of thinking about it is a channel. The other way of thinking about a channel is it's a source of funding.

And so, I think the fundamental question strategically is where do you want to sit and where is the efficient frontier of diversified funding sources. And I could define those as institutional capital; I could have a subset that's insurance-related just because of the duration nature of it versus, for example, a pension fund and their own statutory requirements, where they operate in the cap stack; Less in, for example, equity; more in

private investment-grade; and the wealth channel. And across all those, how do you want to think about the diversified nature of your funding? And then, within that, what's the benefit of being more like an insurance company on that spectrum versus not?

And I think that's a super important question, which people will take a different tack in the industry as we go through it. I think there's a fundamental question linked to that, which can be phrased as, how capital-heavy do you want to be versus capital-light? So, I've mostly operated in a capital-heavy model, as all of you know, because I was – I ran the trading businesses at Goldman and I was responsible for the balance sheet. And I've lived through the cycle of "capital-heavy is the single best model in the world," and then I woke up in 2008 and nobody liked capital-heavy. So, I think that, again, cycles determine these things, not a quarter.

What I like about what I stepped into is the foundation of our credit business and Fortitude gives us huge operating flexibility. I don't have any particular strong view on any one model, but I do know that we can pivot very significantly from this model because we're at the capital-light end. And so, I like our current position quite a bit.

Patrick Davitt: Great. So, moving to...

Harvey Schwartz: Did you get any of that? Or no? I was just kidding. The audience just got so serious. I had to pump them up a little bit.

Patrick Davitt: It's still early.

Let's move to fundraising and performance, which are obviously interconnected. You stuck with your 2024 guidance of $40 billion for the year, but the run rate was obviously well below that in the quarter. So, I sense investors are still a little skeptical on how you get there. So, how should we think about the cadence to getting to that $40 billion this year? What is your confidence level in hitting that target? And what products do you think will be the biggest contributor to getting to that (inaudible)?

Harvey Schwartz: (inaudible) communicate with you and the audience on. So, when we came into the third quarter of last year, I said, "Hey, I think there is going to be a pretty significant pickup in fundraising in the fourth quarter." I think we raised $17 billion in the fourth quarter. Everybody was surprised we raised $17 billion in the fourth quarter.

When we said we were targeting $40 billion for this year, I should have said, "But it won't be coming in as a daily averaging $10 billion a quarter." Because when I left people with that impression, that's my mistake.

But if you look at sort of the fourth quarter and the first quarter, I think it's $22 billion that we raised in six months. And so, we still feel good about the $40 billion target. I think you should expect the second quarter to be meaningfully above the first quarter. How's that?

Patrick Davitt: That's good.

Harvey Schwartz: You got it?

Patrick Davitt: I got it.

Harvey Schwartz: Great. And we feel comfortable about the FRE target. But we don't run the business fundraising quarter to quarter. We just don't. It's not the way we think about it. We think, again, as fiduciaries raising that capital, deploying that capital in the most prudent way, working with our partners. And often our partners, we don't expect them to live on our quarterly deadlines, nor do I even ask my team to do that.

So, the way we operate the business is not maybe perfectly consistent with the way you would like to model it. I can give you directionality, but right now we feel good about the fundraising momentum. And as I said, last year was our third-best year ever. So, I feel good about it.

Patrick Davitt: Any particular products do you think will be the biggest contributors to that?

Harvey Schwartz: So, there are real natural areas of growth in the firm. I already mentioned the strength of the secondaries business. We're actively raising the real estate fund, which I can't talk much about, but team is world-class, has a fantastic 20-year history, has outperformed every benchmark by hundreds of basis points. There's credit, which is growing. And so, all those areas. The pipeline in insurance feels pretty good. So, yes, I feel good about it.

Patrick Davitt: Great. In this vein, one of the topics that comes up a lot – I'm sure in your meetings, as well – is the performance of the recent buyout funds. So, how are you thinking about the health of those portfolios? Your long-term track record is obviously still quite good, but the recent funds appear to be underperforming. So, how should we think about the trajectory of that business from here and the health of those portfolios?

Harvey Schwartz: So, I think there's three things you should think about. One is the long-term history of being in this business for 35 years. John will know the numbers off the top of his head, but I think the gross return is 26% over the life of the buyout funds in private equity. And so, this team has a long history of performing.

You're right to point out that the last vintage in U.S. buyout, for example, isn't performing to our desired target, but I wouldn't say "underperforming." We've seen some – away from Carlyle, we've seen some situations where buyout funds really have massive holes in them.

But we made some systematic changes. I referenced it earlier. For example, in U.S. buyout, we asked the team last year to systematically go through, make sure they're very comfortable about the power zones. We had not had good performance in consumer. So, we exited that vertical. That's a contributor to the last vintage that you're talking about.

And most importantly, the teams are exquisitely focused on the portfolios and will stay that way. And there's nothing better to reinforce the need for performance than a bit of underperformance. And so, I can tell you everybody's very focused and we'll make changes where we need to.

And the good news is in that CP VIII, which is about half deployed at this stage – that's the most recent vintage – it looks pretty good.

Patrick Davitt: On the other hand, real estate performance is pretty good.

Harvey Schwartz: Performance across the platform is way better than "pretty good," but we have some pockets that we're addressing.

Patrick Davitt: So, that said, I sense CRE – it was last year; it still is; it probably will be when we're sitting here next year – it's still a point of concern for investors as slowing trends appear to be spreading to more than just office. So, potentially impacting parts of your portfolio that you do have more exposure. So, maybe, firstly, remind us of your real estate mix. Secondly, how are cash flows trending in the various buckets in your CRE portfolio? And to what extent do you have any incremental concern that there could be more pain in those portfolios as the focus expands to places like multifamily, industrial?

Harvey Schwartz: So, for those who don't know the business, let me just take a step back. And again I have to be a little careful because we're in the market fundraising, and I don't want to (inaudible).

This is an extraordinary team, with an amazing track record. You've probably heard me say many times when I get asked questions about the future, I say, "Like, I don't have a crystal ball," or "My crystal ball is not better than anyone else's." Their crystal ball, pretty good. They stopped investing in office right around 2013. And they have a very systematic framework for how they view demographics, opportunity. And as I said, they've outperformed any benchmark by hundreds of basis points. And so, they have missed all the problem areas, and they've been in all the areas of strength.

I think when you have an interest rate environment that goes up 500 basis points in two years, I think what you're seeing here is an effect where you're going to have, for example, maybe some demographic delays and things. But the areas like multifamily, for example, multifamily rents might not be going up as quickly as they were in the past, but the reality is that interest rates being up has really curtailed construction. And so, this has a self-correcting mechanism.

Unlike office space, which demographics have just shifted in office space. I think it's impossible to call the bottom there. And my team's not excited about office space yet, as an example.

Patrick Davitt: Got it. Okay. Moving to realizations, I think the overarching takeaways from all the other 1Q earnings calls was still a fairly cautious tone, I think, on the outlook for realizations this year. I think Carlyle might have been in the more optimistic side of that spectrum, actually. So, why do you think the tone from others was more cautious than maybe you were? Or maybe what about your portfolio or pipeline made you more optimistic? And has your outlook shifted more positively or negatively on this theme since the call?

Harvey Schwartz: Well, on realizations, again, across the platform, what informs us is just the level of activity and the pipeline that we can see and what's about to be realized. So, I would say I'm sort of staying in the same place. I think second quarter realizations will be lower than first quarter realizations. But we had McDonald's, we had Neptune, we had very identifiable realizations. I can't speak to anybody else's portfolio.

But we have some extraordinarily good assets, and when we have the opportunity to monetize those assets – again, we have $2.2 billion of accrued carry that's going to come in over the next couple of years. And when our teams see the opportunity to monetize those assets in the best way on behalf of our institutional clients and our clients, broadly, they're just going to do it.

But I can't speak to why it's a little more active at Carlyle versus others.

Patrick Davitt: Got it.

Harvey Schwartz: But again, it's not a quarter-to-quarter thing.

And I think the environment, we'll see what happens over the next nine months. I do think markets are a little more fragile now than they were maybe three or four months ago, but this is not a three- or four-month game.

Patrick Davitt: The other side of that coin is deployment, which feels better than realizations. But you have a lot of dry powder, your competitors have a lot of dry powder, and a lot of people are talking about this $600 billion-plus that needs to be put to work in the next 12-plus months. How close do you think we are to seeing a big uptick in deployment? And how do you avoid overpaying or seeing IRR deterioration from so much money being put to work in such a brief time?

Harvey Schwartz: So, I think language is super important. So, I think you're right exactly the way you described it, because I think there's this expectation in the industry that $600 billion has to be put to work. A good way to not get IRR is to feel like you have to put money to work. And so, we don't put any pressure on our teams to put money to work. I think you can't let capital drive investing. Investing has to be driven by the opportunity set, and then it pulls the capital.

And so, we're very conscious of being patient for opportunities. It's a privilege to be at Carlyle, because we get a lot of incoming unique opportunities, and our teams are always looking. But we're going to be disciplined about how we deploy it.

I do think, again, normalized interest rates and a normalized cost of capital versus an overly subsidized cost of capital and the environment we're in now, today it might be creating a bid-offer gap in terms of people's willingness to transact. It may be creating an M&A environment where people are hesitant. It may be creating an environment where IPOs are more challenging.

But in the long run, I think it creates enormous opportunity, because it will encourage M&A strategically to create value. It will encourage carve-outs. A lot of market-clearing cost of capital is a much better environment for a micro investor. And whether it's opportunistic credit – because there are going to be companies, really good companies, that need marginal capital to get through the higher rate – that's a fantastic place to be deploying opportunistic capital.

In our CLO business, a year ago when we were sitting here, you probably would have argued, because I think the consensus would have been, CLOs are not coming back. Okay. Here we are a year later. We've had multiple deals price (inaudible). We're as busy as we've ever been. And interest rates are high.

So, I think, again, as the market adjusts to this, I think there'll be lots of opportunity for our $70-billion plus of dry powder, but zero pressure on my teams to deploy it.

Patrick Davitt: Great. So, getting close to the end, a couple of finishers. First, on the capital side, I think some investors have been frustrated that you don't put M&A higher on the capital priority list as a way to maybe quickly diversify the business further away from private equity. So, are we correct that M&A is low on your priority list?

Harvey Schwartz: No.

Patrick Davitt: Okay. Fair. And if you were to do more inorganic, where do you see the biggest opportunities or holes where that option could make the most sense for Carlyle?

Harvey Schwartz: Don't see any big holes, but anything we do in M&A has to be culturally the right fit, it has to have all the right industrial logic, it has to be super additive to the franchise and our institutional and our wealth clients and to all of our constituencies, and it has to be accretive over time.

If you look at the platform today, the platform is very well diversified. I know our biggest business is traditional private equity, but if you actually look at the segment, that includes real estate, that includes infra, that includes renewables, that includes energy. But the secondaries business, the credit business, all of the foundational pieces are there. We could systematically organically grow.

But I'm super open to the right opportunities if I think they really fit, but it's not like I have a private equity platform and I need a credit platform. Or if I didn't have a secondaries business, I might have a very active conversation with you because I think it's a fantastic business for diversification because there is – obviously, very obvious, secondaries can be very active when primary is less active, and I think secondaries are such an extraordinary wealth product. But I don't know how much I would pay for that. I know a lot of people would pay for my business, but I already own it. And David and the founders bought it for $25 million dollars, like, 12, 14 years ago.

So, I think that that's a business I would chase if I didn't have it. Because I think it's a really powerful part of the toolkit when you think over the next 10 years of how the industry evolves.

We don't feel any pressure, but we'd certainly – for people to think we wouldn't entertain the right asset, the right team, that would just be illogical. Why would I do that?

Patrick Davitt: Fair. So, to conclude, I have an outperform on the stock, but many of the investors I talk to...

Harvey Schwartz: (inaudible) not really that high.

Patrick Davitt: ...disagree with me. So, for those that have a different view, what's your elevator pitch on what you think those investors are missing and should be buying the stock here?

Harvey Schwartz: Iconic history in one of the best brands in the world. Diversified platform in a great industry segment, where you have perfect alignment now between the management leadership team and all the constituencies and a path to executing. There are a lot of stocks in the world people can buy. For those that buy it, I really appreciate your support. We're in a great lane with a great brand and a great team, and I wouldn't bet against us.

Patrick Davitt: Great. Thank you.

Harvey Schwartz: Thank you, Patrick. It's good to see you. Thanks, everybody. Great to see you.