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The Carlyle Group, Inc. (CG)

Q4 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to Carlyle Group Fourth Quarter 2020 Earnings Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions]

I would now like to introduce your host today, Mr. Daniel Harris. You may begin.

Daniel F. Harris

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

Thank you, Kevin. Good morning and welcome to Carlyle's fourth quarter and full year 2020 earnings call. With me on the call is our Chief Executive Officer, Kewsong Lee; and our Chief Financial Officer, Curt Buser. This call is being webcast and a replay will be available on our website. We will refer to certain non-GAAP financial measures during today's call. These measures should not be considered in isolation from or as a substitute for measures prepared in accordance with generally accepted accounting principles. We have provided reconciliations of these measures to GAAP in our earnings release. Any forward-looking statements made today do not guarantee future performance and undue reliance should not be placed on them.

These statements are based on current management expectations and involve inherent risks and uncertainties, including those identified in the Risk Factors section of our annual report on Form 10-K that could cause actual results to differ materially from those indicated. Carlyle assumes no obligation to update any forward-looking statements at any time. Earlier this morning, we issued a press release and a detailed earnings presentation, which is also available on our Investor Relations website. For the fourth quarter, we generated $145 million in Fee Related Earnings and $237 million in Distributable Earnings, with DE per common share of $0.64. For the year, FRE was $520 million and DE per common share was $2.05, both up from 2019 levels. We declared a quarterly dividend of $0.25 per common share.

This quarter, we're reporting our results under our new segment structure, which is more aligned with how we operate our business. All equity investment strategies are now captured in a single segment. Global Private Equity, that includes our former Corporate Private Equity and Real Assets segments. All of our credit investment strategies remain in Global Credit. And our Investment Solutions segment continues to have a portfolio management strategies.

As a reminder, we look forward to hosting our first Investor Day as a corporation on February 23 at 8:30 AM. Registration is open and we do encourage you to preregister possible at ir.carlyle.com. At our upcoming Investor Day our leadership team will discuss our corporate strategy and financial objectives as well as opportunities for each of our businesses. I'm sure many of your questions today could be tied to our longer term outlook and topics we'd like to cover comprehensively at Investor Day and as such we may defer responding to these questions and address them at that time and in context with our broader plan.

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

Kewsong Lee

Chief Executive Officer, Chairman of the Executive Group & Director, The Carlyle Group, Inc.

Thank you, Dan. 2020 was a year of growth and positive change for Carlyle, despite the challenging and complex environment. Our focus in 2021 is to build on our current momentum and we look forward to providing more detail on our strategy for accelerating growth at our Investor Day in two weeks. Today, I'd like to focus on three points. First, Carlyle delivered very strong results for shareholders in 2020. Second, our investment portfolio is in great shape. And third, our business model and organization proved extremely resilient and adaptable to the changing environment.

Let me start by focusing on our 2020 results, which were strong across all metrics. We generated a record $520 million in Fee-Related Earnings with margins in excess of 30%, a substantial progress from just a few short years ago when FRE was less than half of this year's level. Continuing to grow FRE remains a primary strategic focus.

Distributable Earnings increased 18% in 2020 and we expect continued growth in earnings as our investment portfolios perform and mature. Our investment activity picked up sharply throughout the year. Despite a challenging environment, we exited the year with great momentum deploying $9 billion of capital in the fourth quarter alone and $18 billion for the year. Our ability to consistently deploy in good times and bad demonstrates the value of our global platform and multi-asset class approach.

We also accelerated our exit pace, realizing $7 billion for a fund investors in the fourth quarter and $21 billion for the year. And since the beginning of 2020, we've taken eight of our portfolio companies public and have over $17 billion of current value in public securities that when realized will generate proceeds for our LPs and earnings for our shareholders. And the final highlight, we raised $27.5 billion in new capital during the year with nearly 90% of the capital raised from our Global Credit and Investment Solutions segments. We will have much more to say about the trajectory and scale of our next fundraising cycle at Investor Day.

Let me now move to some remarks on our investment portfolio, which is diverse and balanced and in great shape. A few highlights. Our private equity buyout funds appreciated 19% in aggregate in 2020. Our largest fully invested fund US buyout VI appreciated 46% in 2020 and our latest fully invested Asia buyout fund was up 34%. Our Global Credit funds also performed extremely well despite significant volatility during the year. Our opportunistic credit fund appreciated 21% in 2020 and our Structured Credit strategy appreciated 16% positioning both strategies for future growth. When combined across the firm our strong performance drove our net accrued carry balance up 36% in 2020 to a record $2.3 billion, which positions us very well for a substantial step-up in realized performance revenue over the next few years.

The last point I want to make is on the resiliency of our business model and adaptability of our firm. Nearly all just about 98% of our capital is committed to us for the long-term in many cases 10 years or more. These fund structures provide us with predictable and stable management fees regardless of market volatility. While the remote environment last year was personally challenging for each of us. Our people and platform adapted rapidly during the year and our business operations were virtually unaffected by COVID. Our global investing platform pivoted quickly to operate in the new environment. Our investment teams effectively sourced and closed new deals, carefully monitored our portfolio and completed IPOs and exits.

We found new investment opportunities in regions like India and China and pivoted to private equity growth particularly in healthcare and technology. And we provided flexible credit solutions to sponsors and corporates despite the volatile environment. At the same time, we spent countless hours with our limited partners developing a new cadence that enabled us to forge deeper relationships with them despite not meeting in person and raised over $27 billion in a year when we weren't in the market with our flagship Global Private Equity funds.

2020 has demonstrated our resiliency and ability to adapt and we find ourselves well positioned to manage through the challenges ahead to deal with the continued impact of COVID on economies, markets and our portfolios. Most importantly, we remain focused on the health and safety of our people and we owe our success in 2020 to their dedication, hard work and expertise. I want to say a sincere thank you to each and every one of them for their extraordinary efforts last year.

Let me turn the call over to our Chief Financial Officer, Curt Buser to go through our results. Then I'll come back with some final thoughts. Curt?

Curtis L. Buser

Chief Financial Officer, The Carlyle Group, Inc.

Thank you Kew, and good morning. We performed well in 2020 despite the pandemic and economic volatility throughout the year. We generated $762 million in Distributable Earnings, our best year since 2015 and DE per share of $2.05 for the year increased 20% over 2019.

Before digging into our financial results, I'd like to touch on three items. First, our outlook for 2021 Fee Related Earnings and realized performance revenues. Second, the trajectory of our effective DE tax rate and third, stock-based compensation expense and equity awards. First, Fee Related Earnings were $520 million in 2020 and excluding $30 million in cost recoveries during the first quarter, adjusted FRE of $490 million increased more than 8% year-over-year despite not raising new capital for any of our Global Private Equity flagship funds. FRE margin on the adjusted basis was 30% up nearly 200 basis points relative to 28% in 2019.

For the year, Global Credit Fee Related Earnings of $99 million more than doubled the 2019 level while Investment Solutions FRE of $37 million was also more than doubled the prior year. In both cases, top line growth drove the majority of the year-over-year increase and margins expanded substantially in both segments.

Looking at 2021, we expect realized performance revenues to continue to grow. And we expect to produce similar to slightly higher FRE compared to adjusted 2020 results. Consolidated top line management fee revenues should modestly increase with more noticeable growth in Investment Solutions and Global Credit more than offsetting some downward fee pressure in Global Private Equity as portfolio realizations increase. Global Private Equity will see growth in management fees and FRE when our next multi-year fundraising cycle begins for our large flagship funds, which we do not expect to meaningfully affect our 2021 FRE results.

Our net accrued carry of $2.3 billion is now 18% higher than its previous peak balance. And the remaining fair value invested in our carry funds of $95 billion is 50% greater than its average balance during the period of 2012 to 2017 when our net realized performance revenues averaged over $600 million annually. With our funds performing well and assuming no material surprises in the capital markets, we expect realized performance revenues to gradually increase in 2021 and then in the years thereafter surpass our prior annual averages.

Regarding our outlook on our DE tax rate, in our first year, as a full corporate taxpayer, our effective DE tax rate was 5%. The relatively low rate benefited from the utilization of legacy, net operating loss carry forward, in addition to the basic step-ups and tax amortization arising from our corporate conversion. For 2021, we expect our effective DE tax rate will increase to the mid-teens as we fully utilize the remaining legacy NOLs early in the year. Thereafter, the effective rate is likely to continue to increase annually before settling in the low-20s in the later years. Of course, this outlook is based on current tax laws and should changes arise in any jurisdiction our expectations for effective tax rates may change as well.

Moving on stock-based compensation expense was $29 million in the fourth quarter and $117 million for the year down 23% from $151 million in 2019. The decline owes to the positive impact of granting fewer Year-End Stock Awards than in previous years, as well as the departure of certain senior executives during the year. As part of this year's compensation cycle, we granted long-term Strategic Equity Awards to a small number of our most senior executives, which are predominantly tied to achieving milestones in our strategic plan. As a result, we expect our equity-based compensation expense to increase to amount comparable to 2019.

Let's shift to a broader discussion of our results. Overall, we had an active year and have great momentum entering 2021. As Kew noted earlier, we raised $27.5 billion in new capital in 2020 with both Global Credit and Investment Solutions posting record fundraising years. Global Credit surpassed its previous record by nearly 50% and Investment Solutions raised more than twice as much as any prior year. During the fourth quarter, Investment Solutions had a final closing on its $9 billion AlpInvest Secondary program, which wound up nearly 40% larger than its predecessor and its new co-investment strategy is now raising capital.

In Global Credit, we had an initial closing on our second opportunistic credit fund and activity in several platform wide strategies. Both segments are positioned well for future growth. Fund performance was particularly strong. The fourth quarter carry fund appreciation of 11% in Corporate Private Equity, 3% in Real Estate, 3% in Natural Resources, 7% in Global Credit carry funds and 7% in Investment Solutions.

Fee Related Earnings in the fourth quarter were $145 million with a 34% margin up from $108 million at a 26% margin in the fourth quarter of 2019. With the upside largely owing to a higher total fee revenue and lower G&A expenses. Fee revenues for the fourth quarter of $429 million increased 5% from last year, largely driven by higher transaction fees of $21 million, nearly double a year ago and up from virtually zero in Q3 2020.

During the fourth quarter, we also activated fees on our new Japan buyout fund increasing Global Private Equity management fees from Q3. Fee-earning assets under management was $170 billion, up 3% for the quarter and 6% over last year with a 28% increase in Investment Solutions and an 11% increase in Global Credit, both driven by strong fundraising, offsetting a modest decline for Global Private Equity as we continue to realize proceeds for our fund investors.

Shifting to expenses, cash compensation was $202 million for the fourth quarter and $822 million for the full year, 4% higher than 2019 and we continue to be disciplined on managing compensation expense. G&A expense was $73 million in the fourth quarter down from $95 million a year ago. For the year, G&A of $241 million declined 27% year-over-year owing to lower travel expenditures as well as a $30 million litigation cost recovery in the first quarter. G&A expense should increase in 2021 due to a normalization in both items. But we believe G&A expenses are likely to remain below prior peak levels as we capitalize on learnings of the past year.

Net realized performance revenues were $87 million in the fourth quarter and for the year increased 50% from 2019. The majority of realized performance revenues this quarter was from our VI US buyout fund with carry from our real estate funds making up most of the remainder. In sum, we continue to be pleased with the durability and sustainability of our fee earnings. And we are increasingly optimistic about the opportunity for growing DE over the coming years. We look forward to speaking with you all in a few weeks when we will go into more detail on our growth plan.

With that I'm going to turn it back over to Kew for some final thoughts.

Kewsong Lee

Chief Executive Officer, Chairman of the Executive Group & Director, The Carlyle Group, Inc.

Thank you Curt. We have worked hard over the past few years and our results this year reflect the momentum we have built. We're proud of the performance we delivered on behalf of our limited partners and our shareholders in 2020 and we are excited about the opportunities in front of us. We look forward to speaking with all of you in more detail on February 23.

And let me now turn the call over to the operator to take your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And we also ask that you limit yourself to one question and one follow-up. Our first question comes from Craig Siegenthaler with Credit Suisse.

Craig Siegenthaler
Analyst, Credit Suisse Securities (USA) LLC

Q

Thanks. Good morning, Kew, Curt hope you're both doing well.

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

A

Hey, good morning.

Craig Siegenthaler
Analyst, Credit Suisse Securities (USA) LLC

Q

So we wanted to start with the impressive fundraising results from the Solutions business, which now almost has $60 billion of AUM. Could you provide us an update of how you view the addressable market, the competitive landscape and also the growth trajectory for your secondary and co-investment businesses across both AlpInvest and Metropolitan?

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

A

Craig, let me start so in Global Credit, it was a very good year nearly $10 billion of capital raised, good growth across the platform and it's really nicely dispersed in terms of that -the various components of the business and including even the CLO business.

And then AlpInvest $14 billion of fundraising this year, a record year for fundraising. It's AUM has been growing nicely and the thing to is also remembering in the case of AlpInvest is the burn off that we had in a lot of the AUM in early year is really from some of the two major investors or shareholders in that business prior to our ownership. And so, really the growth in AUM is even bigger than what you kind of see by looking at the aggregate numbers, but you've got to take into account that historical run off.

The team's really done a nice job of repositioning, the investor base across that whole platform. And that Secondary program with $9 billion. Now, in terms of the total program size. It didn't turn on fees really until the fourth quarter and so, that should be a nice driver of fee revenue growth for that next year. And then as you think about the co-investment program, [ph] they – they're not just in raising, they're next kind of (00:20:20) generation of that and that will be additive to next year as well. So, really well-positioned for continued growth.

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

A

Hey, Craig. It's Kew. Taking a step back, if you think about it, clearly, the private capital markets are – have really grown and are huge. And so, it shouldn't surprise all of us that large LPs and small LPs are in need of what I would call portfolio management solutions as they optimize risk and allocation to the asset class. And the way they do that is by first focusing on Secondaries. Second, trying to add to co-investment opportunities and third, obviously in a diversified way they're looking for potentially ways to pick up interesting new GP commitments, but in a more diversified way. And AlpInvest is a platform that lets them do that. And so, this whole area of alternatives I think is just going to continue to grow on the heels of the fact that the broader industry is growing. So, that's a big picture number one.

Number two, it used to be that these types of solutions were very bespoke in the past, but increasingly, we're seeing large carryover from our existing LP base as they try to minimize or add to deployment, manage risk on co-investment strategies, et cetera. And so about 40% of the LPs in Solutions, I believe are also LPs in our existing Global Private Equity and Global Credit franchise. So there's a huge cross-sell, but also an introduction to all of Carlyle, which Solutions offers us to be able to introduce to our LP base. And then finally – and we're going to get into this on Investor Day, the performance of these strategies has been terrific. And we're going to – we'll show you more of that in two weeks, so please be patient. But that performance is the underlying driver for why we believe in these three very focused strategies Secondaries, co-investments and primary fund-to-funds. We see real growth opportunity ahead of us in Solutions.

Craig Siegenthaler
Analyst, Credit Suisse Securities (USA) LLC

Q

Great. Kew, thank you for the comprehensive response.

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

A

Thanks, Craig.

Operator: Our next question comes from Mike Carrier with Bank of America.

Dean Stephan
Analyst, Bank of America Merrill Lynch

Q

Hey, good morning. This is Dean Stephan on for Mike Carrier. Given the active deployment levels in the fourth quarter can you just update us on the deployment outlook heading into 2021. Maybe what the pipeline is looking like? And how quickly this $13 billion in pending Fee-earning AUM can potentially be invested or activated moving forward? Thanks.

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

A

Hey, Dean, it's Kew here. I mean look, we're about as busy as we've ever been. Our pipelines are really full. And if there's one thing last year has taught all of us it's that with change comes also lots of opportunity. Now the good news is our platform be it regionally, be it different asset classes be it different investment strategies, be it different investment sectors we're well-positioned to go to where the opportunities are and be one step ahead. Valuation levels certainly very high, no doubt about it. But also the ability for us to add value, work with our teams to grow these businesses and help them is also high. So that's the challenge, which is to keep finding these deals.

And I think last year was a good indication of the way this platform can pivot. If there's volatility, we see opportunities in credit. If traditional buyouts get way too expensive, we see ways to grow in private equity growth investing.

If certain Western economy markets are a little bit more less active. We saw lots of activity in the Far East in India and in China. So our pipelines are very busy. Valuation levels make it very difficult, but our platform is very well-positioned I believe to keep finding great opportunities and create value.

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

A

And just adding on, Dean, the $13 billion – a little over $13 billion of pending Fee-earning in AUM is relatively evenly spread across the three segments a little bit larger in Global Credit and Investment Solutions than in Global Private Equity. And a lot of that is really tied to as the funds either turn on as we complete fundraising or as we invest capital. And so both providing really good FRE ramps particularly in Global Credit and Investment Solutions.

Dean Stephan
Analyst, Bank of America Merrill Lynch

Q

Got it. Thanks guys.

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

A

Thanks, Dean.

Operator: Your next question comes from – our next question comes from Robert Lee with KBW.

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

Q

Great. Good morning. Thanks for taking my question. I just [ph] want to maybe focus (00:25:36) on capital management a little bit. So I just want to maybe refresh on, as you look forward particularly with realizations ramping, we have the stable quarterly dividend. So how should we think of dividend growth from here? And where does – how do you think of, down the road buybacks versus reinvesting in – back in the business? And how do you think about [indiscernible] (00:26:01)?

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

A

Robert, hey. Thank you for that question. Managing capital to really drive the businesses is obviously our core priority, making sure that capital really is driving growth in earnings and growth in the business. And so you're making sure that we have capital to invest in our funds, new initiatives available for strategic growth initiatives, [ph] M&A (00:26:29), et cetera, is always a priority for us. But cornerstone to everything we do is making sure that we maintain our fixed dividend. And looking at how we will plan to grow that as we have indicated in the past is really as FRE grows, that's how we will grow our fixed dividend.

So yeah, I would not expect anything near-term, because [ph] as I already have indicated, I kind of (00:26:48) FRE will be similar to this past year or slightly up. But when we are really kind of well-positioned for growth in FRE that way and we can underpin that fixed dividend what we want to do. With respect to dilution management what we have said before is we want to be around 1% in terms of dilution. We – we're cautious with our use of capital and buybacks really in 2020 given the pandemic and all the related uncertainties. But you can see us kind of being active to think through how to make sure we manage that dilution [ph] or through equity grants as well as through (00:27:24) buybacks.

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

Q

Great. Thank you.

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

A

Thanks, Rob.

Operator: Our next question comes from Bill Katz with Citigroup.

William Raymond Katz
Analyst, Citigroup Global Markets, Inc.

Q

Okay thank you very much for taking the question and good morning. So maybe one for Curt. Could you sort of go back to your guidance on the realization outlook for 2021? And I was just sort of wondering the jump off point. Is it the full year 2020 as we look at 2021, is it the pacing for the fourth quarter and growing of there? And then maybe the interplay of how that will tie to in terms of the comp ratio against those revenues? Thank you.

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

A

Bill thanks for your question and good morning. So as we talk about – I presume you're talking about net realized performance revenues, so our net carry is the level set we had $246 million of realized carry this past year was up about 50% from the prior year, but well below our average that we ran between 2012 to 2017 of over $600 million a year.

We're clearly positioned to surpass $600 million, both the accrued carry, [indiscernible] (00:28:35). But that's not going to occur in 2021 outlook. Capital markets could do something and we could exceed expectations with a high. But we could also miss and predicting carry is always really hard to predict with precision. What I said in my remarks in particular was expect a gradual increase. And things to watch is – so just in the past year, as we said Carlyle Partners VI turned on carry in Q3. We also said that we weren't taking carry at a full 20% rate, which was true through all of 2020. We did not take carry on CP VI at the full rate.

And if you look at where that fund it's nice to set up. So there is room to take it at a higher rate on CP VI going forward. More importantly though, there are many other funds that have not yet turned on carry that are in accrued carry. Asia buyout IV is a good example, Japan III is a good example, and so as those funds also get to a position where we're comfortable from a [ph] fallback (00:29:46) management perspective and we're careful on that. We'll signal to you, as you know, the bigger funds turn on. So that you'll then kind of know kind of what that trajectory is, but that's also kind of thinking gradual increase with not all of that will hit on right away. Hopefully that gives you some color Bill?

William Raymond Katz
Analyst, Citigroup Global Markets, Inc.

Q

Okay. Thank you.

Operator: Our next question comes from Ken Worthington with JPMorgan.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

Hi. Yeah. Good morning. Turning to insurance can you give us an update on Fortitude and maybe your priorities for your insurance operations and then what are the next steps for insurance for Carlyle?

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

A

Hey, Ken its Kew. Let me give you a little bit of color as of the here and now, but I'd ask that everyone be patient because we will talk a bit more about this at our Investor Day. I mean, look we're very pleased with our Fortitude is right now, its adjusted book value is doing great, its annualized ROE right now is closer to the mid-teens, and the liabilities are performing just in line with our expectations it's got excess capital. More importantly, we have stood it up fully, it is carved out and it is ready to start scaling via reinsurance and/or acquisitions.

In terms of rotation, my understanding is about $4.7 billion have already been rotated over to Carlyle in terms of assets under management. And this is on a track towards $6 billion, which we think will hit over the next year or so. Now, what's more important to understand is that rotation that's occurred is very broad across our platform. I think it's close to 25 funds have received the semi-permanent type of capital investment that Fortitude represents into our funds and it's across all three segments, Global Private Equity, Global Credit and Investment Solutions. So the platform itself is very much on track. We feel very good about it. And so, the right question now is okay where do we go from here? And with respect of that I'm going to ask that you be patient and wait because we want to talk about this a little bit more comprehensively at Investor Day in a couple of weeks.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

Great. Well, thank – thank you very much.

Operator: Our next question comes from Michael Cyprys with Morgan Stanley.

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

Q

Hey, good morning. Thanks for taking the question. Maybe just coming back to some of the commentary on your multi-year view on the carry sort of pick-up if you will. I think, if we look back at the 2011 to 2017 realization cycle, you guys seem to turn over the carry receivable balance to every two years or so. So, call it like at 50% pull through or monetization of the receivable in a given year over that cycle. I guess is there anything different today with your fund line up and fund performance that could result in a different outcome than a 50% pull through rate or so, as we look out over the next couple of years? And what would you say are the top, if any limiting factors that would prevent you from hitting say that 50% pull through that you've done in the past from hitting that over the next couple of years?

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

A

Mike, its Curt. Really good analysis in terms of how to look at that and that's exactly right in terms of what happened back in 2012 to 2017 on average. But if you look at the past couple of years that's not held true in the past couple of years and a lot of that is making sure that the portfolio has been mature enough. And we're not yet at that place where it is fully mature to make that same kind of conclusion with respect to 2021. I'll speak more to the outer years at our Investor Day in two weeks, but right now I would be cautious about applying the same math to 2021.

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

Q

Is that math fair to apply to the next couple of years beyond 2021 would you say? Or is there anything different with the portfolio today that could result in a different outcome than that sort of 50% roughly?

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

A

Yeah, I think you always have to be a little careful in that math only because a lot of it has to do with makeup at any point in time. And I would say it's more a correlation as opposed to causality. But over long terms in good markets and capital markets and making sure that all those the big buyout funds are producing carry that's where it gets a little bit more comfortable.

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

Q

Okay, thank you.

Operator: Thank you. Our next question comes from Gerry O'Hara with Jefferies.

Gerald Edward O'Hara
Analyst, Jefferies LLC

Q

Hey, Thanks. Perhaps one just on Global Credit your fundraising obviously has been getting stronger and clearly momentum building in that segment, but perhaps you can give us a sense of what products you're seeing the most traction and even what the pipeline for new solutions might look like? Thank you.

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

A

Hey Gerry. Its, Kew here and you guys are going to be bored of hearing this from me. This is one area we're going to do a deep dive on in two weeks. The highlights though, as we sit here today you're right, there's great momentum in the Global Credit segment and it's a broad platform as you know. Our credit opportunity strategy is doing quite well. Our – we're seeing and all of you are seeing this, the CLO market is coming back certainly a pickup in activity level from last year and we are projecting to see continued strengthening in that market. With respect to some of the initiatives, we have in the market today I don't want to comment on them because they're fundraising, but we do have global infrastructure credit for instance in the market raising funds. And this is a segment, which is very scalable given what we have set up. And we're also seeing real traction with respect to platform wide special accounts and strategic accounts that can be on any one singular account quite large. So let me hold there and just say, we're pleased with the platform, the progress, the look – the drop down in growth directly into earnings, but more to come in two weeks.

Gerald Edward O'Hara
Analyst, Jefferies LLC

Q

Fair enough. Thanks for the thoughts.

Operator: Our next question comes from Glenn Schorr with Evercore ISI.

Glenn Schorr
Analyst, Evercore ISI

Q

Hi. Thanks. You piqued my interest a little bit. And Curt you mentioned when talking about the equity grants that they're granted to obviously to senior people and it's high to long-term milestones, wonder if you could talk a little bit about the long-term milestones that they're tied to, I just – I know they're aligned with the same things investors are looking for, but just any specifics there I think people will find interesting?

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

A

Glenn, hey. Thanks for your question. And as I said these grants are mostly to the most senior people in the firm that can really kind of drive our FRE and our earnings results. They are largely or predominantly performance vesting as opposed to time vesting. There is a component of time, but it's mostly performance. And those milestones are really what underpins the strategic plan and a lot of that is FRE. And so as we grow FREs, you'll see vesting. And so we think that alignment is very good. Hopefully that helps.

Glenn Schorr
Analyst, Evercore ISI

Q

And the lumpiness – yeah, that's definitely. I think the lumpiness or I should say maybe even the stair-stepping historically of FRE is due to some of the big capital raises. Has the growth in both Global Credit and Investment Solutions is that enough to help smooth the cycle if you will? Or do we need to see more growth in say infrastructure, retail, capital markets and the like. Is that even a goal to smooth that lumpiness?

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

A

So, well – so, if we are talking Fee Related Earnings, I think over the past three years, we've seen nice step up in Fee Related Earnings in each annual year. And I would say over the last three years that lumpiness has not been that lumpy. For 2021, I've been very clear that you can expect know similar FRE to 2020 as adjusted for that $30 million or slightly up. And that from a managed top line growth, again kind of similar, but you'll see the more growth within the two segments of Credit and Solutions and some pressure on the Fee side in Global Private Equity, simply as it's real – its realizations we're expecting to be really good. And so that'll put some downward pressure and then as they get back in from a fundraising perspective that will bring back up management fees and FRE in that sector, but that's in later years. So again, stable to slightly up next year or this year 2021.

Glenn Schorr
Analyst, Evercore ISI

Q

Okay. See you on the 23rd for the rest. Thank you.

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

A

Yes.

Operator: Our next question comes from Adam Beatty with UBS.

Adam Q. Beatty
Analyst, UBS Securities LLC

Q

Good morning. Thank you for taking the question. I want to circle back on the discussion around Solutions and from a competitive standpoint, not the competition there is new, but some of the standalone providers have recently gotten more attention from public offerings and such. So just wanted to see how Carlyle and to AlpInvest are positively differentiated there? And also you mentioned the interaction between Solutions and the rest of Carlyle, is that perceived by LPs as an advantage? Thank you.

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

A

So – well, let me start and then maybe Kew will jump in here. So that the thing that I was pointing to you in terms of look – how we compete in the market for Solutions and AlpInvest in particular. It's a longstanding business. Great relationships with its respective GPs that invest with, but look at its track record. The performance in Solutions and particularly in the AlpInvest funds has been phenomenal. And I think that really is a distinguishing factor in terms of how investors into that platform view us. And from a competitive standpoint, in terms of Carlyle as well as the Solutions platform, [ph] goes to (00:41:14) market under a separate brand. We have very strong walls internally in terms of making sure that the key information around their relationships are not breaching those walls. But the things from a fundraising perspective in terms of [ph] don't make introductions (00:41:30) and the like really helps build the platform using our distribution model to help them really bring around this very strong product set. So hopefully that gets and most of your question.

Adam Q. Beatty
Analyst, UBS Securities LLC

Q

Excellent. Thank you very much.

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

A

Yeah, Adam the only thing I would add is first of all from our LPs perspective this is a complementary strategy not a substituted strategy. So they are using AlpInvest as a way to further optimize allocation into private markets to further gain efficiency through co-invest, et cetera. So they – it's very much now in the discussion with our LPs with respect to adding onto their allocations to private capital and sitting side-by-side with Carlyle funds. So that's a huge advantage in the sense of it's now a portfolio discussion. And that's why I say the existing client base of Carlyle is going to be a huge advantage for us as we try to keep growing AlpInvest.

Second of all – and second of all, competition is good. It's going to create further growth in this market. And like I said, all these strategies are going to benefit from the fact that there are trillions of dollars in private markets right now. And these LPs are trying to figure out how to optimize allocation and risk into a private equity, private credit strategy. So to a certain extent healthy competition is a good thing. It's going to create more awareness and growth in this segment, which I think is – has got good tailwinds.

Adam Q. Beatty
Analyst, UBS Securities LLC

Q

That's perfect makes sense. Thank you.

Operator: And I'm not showing any further questions at this time. I'd like to turn the call back over to Daniel Harris.

Daniel F. Harris

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

Thank you, Kevin and thank you all for your time this morning and throughout the course of the past year. We are very much looking forward to speaking with all of you on our Investor Day on February 23. Any other questions you have today, please feel free to follow-up with Investor Relations. We hope you have a great day.

Operator: Ladies and gentlemen this concludes today's presentation. You may now disconnect and have a wonderful day.