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EDITED TRANSCRIPT

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OVERVIEW:

Company Summary

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PRESENTATION

Patrick Davitt - *Bernstein Autonomous LLP - Analyst*

Good afternoon. I'm Patrick Davitt, the US asset manager analyst here at Autonomous. It's my pleasure to welcome back Carlyle's CEO, Harvey Schwartz. As a reminder --

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

That's just my way of making a statement, Patrick. Miss the edge of that. It's okay. I'll take yours.

Patrick Davitt - *Bernstein Autonomous LLP - Analyst*

As a reminder --

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

It won't be as dramatic after that.

Patrick Davitt - *Bernstein Autonomous LLP - Analyst*

(Event Instructions) Harvey, thanks for coming.

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

Yeah. Great to see you.

Patrick Davitt - *Bernstein Autonomous LLP - Analyst*

Great to see you.

QUESTIONS AND ANSWERS

Patrick Davitt - *Bernstein Autonomous LLP - Analyst*

Maybe to start, it's been just over three years now since you took the seat. So I think it would be a good start to update on your key takeaways after another year. Has there been any significant evolution on your view of the risks and opportunities for Carlyle from here?

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

Yeah. Great. Again, great to see everybody.

So I would say to frame it, probably the best way to think about it, Patrick, is we're three years into what has turned out to be a six-year plan. And the first three years were really about identifying the strategic priorities, committing to the strategic plan, de-emphasizing things that were less important for the firm, establishing the leadership group, overhauling the operating structure of the firm, completely redesigning how we think about capital management. So it was sort of a soup-to-nuts overhaul strategically and then obviously creating a new leadership team, most of whom are internal, but are very activated and it's really come to gather really quite impressively.

If you look at the results at the end of year three, record FRE. We grew it from the low 800s to \$1.2 billion. The margin when I showed up was worse than the industry, 37%. The team did a remarkable job moving that up 1,000 basis points. We overhauled the compensation plan.

There was a lot of very discrete steps taken along that path, which put us in a great place at the end of year three effectively to come out with our three-year plan, which we announced in February. That three-year plan takes us from \$1.2 billion to \$1.9 billion. Takes the per share from \$4 in change to \$6 in change, that includes raising \$200 million over three years.

And that was really a plan that was in response to all of the shareholders and the investors who said, okay, you put out one-year targets. And I wouldn't personally have been comfortable putting out three-year targets in years one, two and three. I just didn't feel like we're in a position yet to have that kind of visibility on the strategic growth plan.

But we put out the one-year target because I thought it was important to give the market some sense of directionality of the firm and obviously, the team -- the leadership team did a great job. We beat all those targets pretty meaningfully. So we have a lot of confidence in establishing the targets in a way that makes sense.

The targets we put out, again, which I just went through, I would say, are realistic. It doesn't include any random one-offs. There's no incremental flows for insurance. There's no acquisitions in there. So it's very much a core set of numbers, which are grounded on basically the platform today and our ability to execute that platform as we come into a super cycle of fundraising.

We're going to have all the major flagship funds in the market over the next three years. This year is a little more muted in terms of that because fundraising is still very good. You saw in the first quarter, \$13 billion. But the super cycle really starts to pick up. And so we feel very good about the plan.

Nothing about the marketplace has changed my view of the plan other than I would say the geopolitical backdrop, while somewhat more volatile maybe than it was two months ago, actually, that trend -- it's not like something we wish for, by the way. That trend actually is positive for the firm.

And the reason I say that is a lot of the expertise we have at the firm really fits and the structure of the firm fits a global backdrop which is more about geopolitical splintering than it is about geopolitical cooperation. And I'm happy to dive into more of that. We feel great about the plan, the momentum is good. And so yeah, so we feel good.

Patrick Davitt - *Bernstein Autonomous LLP - Analyst*

That's helpful. Thanks. And we'll dig in on a lot of that in the conversation. But given we have most of the major alternative CEOs here, I'm going to start with a higher-level question.

It feels like a broken record at this point, but we're gathered once again with a lot of volatility and uncertainty. This year, it's in Iran war, private credit concerns, concerns around sticky inflation, higher for longer rates, pick your poison.

So I think it seems like a pretty mixed -- a pretty toxic mix, I guess, for levered assets. So do you agree with that view, particularly private equity? And what is your current thinking on inflation rates in the economy?

Harvey Schwartz - Carlyle Group Inc - Chief Executive Officer, Director

Okay. I should have gone with bourbon, not water. I don't view it -- well, let me first say, not supposed to be combative with your fireside chat host.

I don't know if it was particularly toxic. I would say, again, taking a very, very big step back. Again, what's happening geopolitically, I think is complicated but unsurprising. And why do I say that? We went through a period post the financial crisis where we had very subdued globally manipulated interest rates, but manipulated for very good reasons. So I don't mean manipulation in some bad devious way, I certainly don't mean it in a toxic way.

But you had quantitative easing after 2008, you had quantitative easing after the pandemic had a flood of capital that came into the system which definitely distorted yield curves around the world. I don't think for assets, that's actually the best thing over a long period of time. I think we just want a normal market clearing cost of capital, okay?

So when I think of the backdrop you described, I think your description is accurate in the sense that geopolitical complexity is very high. I think geopolitical risk changed dramatically today, Russia went into the Ukraine. I don't think that the market is actually really ever priced what that meant. But I can tell you what it's resulted in.

What it resulted in is a combination of what you described, sticker inflation, higher rates, which I actually think is a more legitimate cost of capital. And what it's really created is geopolitical splintering has led to economic competition for capital. So everywhere you go in the world, the conversation is the same. It's a conversation first and foremost about national security. But national security has been completely redefined.

It used to be now to find is defense. Now it's defined as energy, defense, data. These are all top of mind issues everywhere in the world. And it's also defined around the cycle we're in around capital. Every country, US, Canada, Europe, Middle East, Japan, Korea, Asia, everyone wants economic growth.

Economic growth on the heels of the two catastrophic issues we dealt with the financial crisis and the pandemic, it's very difficult for governments to fund that given the size of deficits. The demand for private capital in the -- for the next foreseeable two cycles, call it, 5 to 15 years, I think, is enormous.

So what you described is right. However, what that has created is a shortage of capital, a high demand for capital and actually the marginal return that can be earned on that capital is more, I think, is more appropriately priced going forward.

Now of course, you have to be in the right businesses. So we've talked about this a little bit when I showed up at Carlyle, I did kind of like going around the world tour people said, hey, you got a problem in your private equity business, you're not big in software. And then in credit, they said, hey, haven't grown direct lending big enough, everybody grew really fast, and you're not making enough in software. Okay, three years later, it turns out that's a virtue, who knew.

But what you want to have in today's world is a durable franchise that gives you the ability to execute your plan across a number of verticals. When you look at our verticals, aerospace, defense, by far, we're the market leader. Health care, industrials, all of a sudden, all these -- what you wouldn't consider old economy industries, these are the industries everyone's focused on, globally. And so our ability to marginally deploy capital, I think the next -- for the private equity is, I think the next couple of vintages could be extremely attractive.

And as you saw, we just announced a cornerstone vehicle for our next buyout fund. We haven't even started capital raising for that fund, and we raised \$5 billion of full fees. So I think the opportunity to deploy capital over the next 5 or 10 years will have a complicated backdrop,

but I think the marginal risk return will be quite attractive, not because there's just a lot of capital because I think there's less capital available, but the demand is higher, and that's the backdrop we like. And we have the right geographic footprint and the right business mix. So I feel good about the return profile.

Patrick Davitt - *Bernstein Autonomous LLP - Analyst*

That all makes sense, and I want to dig in on that, but you do have assets in the ground. I imagine that, that overlay could complicate the assets the ground. So through that lens, how are you thinking about the realization outlook given that overview? How is that tracking? Has there been any noticeable change since the earnings call?

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

No. I mean, if you look -- okay, look to take our US buyout business, I think that's a great example. For those of you who don't know, that's our largest flagship private equity fund. In 2025, we returned \$6 billion. We returned close to 7% in the first quarter.

A lot of people will say, well, there was Medline. That's true, but there's also been strategic sales, other IPOs. We -- if you look at just over the past two years, we did the largest-ever IPO in Japan. We did the largest-ever IPO in India. We did the third largest two years ago with Standard Aero. We did Medline, but there's also been strategic sales.

And so if you look at the industry -- and actually, again, this is a backdrop that sets up really well for deploying capital. If we look at the industry, the industry, I think we've outperformed the industry by 500 or 600 basis points on capital return as a percent of NAV. So we bucked the trend on capital return, where we had some challenges is in our two vintages ago where we're allocating to consumer, and we underperformed in that, but we shut that down.

And so if you look at the current vintage fund using US buyout as an example again, it's a first quartile fund. When you look at it against large competitors, if you look at it a broader peer set of like 300, I think it's a second-quartile performing fund. It has no assets that are currently challenged, super unusual for a fund that's 70% or so invested. And again, it's already returning capital.

So I think the setup, again, for private equity and for private capital is quite robust over the next 5 to 10 years. But mostly, I say that, Patrick, because if you're in the right verticals, the demand for capital is very high. Everywhere you go in the world, people want to talk about investing in their local industries, how do they grow their economies, how do they create employment, how do they address affordability issues? This is a global phenomenon, and you have two forms of capital that can provide a solution to this, bank capital and private capital. It's going to require a lot of capital to do these things.

Patrick Davitt - *Bernstein Autonomous LLP - Analyst*

On that point -- this is from the audience, actually, there was news today about the new military investment or defense investment platform. Remind us how much AUM you currently have allocated to that theme? And given the spending needs you're alluding to, how big do you think the TAM could be for that platform?

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

Okay. So let me take a step back. So the way you strategically we're thinking about the firm in terms of areas that we want to deploy capital is the following: we can do this at varying scale. So for example, aerospace, defense, broadly defined, we've invested close to \$40 billion alongside an industrials over 40 years. If you really narrowly define it, it's closer to \$11 billion.

But if you look at it, we're the only large player in the space and the performance of the team is extraordinary, and they've been with the same team for close to 40 years. Bill Conway did its first transaction in defense in -- back when you formed the firm in 1987. So -- and the recharge something like 4.5 times our money and like high-20s, 30s of IRR. So the performance is outrageous.

What we want to do with the firm is, when we see areas where capital demand is very high, what happens is, of course, in a larger fund, the checks are larger. But what we're seeing is so much deal flow that we're saying no to a lot of transactions of a smaller ticket size.

By the way, I think you should expect to see us do this as a firm in other verticals when it makes sense. But what do I mean by when it makes sense? What I mean to make sense is when the demand side for the capital is so high that the deal flow is there. And so in this particular case, as an example, I would think of this more as like a sleeve where the check size could be \$250 million to \$300 million, whereas in the larger fund, the check sizes might be bigger.

And so what this does is it gives us leverage across the expertise. So we're not style drifting. We're actually style enhancing in terms of the expertise enhancing. And we can do this in Healthcare. We can do this in Industrials. We can do vertical across the firm, but this is the best way for us to transfer the deep, deep expertise we can to an asset class that's growing.

I think the TAM is unlimited because everywhere you got everybody is increasing their defense budgets by 1%, 2%, 5%. So I think this is a global phenomenon. So -- but I don't think so much about the TAM, I think more about, okay, what's the amount of capital we can deploy and be super effective with our investors, deliver them outstanding returns and all good things will happen from that.

It will drive a lot of the flywheel, right? You'll get more capital markets fees, business begets business. It will influence things we can do on the credit side of the shop. Ultimately, the secondary side of the firm, it will have a flywheel effect across the whole platform.

Patrick Davitt - *Bernstein Autonomous LLP - Analyst*

Okay. I want to zoom out on private equity more broadly. You guys keep reminding us that your investor capital return, your DPIs, are among the best of the large sponsors. But I sense a lot of the more cynical investors I talk to kind of are hyper-focused on the IRRs of some of the flagship funds.

So could you maybe help us understand or better understand how the LPs view that IRR versus DPI. And to what extent that focus that the been (multiple speakers)

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

I think LPs are very reasonable and very easy to understand. They want a great partner, that's a great manager of their money, takes their money, makes money, returns their money. I don't think anything about LPs changes. I think that's a totally reasonable expectation, and I think it's our obligation to fulfill it.

I think when you go across the world in all of our funds, we've had huge success doing that. We have one challenging fund in Europe where I changed the leadership, really one of the best leaders -- one of the best investors in the firm, been with the firm over 25 years. It's now managing that business. But even the historical performance of that fund over a long period of time is quite good. But the last bit news wasn't to our satisfaction. So we changed the leadership.

But if you look across the Japan fund, I was just in Japan for a 26th anniversary in Japan. I think the last fund was -- I might get this wrong, so I apologize, but like 44% growth, 28% net. We capped that most recent vintage at roughly \$3 million. We will grow the next vintage, but we're going to be very careful about -- I know that shareholders want to hear just growth, growth, growth.

We're going to be very systematic about how we grow these asset bases because we want to protect performance because that will just give us sustained growth over the next three years. We're not trying to grow in the next quarter. But Japan feels good. Our tech business in Europe feels good. Actually, our European business feels quite good now with the new leadership.

The US buyout business, the seventh vintage, which is the vintage that came through that big capital wave where people were deploying a lot of capital and had a consumer, that is not our as we like to say, not our best work of art. But as I said, for the current buyout fund, we've already raised effectively \$5 billion. We haven't even started fundraising.

And so I feel good about the trajectory of the dialogue with the LPs. And I feel good about the LP dialogue because they know the businesses we're in. And they know the steps we take in. They know where we changed leadership, but they know that we're in very, very attractive sectors. And that's why you're seeing the performance of the current vintage US buyout do so well. It's the team, the changes we made, and the sectors.

Patrick Davitt - *Bernstein Autonomous LLP - Analyst*

So you've mentioned the structured financing of the next fund a couple of times, which I think has taken some wind out of the sales that there is an issue in the private credit business. So to start, maybe for investors that are less familiar here, could you quickly describe the transaction and how it came together?

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

Yeah, not private credit, but private equity, but yeah. So it's okay. So the -- well, it started with a group of us getting together. There's a lot of information, but since you're asked, it started with the group as getting together a bit over a year ago. So we run a balance sheet light firm. There are times when you run a balance sheet like firm, you feel great about it. There are times when you run a balance sheet life firm where you realize, wow, it would be great to have incremental capital.

If you have a capital and you run a balance sheet heavy firm, let's just take the other end of the spectrum. You can do things, Patrick, with that capital, you can say, oh, I want to launch this business. So I'll put \$1 billion into this business. Or I'm going to launch this next fund, and I'll put \$2 million, \$3 million into that fund as the Cornerstone Capital.

And there's an attraction to being able to do that. Of course, the cost of that, if you think it's a cost, is that you run with a much heavier balance sheet. Okay. I come from a heavy balance sheet world my whole life. So I'm comfortable with a heavy balance sheet world. I happen to like our balance sheet light model. But a group of us got together and said, okay, look, we're balance sheet light, but we want to figure out, are there ways to use that balance sheet capital, that light capital, in the most efficient way?

And we have a business. CarlyleAlInvest, an extraordinary business. It happens to be an extraordinary business almost in any cycle, but it's a really extraordinary business right now. It's really the fastest-growing part of the firm. And they have -- that uses is often, Patrick, thought of as a secondaries business. That's a narrow definition of the business. It's a good shorthand for the business.

But the right way to think about that business is across four verticals: secondaries, co-invest, primary, and solutions. And so they're a manager of effectively fund to funds, picking middle market managers. They obviously can't invest in Carlyle. They manage portfolios, very large-scale portfolios, allocating to middle market managers. That's part of their strategy for any connectivity to sponsors.

They're obviously one of the four or five hyperscalers in this industry that have known this for a long period of time. But there's this piece of the business called the solutions business, which is a very fast growing part of the business. And I think, in some respect, strategically for the industry, I think the industry will evolve more in this direction, where they can be a strategic partner to GPs, providing liquidity solutions. And actually, it's mostly to very high-performing GPs.

We do continuation vehicles. We're very selective about how we do them. But their focus is really on the highest-performing GPs and how can they provide them with thoughtful solutions. And so we brought them into the discussion and we came up with this concept. And basically, the concept is, how do we create a win-win for clients who want to be investors in our next vintage, who may want liquidity, and how can we use our capital simultaneously?

And the end solution is not particularly complicated on to drag you through the details. But the end solution is we have some super happy cornerstone LPs for investors. We used a modest component of the balance sheet and ended up creating effectively \$5 billion of investment in the fund as a cornerstone before the fund raise.

And this much I can tell you, if you went out and you tried to find \$5 billion of capital as Cornerstone investors, you would not get that at full phase. So what does this do for us? This is kind of magical because, A, it helps us get ahead of the fund raise; two, it takes pressure off the team because what we want them really doing is not spending two or three years running around the world raising money. We'd rather have them focused on actually managing the money and investing the capital. And it makes some LPs super happy, gives a lot of confidence to the business, truly is a win-win.

It took a little while to put together just because it was creative and innovative. But we've subsequently, as you would imagine, we've gotten a bunch of calls into the Carlyle invest team asking how are they able to do it because there's other GPs that they will now work with to try and replicate this. But this is a way the industry will head because the industry needs innovation around how the industry creates capital and provides liquidity.

It's a little clunky today. It hasn't really evolved. And the Carlyle Antonis team is really, I think, doing some incredibly thoughtful work with GPs around the world, and they were helpful to us.

Patrick Davitt - *Bernstein Autonomous LLP - Analyst*

And I imagine your confidence level on raising a larger fund now is significantly higher?

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

I think the way I would describe -- short answer, yes. What I would say is, again, you might not love this, so don't misunderstand it. I'm much more focused on the aggregate economics versus having the biggest fund. I do think that that there's notion that every fund should be bigger than the next fund leads people to create suboptimal economics and also potentially degradation of returns. I think you have to scale your funds with the market opportunity and you have to protect economics.

If you go out the world and you just cut deals to get big checks and you get massive discounts, you can end up with a bigger fund, but I think you want to have the right fund that your team can deploy. But I think in this particular case, this gives us a big head start on all that. So I feel really good about it and the fund.

Patrick Davitt - *Bernstein Autonomous LLP - Analyst*

That's a good segue to deployment. There's obviously a lot of dry powder out there. You have a lot of dry powder. At the same time, it seems like there's still some gap between the bid and ask at the very least and software portfolios.

So through that lens, how close do you think we are to seeing a lot more PE deployment? And do you sense any capitulation building from sponsors that have been maybe unwilling to take negative marks in some of those legacy positions?

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

I don't have a good lens into other sponsors or what they're doing. I do think that the software impact – just curing my own view, again, it's not really core to our franchise, as I highlighted. But I do think that, again, these narratives take hold. And I think the narrative when software is considered impenetrable, and you could do ARR loans, and it was the best place to be in because it had repeatable income, and it went from being repeatable income with cash flow, too. You did embed cash flow and you can finance the enterprises.

That was too extreme. And my guess is this is two extreme also. Because I think if you had a quadrant of companies, and you laid out the quadrant between good capital structure, bad capital structure, not so well-run company, really well-run company. I think if you have a poorly on company with a poor capital structure, I just think it's probably surviving is low.

If you have a really well-run company with a tough capital structure, I suspect that does pretty well. And I think that, obviously, if you have the win-win, if you have a really well-run company with a good capital structure, I think actually you might have excess rents that you're able to extract from the marketplace because the competitive environment will be such that you will accrue income.

I think that, again, the issue around software today is the uncertainty. As we've all seen, like job openings for software is actually up, not down. I think there are great brands out there. My own personal opinion again, it's not what we do. There's great brands out there in software, which will do exceptionally well. And I don't think we should be discounting how smart some of these folks are that actually – some of my competitors have invested in software. I think they're super smart people. They'll have some companies in quadrant – weak quadrant and they'll have some companies in the extraordinary quadrant.

What I find kind of fascinating about this discussion is nobody talks about hardware. So we don't have that many assets in software. We have one fund in Europe, which is a super high-performing fund that does technology investing, mid-market technology investing. We talk as much about any exposure they have to software as we do to hardware because the hardware is exploding in value.

And so I think the issue around software is not likely to go away too soon because there's too much uncertainty about how disruptive large language models will be. I think over this time period, again, if you have a tough capital structure and a weak business, yeah, I think probably work out so great.

Patrick Davitt - *Bernstein Autonomous LLP - Analyst*

So I guess, moving to Carlyle specifically, like how is your deployment pipeline shaping up? And are there any themes emerging that you would point out as most interesting as that develop?

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

I think that, well, in private credit, we're – again, when I showed up, one of the critics was, or feedback was, hey, you're too small and direct lending to small software. We systematically, 1.5 years ago, started investing very heavily in the resources in that group. We brought in new leadership actually started in January. It's like perfect timing for us.

So what we're seeing is institutional appetite to deploy capital because they see this situation where wealth capital at the margin is not coming in. We're already seeing transactions where terms are more generous. You've immediately seen a reaction to the terms that are available, that are better for the lender, competition has already pulled away from the space. So what we're seeing is institutional capital that wants to work with us so we can build.

Again, the biggest problem, obviously, about having big software exposure is the possible issue of degraded returns. It's also super distracting. And so if you have a big direct lending book and you have a lot of software, your teams are spending a lot of time focused on that. It's much harder to be front-footed. That's just common sense.

And so we feel really good about where we are in that business right now. I suspect we'll systematically be able to grow over the next couple of years.

Patrick Davitt - *Bernstein Autonomous LLP - Analyst*

Great. Any interesting themes on the PE side?

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

Well, other than what I would say is this hard pivot to what you and I could have referred to as all the economy. Because even, again, just because I was there last week across Asia, if you look at what's happening in Japan, we've been in Japan for 26 years.

Japan is an incredible story. After all these years of deflation, where virtually all of our competitors left Japan, we're the only firm that's stated in Japan. We're the only firm that has a dedicated Japan team that David Rubenstein and the founders started 26 years ago. When you see what's happening in Japan, they have completely flipped the approach from a regulatory perspective, a government policy perspective, to encouraging investment, encouraging growth and encouraging actually, the growth of asset management more broadly.

And they're very explicit about this. This is widely understood. We have a 26-year history investing in companies. We've built the relationships. They cover verticals from TMT, consumer, industrials. There are hundreds and hundreds of companies that trade on the exchange that's still trade below book. There are succession challenges that they have to deal with.

But the important thing that what's happened there socially and culturally that it's now become much more socially acceptable and culturally welcomed to actually work with a private equity sponsor. To take a company public, we actually did four transactions. I think we did one a month this year, and the transactions are great. And some of these things are household names, like we bought Kentucky Fried Chicken a year ago.

And I didn't even know, ignorant American, I didn't even know that Kentucky Fried Chicken was the food of choice on Christmas in Japan. By the way, how many people knew that? Show of hands. That was like something I learned right after we bought it. Okay, people -- you knew that?

Patrick Davitt - *Bernstein Autonomous LLP - Analyst*

I did. I'd seen it some (multiple speakers)

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

I call total BS on that. Excuse my language for anybody watching. I don't believe it.

Patrick Davitt - *Bernstein Autonomous LLP - Analyst*

I watch a lot of documentaries.

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

Oh, you do. Okay. Well, I didn't know, but I learned very quickly. So anyway, some of these are household names. We took over [Orion Beer] public, which you might not know, although maybe you do, but the beer company in Okinawa.

But I think there's these kinds of opportunities. And again, trying to -- again, we're thinking about investing over 3, 5, 7, 10 years. Again, what is most -- what makes me most enthusiastic is the marginal demand for the capital that we have and the expertise we have in the sectors we have. If software was still hot, you'd be asking me as you rightly should, hey, what's your plan for getting into software, I'd be like, kind of hard to do like you can't just spin up a software team. You can just spin up a Japan team, right?

And so that's what gets me enthusiastic. When I think about our energy platform, which is quite unique because we do everything from renewables through the power through upstream energy. There's really nobody in the world that does upstream energy at our scale.

Energy security is top of everyone's mind, and the energy demands are only going to increase. And the infrastructure needs around all this and the opportunities around this from private equity to energy directly are only going to be more pronounced after the war with Iran.

This is -- again, we've gone from a world where in the '90s, just to age myself, in the '90s, everything was, hey, you have to have just-in-time inventory, if you want to win. And everything was about maximizing efficiency across all supply chains. Now it's about having just enough inventory.

This is a fantastic shift. But what really is the shift is it creates needs for infrastructure build, logistics companies across a whole value chain of industries, which we're involved in. And so I feel very good about the ability to deploy capital over the next couple of years. Whether we again, deploy capital next quarter or not, it's not particularly interesting to me.

Patrick Davitt - *Bernstein Autonomous LLP - Analyst*

Great. On AlInvest, I think you gave a great overview about -- it's a lot more than secondaries. But I do want to talk about secondaries a bit because it feels like I think we talked about it being a sweet spot last year, still feels like it's still a sweet spot.

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

I think based on any estimate, these things can change. This business is going to grow systematically for the foreseeable future.

Patrick Davitt - *Bernstein Autonomous LLP - Analyst*

Okay. On --

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

The software issue actually compounds it. If the software issue isn't even an issue in the sense of whatever word you use toxic before, but it actually just delays exits because multiples are so compressed. That's really the issue around software right now is that it's a multiple compression issue, more than it is actually showing up in EBITDA performance yet or capital structure.

But if the multiples are so depressed because of the uncertainty, and that cloud was on for a while, that's going to lock up a lot of private equity capital for those people that do that business, okay? That will only add fuel to the growth of, call it, AlInvest because hyperscale when we're in the room with people, the conversation is, how are you thinking about your portfolio? If part of their portfolio is locked up, they may want to manipulate that portfolio in other areas. And it's just about capital allocation from their perspective, and we can be the capital allocation solution provider.

Patrick Davitt - *Bernstein Autonomous LLP - Analyst*

Last one on secondary is one high-profile CEO has been making a stink about the practice of day-one markups, which is standard, to be clear. But I'd like to get your thoughts on --

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

Standard that he makes us think about these things?

Patrick Davitt - *Bernstein Autonomous LLP - Analyst*

No, no, just a practice.

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

Yeah. My sense of humor is not working for you very well today, Patrick. I thought that was quite funny, actually. That also may be a standard for that.

Patrick Davitt - *Bernstein Autonomous LLP - Analyst*

We'll see.

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

I think it's pretty clear. We follow GAAP accounting. The rules are pretty explicit. We generally run, I think, as conservative as we can. I've dealt with Level 3 assets, when I was the CFO of Golman Sachs, like, I relied on GAAP accounting. I think that's what the industry has to do. So that's how we treat it.

Patrick Davitt - *Bernstein Autonomous LLP - Analyst*

I'll leave that there. Moving to retail. The wealth channel is obviously a big part of your longer-term targets. You've made a lot of headlines by saying it shouldn't be called -- the product shouldn't be called semiliquid. This is obviously --

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

I was early to that. I don't really need a lot of positive feedback, but on that I was [early].

Patrick Davitt - *Bernstein Autonomous LLP - Analyst*

I will give you that.

Brian Bedell - *Deutsche Bank AG - Analyst*

I should have put an op-ed out, the missed opportunity.

Patrick Davitt - *Bernstein Autonomous LLP - Analyst*

Clearly been the episode of the press hysteria this year. So how have your conversations with distributors evolved? Any change you sense through all of this? And has the noise changed your enthusiasm for the opportunity?

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

So I spent a lot of time with advisers. It was a strategic choice in mind to do that when I first shot up at the firm because I didn't really understand that part of the industry, and I felt I needed to be much more educated. And the only way I could really do that, obviously, then the working with my teams, was to actually spend time with advisers. What I mean by that is like really in the room with advisers, trying to understand how they thought about the world, what things were important to them.

And what I'll tell you about the advisers and the platforms we deal with is they are incredibly sophisticated, as sophisticated as any institutional platform manager we deal with. And I've sat in rooms in Texas where I met with a group of people, and it was fascinating to me, this is very early on in my tenure at Carlyle. One of them said, I'll never do private equity. I'll never do real estate, but I like secondaries, I like credit.

And I was like, okay, why? He said, well, that fits my client base. And this is really fundamentally the key, which is you're dealing with very smart advisors who are thinking through the portfolio allocation of their clients, okay?

I think that when you talk to advisors, they're very relaxed about this. And when you talk to the home offices, they're very relaxed about this. I think their view of this is really consistent with ours, which is that, probably for credit for a little while until we get past this question on does software leave the defaults and what are the headlines associated around it? I think credit's slow for a while. I think it's slow for the industry for a while.

I think names have been doing this for a long time that have the right solution set, which I'll come back to in a second, I think do very well in the long run. I think for other asset classes, for us, so far no material change, doesn't mean that can't happen. I think it's been like a global education. If, for some reason, you weren't aware that these funds could have periods where they redeem up to the limit that they're allowed to redeem and they cap it at the 5% or whatever the number is, everyone's aware now, which actually is a very good thing.

So there's no confusion in the universe, like how many articles have been written about this? This is like -- I've never seen so many articles desirous of a systemic event that's just not getting it. Like how long do we wait for it not to be systemic? So we'll see.

I do think a lot of it will hinge around software. The way we have approached wealth, I think the team has done an amazingly thoughtful job around this, is we like diversification. So if you take a look at, for example, CTAC, which is our wealth internal fund, I think there's 900 different credits in that. We don't want to be overweight one particular sector. We don't want to be in a situation where a sector could have liquidity challenges, like one very narrowly defined sector.

That can be problematic because, of course, in a world with disruption, you could just -- they could be great assets one day and then three years later you could have a situation like a [Saskopolis]. So anyway, so we've been very thoughtful how the team has launched these vehicles over the last couple of years in our private equity vehicle. Even that has, I think, a 20% component of Carlyle AlInvest because it actually adds to the liquidity function and the diversification. And so that's our approach to this.

We're hugely committed to this. I think the wealth channel will systematically grow, but it's not going to be up and to the right like it was directionally, certainly for certain sectors. I think what's next and super interesting is what happens in retirement. We'll see the final rules on retirement. I think these asset classes make perfect sense in retirement.

Pension funds across the United States have been managing 60/40 allocations to private and public capital for decades with huge success. I think it's the perfect channel for all the kind of assets that we have at Carlyle.

We hired a triple black belt to head our retirement practice. So we may have seen, we were selected by AllianceBernstein to be in a partnership with them. That's our first foray into this in terms of a partnership. Again, I don't think that's going to be explosive. I don't think it should be exclusive. I think you're going to see steady adoption.

So when I think about the channel mix in terms of how we view the firm, I don't want to be overweight any one particular channel. I don't want to overweight any one particular geography. So I have no favorite kids. I love my wealth clients. I love my future retirement clients. I like my current requirement cores. I love my pension funds, I love my sovereign wealth funds. And I love my insurance companies.

Ideally, I could construct some efficient frontier around that, that yielded the best optimal results in terms of performance and continuity of fundraising, which I think we've demonstrated. I mean, last year, the wealth funds were 15% of all the capital we raised. That's kind of like from a standing start of almost nothing a couple of years ago. That speaks to the team and the brand have done an amazing job.

And I think in the model we put out or I should say, I think the model we put out with the \$200 billion of super cycle flows, it rose to 20%. But that included nothing for retirement, nothing marginal for insurance. We don't have an insurance and annuity solution. There's none of that in the model, but that's -- I consider that a wealth retail product.

So there's lots of optionality for us in terms of how we use the brand and the platform. So I think the sector will systematically grow. But I don't think it will grow straight up into the right and it probably shouldn't have. But thank you for remembering that I said that a couple of years ago about it shouldn't be semi-liquid, should be sometimes not liquid at all. I should have written [not bad to really annoying].

Patrick Davitt - *Bernstein Autonomous LLP - Analyst*

On insurance, last year, your results were held by two big block transactions at your insurance affiliate. So maybe update us on the growth outlook for that side of the business, to what extent we can expect or there's a pipeline of more chunky transactions like that.

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

So this is where I think the investor community probably doesn't value that relationship properly, but I totally get it, okay? It's a very, very hard thing for you because if you and I have a conversation around insurance, you'll say to me, hey, what are the flows this year?

And I get it, you want to be able to model those flows, and we're in the block business. So it feels more opportunistic, and it is because it's based on the pipeline. Whereas if I was at an annuity writer, I would say, okay, this year, we're going to write \$20 billion, \$30 billion, \$10 billion, and you can model that. And I think that is completely understandable, by the way.

So the way we approached the three-year plan was we said, okay, it too hard for us to predict with certainty what the block business will yield so we didn't really include it, right? Where I would just said, okay, that can just be optionality, which is better for your modeling, right, because it just gives you upside. And also, I think a reason way for us to think of a three-year core plan.

Now, the pipeline, I think, for blocks looks pretty good over the next several years. Competition got very fierce, sort of middle of last year, second half of last year. It could get fierce again where we really kind of felt like people were mispricing the risk. There's a little bit sometimes of mispricing the risk because they're just chasing the asset flows. It kind of felt like, to me at least like we're past that point of, I would say, mispricing just to get assets like we won't do that. And the team is quite good.

The real flywheel effect of that, of course, is what it's done -- the team who created that going back to 2020, what it's done is it's created the internal IQ and intelligence to build our asset-backed business. And you saw we just launched our first institutional asset-backed evergreen fund. That, again, is a team that has grown alongside Fortitude. So we understand the asset-backed business, and we understand what insurance clients need.

I think it's a pretty steady growth area for us, Fortitude and the insurance clients globally because again of the breadth of the platform because we can do asset back. We can do direct lending. We do opportunistic credit. We can do secondaries. We can do primary. These are all things that insurance companies want because there's a lot of competition to optimize capital and to optimize asset performance in insurance companies globally.

So I feel good about the entire sector, and I feel good about Fortitude. I think they're doing a nice job and a disciplined job.

Patrick Davitt - *Bernstein Autonomous LLP - Analyst*

So let's move to taking everything we've talked about together, the fundraising and growth outlook. You stuck with kind of mid- to high single-digit 2026 FRE guidance on the 1Q call, which is above the 1Q runway. So what are the specific building blocks that you see driving kind of the catch up to get to the guide through the remainder of the year?

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

I feel pretty comfortable about that guide still. Nothing's changed since the call. I think that will be fine. I think it gets more exciting for all of you when we come into the end of this year, '27, '28, when we come into the super cycle, and that's where you see management fees really pick up momentum. And then, of course, you'll see the flywheel effect of capital markets.

And I think all this business development and business growth now, the linkage between all that and actually having a capital markets business, like I think the year I showed up the Capital Markets business was like a \$50 million business. I think you'll see sequential growth on that.

Again, we're not using our balance sheet to compete in that space. So what you're talking about is super high-quality revenue that really is just, again, the function of the flywheel and the growth of the business. But you'll see that in our new US bio fund. You'll see it in the European tech fund that we launch. You'll see the which we'll launch. You'll see it in the Japanese fund, which we'll launch. You'll see all the flagship funds, and they're all now you'll see AlplInvest come back to the market again. And you'll see all of the effect of that really across the platform.

So I feel good about the plan. Again, the plan was structured in a way that we could galvanize everyone in the firm strategically around it, but we wanted it to be achievable. And yeah, we want to beat the plan. So that's how we structured it.

Patrick Davitt - *Bernstein Autonomous LLP - Analyst*

Staying on this topic, how are fundraising conversations with institutional LPs evolving through all the volatility, particularly Middle Eastern clients? And are you noticing any meaningful shift in allocation priorities?

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

Well, first of all, in the Middle East, I got to say the resilience that our Middle East partners show is like remarkable. I'm on conference calls in the morning with people and their missiles are going over their heads and they're talking about allocating to our funds. I don't even quite understand it. Like if the weather is a little too hot or a little too cold in New York, we all have a meltdown. And so I think the resilience is incredible.

And obviously, we should take a moment to hope for the safe return of all of our men and women that are here representing in the United States right now.

The long term, I think, no impact. I think short term, you could see some capital obviously have to be redeployed. But these are incredibly well-run professional institutions, the momentum in terms of fundraising. If anything, all these issues around the world, collectively, if you want to look for a negative, I would say if there's a negative, it's not clear to me there is yet, that it delays fundraising a bit for the industry, but it actually contributes to a lot of the deployment of capital over time. Because all this rebuilding around the world, all the focus on supply chains, everything everybody wants to do is just going to accelerate as we get past some of these challenges.

And so -- but no, no material change just if it's so impressive how they operate through this period. I actually don't think we -- I mean, maybe all of you could. I think I don't think I could do it. I could be on a conference call and be like, hey, you know a missile went over my kid's school. I don't really understand how they do it.

Patrick Davitt - *Bernstein Autonomous LLP - Analyst*

And any shift in kind of the traditional US space in terms of what they're looking at or changes in allocation [priorities]?

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

No. But I will say I'm super grateful to be at Carlyle. One of the things that is extraordinary about the platform is the diversification of the platform. There are times when being a mono line is incredibly rewarding.

Again, three years ago, what people were saying to me when they were giving that feedback, Patrick was, hey, you'd be better off to be a regulating model line. That's where the hot growth is. That was true. I don't know if that's where the hot growth is today, not, okay?

So today, what is most relevant for this environment for the foreseeable future is having a durable, diversified asset footing. We have that because we have Carlyle AlInvest which is a solution provider to GPs all over the world and LPs all over the world who actually want to modify their portfolios.

The flip side of that barbell is our core private equity business. So it's no surprise that the core private equity business over the last couple of years has been more challenged because capital is flowing less there, but Carlyle AlInvest has exploded.

Now that's a little bit unfair to the teams because the private equity team has done an extraordinary job and that Carlyle AlInvest team has done an extraordinary job. So they're both capturing their opportunity set. But if you actually look at it, I think the firm is performing in a way you would want it to perform or expect it to perform, which is AlInvest is growing, credit is growing. Private equity has been slower and flatter.

Now we'll go through a period where we think private equity is going to grow, but I don't think we're going to see any deterioration in the growth of the other two verticals. So we have the diversity of the platform. We have the global footprint. And that's why we feel confident about the next couple of years and this year.

Patrick Davitt - *Bernstein Autonomous LLP - Analyst*

We'll leave it there. Thank you very much.

Harvey Schwartz - *Carlyle Group Inc - Chief Executive Officer, Director*

Great, Patrick. Great to see everybody. Thanks so much.

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