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The Carlyle Group Inc. (CG)

Q2 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to the Carlyle Group Second Quarter 2026 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today. Daniel Harris, Head of Investor Relations. Please go ahead.

Daniel Harris

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

Thank you, Shannon. Good morning and welcome to Carlyle's second quarter 2026 earnings call. With me on the call this morning is our Chief Executive Officer, Harvey Schwartz; and our Chief Financial Officer, Justin Plouffe. Earlier this morning, we issued a press release and a detailed earnings presentation which is available on our Investor Relations website. This call is being webcast and a replay will be available.

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 reconciliation of these measures to GAAP in our earnings release to the extent reasonably available. 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.

In order to ensure participation by everyone on the line today, please limit yourself to one question and return to the queue for any additional follow-ups. With that, let me turn the call over to our Chief Executive Officer, Harvey Schwartz.

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

Thanks, Dan. Good morning, everyone, and thank you for joining us. We delivered an outstanding second quarter with record results across our diversified global platform. Our momentum is a result of disciplined execution, focusing on investment performance and delivering on our strategic plan. Highlights in the quarter include our highest level of distributable earnings in nearly four years at $472 million, which includes record distributable earnings in both Carlyle AlpInvest and Global Credit.

Record FRE of $358 million, up 11% year over year, driven by record fee-related performance revenue and record capital markets fees. Net realized performance revenues increased more than fivefold from last quarter, and another strong quarter of inflows with nearly $17 billion. Our fundraising momentum is exceptional, with $56 billion of inflows over the last 12 months, a 10% increase from the prior year. All this drove AUM to a record $485 billion.

As we enter our fundraising super cycle, we've already attracted $30 billion of organic inflows in the first half of 2026, another firm record. In Carlyle AlpInvest, our strong start to the year continued with another $5 billion of inflows in the second quarter, including a final close of our single-asset secondary strategy, capital for our portfolio finance strategy, and continued growth in our evergreen wealth solutions.

In Global Private Equity, this quarter was exceptionally busy. We raised an anchor commitment of $5 billion towards the first close of our US buyout fund, and we've officially launched marketing for this strategy. We launched a dedicated defense and industrials platform and announced its first transaction, the acquisition of Secturion Systems, an NSA-certified hardware data encryption provider. I'll give you more detail in a moment. But we also continue to be an industry leader in realizations. And in Global Credit, we attracted $6 billion of inflows, with solid activity in structured credit, asset-backed finance and flow reinsurance.

Looking forward, we expect to have nearly all of our core strategies in the market raising capital over the next few years. This will support accelerating revenue and earnings across our platform, underpinning our conviction in our three-year strategic plan.

Let me pivot to realizations. As I mentioned, Carlyle remains an industry leader and an outperformer in returning capital to our clients. We returned nearly $7 billion to our clients this quarter and $37 billion over the past year. Second quarter realizations were strong and diversified across asset classes and geographies. These include realizations in US and Japan buyout, financial services, real estate, opportunistic credit and aviation, among others. And our largest private equity strategy, US buyout, we've returned 23% of its fair value to investors over the last 12 months. I want to underscore that this is more than twice the current industry average and also more than the long-term average for capital return of 20% for the industry.

Lastly, our global forward pipeline is similarly strong, with several announced transactions already closed in July or expected to close over the next few quarters. Shifting to deployment, we invested $14 billion this quarter, including several significant transactions in corporate private equity, Surventis, the coatings business carved out from BASF, MAI Capital, an RIA and wealth management firm, and SUGIKO, Japanese construction company. Those transactions and the capital raised for US buyout helped generate record US capital market fees of more than $100 million. This is a direct result of repositioning the capital markets business three years ago to capture a higher level of transaction fees across the platform. Again, these fees are high-quality and very low risk earnings.

In wealth and retirement, we continue to see strong momentum across the platform and are generating strong net inflows led by Carlyle AlpInvest. We generated over $7 billion in gross sales across evergreen wealth over the past year, driving AUM and new strategies to a record $20 billion. That's up more than 60% year over year.

I'll now finish with a few thoughts on the macro backdrop. The market and US economy continue to display a remarkable degree of resilience in the face of the war in the Middle East, significant pressure on energy markets, stubborn inflation, and increasing public market volatility related to questions around AI. When we look at our proprietary data, largely KPIs rolled up each month across our nearly 300 portfolio companies, we see a US economy that continues to expand at an annual rate of 2% to 2.5% in real terms, with 6% annual growth in corporate revenues.

While there are some pockets of stress from the Hormuz-related price shock, US consumption continues to grow at an impressive rate overall. Outside of the US, the positive effects of the AI CapEx boom are visible across Asia and reality seems better than market perceptions in Europe. The energy impact is real, but so too are the defense and infrastructure related industrial orders, which made a meaningful contribution to growth in recent months.

All these near-term market dynamics continue to support the longer-term considerations that drive the need for capital investment around the world. National security issues including defense spending, energy security, data security, and an urgent focus on economic growth across the industrials and healthcare sectors are driving a demand for durable capital across the globe. This longer-term macro landscape maps directly to where Carlyle is positioned to lead and deliver. As you've heard me say before, the demand for private capital continues to grow and is growing in areas where Carlyle has built deep sector expertise for decades.

With that, let me turn the call over to Justin.

Justin V. Plouffe

Chief Financial Officer, The Carlyle Group Inc.

Thanks, Harvey, and good morning everyone. As Harvey mentioned, we had a strong second quarter with results that reflect the continued operating momentum and diversification across our platform. We generated distributable earnings of $472 million in the second quarter or $1.07 per share. As Harvey noted, this was our best pre-taxed DE quarter in nearly four years, powered by record FRE, a substantial step-up in net realized performance revenue from the first quarter.

Fee-related earnings were a record $358 million, up 11% year over year at a 47% margin. In the second quarter, fund management fees were $560 million, up 3% from the first quarter. Carlyle AlpInvest management fees increased 10% year to date, as we are benefiting from strong momentum across that segment. Transaction fees were a record $111 million, more than double the level a year ago and up more than 30% year to date. As we've said, capital markets revenues are a natural extension of the activity happening across the firm, and you're continuing to see that accelerate as our momentum continues across businesses. Fee-related performance revenues were a record $89 million in the quarter, more than double last year's second quarter, and were driven by continued strength in our evergreen strategies, notably in Carlyle AlpInvest and asset-backed finance within Global Credit.

Turning now to inflows, we had another very strong quarter raising $16.8 billion with solid activity across all three segments. This quarter included $5 billion of commitments earmarked for our next vintage US buyout fund in Global Private Equity, continued momentum in our Carlyle Alpinvest secondaries and portfolio finance strategies, and the closing of three new issue US CLOs, along with increasing flow reinsurance activity in Global Credit.

Turning now to the segments, Carlyle AlpInvest delivered record distributable earnings of $96 million in the quarter and fee-related earnings of $87 million were up 27% compared to the second quarter of 2025. Total AUM at Carlyle Alpinvest reached $112 billion, up 16% year over year, with $4.5 billion of inflows driven by our secondaries and portfolio finance strategies, as well as continued inflows into our evergreen strategies. Our second vintage single-asset secondary strategy closed at 4 times larger than its predecessor fund.

Shifting to Global Credit, we also delivered record distributable earnings of $158 million, up more than 30% year over year. Fee-related earnings of $138 million were also a record, nearly 25% higher than the prior record set in the second quarter of 2025. That growth was driven by record transaction fees of $93 million and record fee-related performance revenue of $54 million, nearly twice the level of a year ago. Total AUM in Global Credit was $211 billion, up 4% year over year, and inflows of the last 12 months totaled $25 billion. Deployment was $7 billion in the quarter, led by our US liquid credit, direct lending and opportunistic credit strategies.

Credit quality across the portfolio remained strong, and the diversification we built continues to position this business to perform through market cycles. We also announced in Global Credit, alongside Fortitude Re, a second block reinsurance transaction with Unum. The transaction is expected to close later this year and upon closing should add more than $5 billion to Global Credit AUM.

In Global Private Equity, fee-related earnings were $134 million and distributable earnings were $219 million. PE rose nearly 50% sequentially on a significant increase in net realized performance revenue. Realized proceeds were $3.9 billion in the quarter and over $20 billion for the last 12 months, reflecting our continued prioritization of returning capital to fund investors. As Harvey noted, our US buyout strategy has returned capital at more than double the industry rate over the past year.

In the second quarter, our realized net performance revenues were driven by Japan buyout and our six US buyout fund. Across the firm, net accrued performance revenues were $2.4 billion and remain a significant source of future shareholder earnings at nearly $7 of pre-tax earnings per share.

Finally, let me turn to capital management. We ended the quarter with a strong balance sheet and declared a quarterly dividend of $0.35 per common share, consistent with our dividend policy. We saw a very attractive opportunity to repurchase CG shares during the quarter. We were active buyers deploying a record $304 million to repurchase or withhold 6.7 million shares. We reduced our adjusted share count by more than 1% this year, with $1.6 billion still remaining on our $2 billion repurchase authorization. Investing in growth remains our first priority, but we'll continue to be disciplined and opportunistic as it relates to returning capital to shareholders.

We entered the third quarter with strong momentum across the platform. We see substantial growth opportunities in every segment, and we will continue to take advantage of solid capital markets to drive realizations and new investments.

With that, let me turn it back to the operator to take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from the line of Steven Chubak with Wolfe Research. Your line is now open.

Steven Chubak
Analyst, Wolfe Research LLC

Q

Hi. Good morning, Harvey and Justin, and thanks for taking my question.

Harvey Mitchell Schwartz
Chief Executive Officer & Director, The Carlyle Group Inc.

A

Hey, good morning, Steven.

Steven Chubak
Analyst, Wolfe Research LLC

Q

So, was hoping to drill down into the fundraising outlook. You've had a strong start to the year, $30 billion raised in the first half, tracking up about 8% year-on-year. Can you remind us which funds will be in the market in the back half, and how that informs the outlook for both fundraising as well as management fee growth in the second half?

Justin V. Plouffe
Chief Financial Officer, The Carlyle Group Inc.

A

Yeah, we had a great first half in fundraising, one of the best halves we've ever had in terms of organic inflows, and it's really across many different strategies. As you know, we're entering the super cycle in the second half. We really just started that. So in the quarter, $5 billion earmarked for US buyout will also be over the next 24 months in the market with basically every single one of our flagship funds in terms of secondaries, portfolio finance, credit opportunities. And obviously we have a fantastic defense and re-industrialization platform. So, we really have these numbers in the first half without really leaning into the flagship strategies that are coming to market. So our momentum there is really great and I'll call out one more thing on fundraising. Our inflows for our wealth platform were actually up more than 60% year over year. So, in wealth, we're building an incredibly good platform and really see good momentum there.

Steven Chubak
Analyst, Wolfe Research LLC

Q

Any expectation just on back half fundraising and management fee growth, just given the funds that'll be in the market?

Harvey Mitchell Schwartz
Chief Executive Officer & Director, The Carlyle Group Inc.

A

Those funds are really going to start accelerating in the second half. You're not going to see – as we talked about on the Investor Day, you're not going to see closing on those funds. But the momentum is pretty meaningful [ph] on us (00:15:57). Justin also mentioned we also had the Unum transaction which will close later this year. So, there's already sort of $5 billion, but we're not going to give you specific guidance on quarter to quarter. There'll be timing issues and things like that, but the underlying message should not be confused. The momentum across the platform is enormous and the pipeline of fundraising is very broad in all our key strategies.

Steven Chubak
Analyst, Wolfe Research LLC

Q

Now thanks for all that detailed color.

Harvey Mitchell Schwartz
Chief Executive Officer & Director, The Carlyle Group Inc.

A

Thanks, Steven.

Steven Chubak
Analyst, Wolfe Research LLC

Q

Much appreciated.

Harvey Mitchell Schwartz
Chief Executive Officer & Director, The Carlyle Group Inc.

A

Sure, Steven. Have a great end of the summer.

Operator: Our next question comes from the line of Alexander Blostein with Goldman Sachs. Your line is now open.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

Hey, good morning. Hey, Harvey and hey Justin. Wanted to dig into two specific areas for you guys on the wealth channel, one, I was hoping to double click into the MAI Capital acquisition that you highlighted and how that could potentially accelerate and broaden your ambitions in the wealth channel. And second, in MAI, you guys launched a private market solution with AllianceBernstein and Brookfield. So curious if you're – have any early feedback to share with us on how material this could be in your plans in the defined contribution space?

Harvey Mitchell Schwartz A
Chief Executive Officer & Director, The Carlyle Group Inc.

So, thanks for the questions. So just taking a step back, over the past several years, we have very systematically studied how to think about the various channels across wealth and retirement and been systematically putting the building blocks together for a strategy that we think really leverages the brand. And we were very selective about how we thought about partnerships and growth.

And so, earlier this year, we hired a head of retirement – head of our retirement practice. And so you're starting to see all this come together. We do think the 401(k) channel, along with [indiscernible] (00:17:54) will be very significant over time. So, we were selected by AllianceBernstein to – as this particular solution. We also announced with SEI as a trustee for the CIT launches. And so, you'll start to see that begin to manifest itself over time. This is not a third, fourth quarter material thing. You're going to start to see this build, I think, in 2027, I can't [ph] put a pin on the date (00:18:23). But more importantly, taking a step back, I think it's a real indication of how the team is coming together and thinking very strategically.

We want to be very effective at the partnerships and the solutions we put together versus it takes a lot of work to do this. We don't want to put too many in the market. We've been very selective about how we've done this. And so, that's how – that's importantly how we're approaching it.

The MAI acquisition, that was actually done in our US buyout business. So that's a portfolio company, not unlike other portfolio companies. The team's super excited about it. It's a great business. As a fiduciary, we have an obligation to our LPs there. Often we work with our portfolio companies when there's opportunities, but we're excited about that business.

Alexander Blostein Q
Analyst, Goldman Sachs & Co. LLC

Great. Thank you.

Harvey Mitchell Schwartz A
Chief Executive Officer & Director, The Carlyle Group Inc.

Thank you.

Operator: Our next question comes from the line of Brennan Hawken with BMO. Your line is now open.

Brennan Hawken Q
Analyst, BMO Capital Markets Corp.

Good morning. Thanks for taking my questions. I have a question on...

Harvey Mitchell Schwartz A
Chief Executive Officer & Director, The Carlyle Group Inc.

Hey, Brennan.

Brennan Hawken
Analyst, BMO Capital Markets Corp.

Q

Hey, how are you, Harvey? Good to hear...

Harvey Mitchell Schwartz
Chief Executive Officer & Director, The Carlyle Group Inc.

A

[indiscernible] (00:19:26)

Brennan Hawken
Analyst, BMO Capital Markets Corp.

Q

...from you. So the comp ratio ticked up a little bit quarter over quarter. You guys had a really strong result in FRPR and transaction revenues, which is both growth avenues for you. Could you help us understand is the comp ratio on those revenue lines maybe a little bit different? Could that have had something to do with it? And how should we think about those lines as we begin to model out growth?

Justin V. Plouffe
Chief Financial Officer, The Carlyle Group Inc.

A

Yeah. Brennan. We expect the comp ratio this year to be roughly consistent with last year, around that 47%. And the reason is because we're investing back in the business, right. We've said in many occasions we want to invest for growth, and we're investing right now not just into our people, but also in AI and technology, which we think is critical to our next phase of growth and our wealth platform. So, in terms of the outlook for margin, I think we'll be in that 47% range for this year. And then as all the fundraising we've talked about starts to flow through to the financials in 2027 and 2028, that's when I'd expect to see the margin tick up. But the important thing here is that we're focused, number one, on growth in 2026 and that's why we're investing back in the business.

Brennan Hawken
Analyst, BMO Capital Markets Corp.

Q

Makes a ton of sense. Thanks for the color, Justin.

Justin V. Plouffe
Chief Financial Officer, The Carlyle Group Inc.

A

Thanks, Brennan.

Operator: Our next question comes from the line of Mike Brown with UBS. Your line is now open.

Michael C. Brown
Analyst, UBS Securities LLC

Q

Hey, good morning, guys. Thanks for taking my question. I wanted to ask about the...

Harvey Mitchell Schwartz
Chief Executive Officer & Director, The Carlyle Group Inc.

A

Good morning, Mike.

Michael C. Brown
Analyst, UBS Securities LLC

Q

...capital – good morning. I want to ask on the capital markets side of the business, it's certainly become a more meaningful contributor to the bottom line. Could you just double click on some of the key drivers for this quarter and then just touch on whether you see this level of activity continuing to broaden out and maybe just touch on the run rate as we start to think about the back half of 2026 and 2027?

Harvey Mitchell Schwartz
Chief Executive Officer & Director, The Carlyle Group Inc.

A

Yeah. So thanks Mike for the question. So, as we've discussed a couple of years ago, a few years ago, we systematically deployed across the firm this strategy. And I would say, like, all new business strategies, there's that beginning period where you walk before you run. And now I'd just say it's part of the muscle memory of the firm and very much part of our culture to do this. And so, you will see this correlate with our growth and activity. So if you see high activity, you're going to see this. Quarter to quarter, the numbers may move around a fair bit. Personally, I think that's completely irrelevant, that you should think about the value generation here. The business will systematically continue to grow as the firm grows and as we launch new funds, particularly as Justin says. We've come into this super cycle where all the flagship funds are raising money, that all compounds, and so, in a very, very positive way. It create this enormous flywheel effect, which we expect to manifest over the next couple of years.

In terms of transaction flows, this was a strong quarter. I don't expect to see that in the third or the fourth quarter this year. But again, I think it's completely irrelevant. The more important takeaway is the momentum in this business and the fact that it's systematically part of the firm now. And then as we raise these bigger funds and you see activity, it's got this fantastic flywheel effect.

Michael C. Brown
Analyst, UBS Securities LLC

Q

Okay, very clear. Thanks for the color there, Harvey.

Harvey Mitchell Schwartz
Chief Executive Officer & Director, The Carlyle Group Inc.

A

Thanks.

Operator: Our next question comes from the line of Brian Bedell with Deutsche Bank. Your line is now open.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thanks. Good morning, guys. Thanks for taking my question.

Harvey Mitchell Schwartz
Chief Executive Officer & Director, The Carlyle Group Inc.

A

Hey, Brian.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.

Q

Hey, good morning. Maybe just, maybe if you could dive a little bit deeper on the defense and industrials platform that you're building out? Clearly, this is a really strong brand for Carlyle for quite a long time. How do you think – and maybe you could give us some context on the growth trajectory there in terms of how it fits in with the fundraising super cycles, what types of other products can you launch over the next, say, 12 to 18 months in this area? And do you foresee creating a wealth product here as well?

Harvey Mitchell Schwartz
Chief Executive Officer & Director, The Carlyle Group Inc.

A

So, well, let's take a big step back. The firm, as you know, was formed in 1987 and sort of like a lot of things in life, accident of birth, David Rubenstein forms the firm in DC, which was just a very natural starting point for our platform in aerospace, defense and government services. And it's been a core feature of the firm in terms of our skill set and expertise. And the first transaction we did as a firm actually was in this space.

And so, over nearly 40 years, we've been building this practice. Obviously, events around the world, geopolitical splintering, Russia-Ukraine, the war in the Middle East, and you've seen the numbers, if you tally up all the numbers for the next decade, I think defense spending globally, as a global priority now, whether it's in Europe, Canada, obviously in US, even Japan, areas of the world that historically haven't invested as much in defense, I think the numbers in aggregate total as much to $8 trillion.

So, we're the only large-scale firm that has this history of this practice. And what we've seen now is obviously this is a core component in terms of [ph] a sector expertise, those business are large US (00:24:51) buyout business. But we're also seeing huge demand from LPs who have interest in this space and we're seeing lots of deal flow. And the deal flow has gone up so dramatically that the investing team thought it was in the best interest of the LPs have a sleeve that could focus, for lack of better language, on more middle-market expertise.

Now, obviously, this could be something that we can build upon, but again, we're just really focused on how we address this global macro trend. And that's what this is. It's run under the same hub, same experts. Chairman of the business has been doing this for well over 30 years at Carlyle. So, we feel very good about this.

In terms of the wealth, we're going to continue to think about wealth. I'm not sure this particular – I'm not going to give a hard answer on this, because we want to be very thoughtful about the wealth. I'm not sure a sleeve in this space necessarily lends itself to like an evergreen, but certainly there's a lot of interest from the wealth channel in this space. It's so topical and the value proposition is quite high, but I think it really depends on how we deliver the solution to those clients, both institutionally and wealth. But there's a huge amount of interest.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.

Q

Yeah, great color. Thank you.

Harvey Mitchell Schwartz
Chief Executive Officer & Director, The Carlyle Group Inc.

A

Sure.

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

Patrick Davitt
Analyst, Autonomous Research LLP
Q

Hi. Good morning, everyone. So, as you highlighted, nice pickup in realized performance fees and you mentioned more deals in the pipeline here in July. So could you put a little bit more specifics around that comment, even more broadly just how that pipeline compares to last quarter and to what extent that balance actually gives you visibility on a path to reported performance fees actually getting even better in the second half? Thank you.

Justin V. Plouffe
Chief Financial Officer, The Carlyle Group Inc.
A

Sure, yeah. I mean, this is all about realizations. And we've been a leader in realizations across the market. We said in the first quarter we had great realizations, it was just the mix, and that for the rest of the year, as that mix changed, that those realizations would ultimately result in net realized performance revenue.

You saw that in the second quarter. We've had some very nice deals in July already, although I would say the third quarter historically tends to be a little bit less in terms of transaction flow, because you have the months of July and August in there. But we feel great about realizations. And as you know, realizations are very difficult to predict quarter to quarter. But the pace of realizations that we had across the firm is really of market-leading pace. And the capital markets are open. We think that there is a good prospect for continued realizations in the second half of the year. So, we feel very good about our realization pace and ultimately in the second half that should result in good momentum in the net realized performance revenues.

Operator: Thank you. Our next question comes from the line of Ben Budish with Barclays. Your line is now open.

Benjamin Budish
Analyst, Barclays Capital, Inc.
Q

Hi. Good morning and thanks for taking my question. One of the other line items that surprised in the quarter was your fee-related performance revenues. I know there's a number of evergreen funds that contribute to that line, but it seemed a bit outsized. Could you maybe just unpack a little bit the key drivers in this quarter? And I imagine like your transaction fees, this is something that as these funds grow, we'll also kind of compound over time, but any color you can give on this quarter and maybe anything – any sort of changing expectations we should be thinking about as we think through the next 12 to 24 months? Thank you.

Justin V. Plouffe
Chief Financial Officer, The Carlyle Group Inc.
A

Sure. The big driver is really the growth of our wealth channel. As I said, our inflows year to date, over 60% higher than they were last year, and that ultimately is what's going to drive that fee-related performance revenue line. There was this quarter one fund in asset-backed finance that flipped from a carry structure to a performance fee structure. So that's in there. But the big drivers here are really the continued growth of the wealth platform, and specifically the AlpInvest business. I mean, we've seen just tremendous demand for our AlpInvest wealth products. And as we continue to get on new platforms, as we move forward obviously with our private equity solutions, CPEP, which is also getting on a number of new platforms, then I would expect that line item to continue to grow at a very nice rate.

Benjamin Budish
Analyst, Barclays Capital, Inc.
Q

Just to double check, Justin, does that mean that the credit FRPR, all things equal, assuming continued NAV growth, that's kind of the new run rate and it steps up from here?

Justin V. Plouffe
Chief Financial Officer, The Carlyle Group Inc.
A

Not necessarily. There was a small one-time in this quarter, but that credit ABF fund will now be part of the run rate going forward. So quarter to quarter, again, very difficult to predict exactly where the performance revenues are coming out, but that fund will be in that line item. And all the demand we're seeing in wealth, that's going to move that line item up over time as we go into 2027.

Benjamin Budish
Analyst, Barclays Capital, Inc.
Q

Great. Very helpful. Thank you.

Operator: Our next question is from the line of Devin Ryan of Citizens Bank. Your line is now open.

Devin Ryan
Analyst, Citizens JMP Securities LLC
Q

Thanks. Good morning, Harvey and Justin. Thanks for taking the question. Question directly on AlpInvest and coming off of another great quarter of FRE there, just love to get a sense of how you're thinking about where that business is today and where it's headed, and how much activity right now is just being driven by kind of more near-term liquidity need versus a more permanent shift in just how your portfolio construction has been down or even kind of the higher bar you just mentioned with the wealth distribution. Just trying to get a sense how you're thinking about where that business is cyclically versus the secular tailwinds just coming off of some nice momentum? Thanks.

Harvey Mitchell Schwartz
Chief Executive Officer & Director, The Carlyle Group Inc.
A

Yeah. So, well, thanks for the question. I think you kind of nailed it with the cyclical and the secular, because clearly there is a cyclical tailwind. We won't unpack all the numbers here, but if you actually look, again, we're an outlier on realizations, but the industry hasn't been. And that's created enormous opportunity which we see really persisting for the next several years. So, I don't personally believe we're yet at a cyclical peak. We're in a long cycle, extended cycle where secondaries will continue to grow, continue to perform well. And obviously we're one of the few hyperscalers in the world that have the capability, the global footprint, to capture all that at the right time and we've been in this business now for 26 years. And so, it's an extraordinary team with great performance.

I think that there's a secular shift here, which we've talked about before, which is really about how these businesses are truly now corporate finance solutions providers. If you went back several years, it was really about the secondaries business which was really more a point to point business in some respects. But now our dialogue around the world with GPs and LPs is really about portfolio repositioning, how to think about the optimized portfolio, how do GPs create value for themselves and grow their businesses, and so that is really more of a – sounds more like a corporate finance solutions business. You see the success now of our single-asset fund flows this quarter, our portfolio finance fund. So when you think about AlpInvest, you really need to think about a full 360 degree circle, not just secondaries, and then obviously the client constituency of wealth and institutional. And wealth, I do think this business is uniquely built for the wealth audience, because it's got so much diversification and has obviously the Carlyle brand behind it. So, I think there's both cyclical and secular tailwinds, but I think both of those are pretty persistent for a period of time.

Devin Ryan
Analyst, Citizens JMP Securities LLC

Q

Great color. Thanks, Harvey.

Harvey Mitchell Schwartz
Chief Executive Officer & Director, The Carlyle Group Inc.

A

Sure.

Operator: Our next question comes from Dan Fannon of Jefferies. Your line is now open.

Daniel T. Fannon
Analyst, Jefferies LLC

Q

Hi, great, thanks. I had a question on fundraising and with all the flagships coming to market here in the coming quarters, can you talk about just the fundraising market more broadly? How are LPs doing currently? And from a timing perspective, are you seeing the periods for that fundraising being extended, shortened or just generally kind of the outlook versus maybe previous periods?

Harvey Mitchell Schwartz
Chief Executive Officer & Director, The Carlyle Group Inc.

A

Level of engagement is very high. Nothing changed in terms of our view. Obviously parts of the wealth channel, specifically credit are more quiet, although that seems to be abating certainly for us and more broadly for the industry. But away from that, wealth channel feels quite good. Wealth creation around the world feels good. Institutional interaction is, you want to be in the right business lines at the right time. And as we talked about, sort of the old economy is a new economy right now. And so, the sectors that we focus in and the geographies we focus in, the power outlays really line up well. So no change to what we described to you back in the beginning of the year. We really think this super cycle, we still feel confident about that $200 billion number. So it feels like the momentum is quite good.

Daniel T. Fannon
Analyst, Jefferies LLC

Q

Okay. Thank you.

Harvey Mitchell Schwartz
Chief Executive Officer & Director, The Carlyle Group Inc.

A

Thanks.

Operator: Our next question comes from the line of Glenn Schorr of Evercore. Your line is now open.

Glenn Schorr
Analyst, Evercore ISI

Q

Hi. Thanks very much. I want...

Harvey Mitchell Schwartz
Chief Executive Officer & Director, The Carlyle Group Inc.

A

How are you doing, Glenn?

Glenn Schorr
Analyst, Evercore ISI
Q

Not too bad. Thank you.

Harvey Mitchell Schwartz
Chief Executive Officer & Director, The Carlyle Group Inc.
A

Good.

Glenn Schorr
Analyst, Evercore ISI
Q

I wanted to ask a little bit about the capital intensity of the business in the industry. I mean, for you guys, you run a pretty capital-light business and that's your intention. You did put up a little bit for this SPV on CP9. There's this infrastructure investment. But in general, your mindset is to run pretty capital-light. Around the industry, I see more on the insurance side. And so, I guess industry-level question but for you too, do you see GPs leaning more to help drive fundraising and growth via some balance sheet deployment? And is that actually a huge competitive advantage for the handful of large-scale players like you?

Harvey Mitchell Schwartz
Chief Executive Officer & Director, The Carlyle Group Inc.
A

So I think the way we've approached it, I think your point of emphasis is correct. We like the capital-light business as a lean. However, having said that, we're obviously happy to deploy our capital where we think we can use it most efficiently. So ideally what we want to do is get maximum bang for our buck, maximum ROI for every margin on your balance sheet. And you've seen us do this.

And so, I think as we invest, and Justin touched on this, when we make the decision, the relative decision about how do we return the capacity we have under the $2 billion buyback versus how do we invest in the business, it's always business first. But we're lack a better language, we're pretty religious about the math on that. Okay. So, we want to make sure that every marginal dollar balance sheet, as it gets deployed, because we think of it as a truly scarce asset, sometimes internally I refer to it as one of my kids, but it's probably not great for my family to hear. But I do think balance sheet capital is like family and we're very protective of it.

And I think there are ways that the industry will go into a future where you'll continue to see creative use, thoughtful, efficient use of capital like we did and you've seen us do in other SPVs. But that I think is the industry trend. I think everybody wants to be efficient. But there's lots of different models out there and some that are very balance sheet heavy, can be hugely successful as well. But this is the path we're on for now.

Glenn Schorr
Analyst, Evercore ISI
Q

Thanks, Harvey.

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

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

Hey, good morning and thanks for taking the question. I wanted to circle back to one of your earlier comments about reinvesting back in the business. One of the areas you called out was AI and technology-related investments. I was hoping you could unpack that a bit more. And curious where AI is having the most measurable financial impact on the business today? And if you could touch upon how you're redesigning workflows and how you expect the financial impact to progress over the next couple of years?

Harvey Mitchell Schwartz
Chief Executive Officer & Director, The Carlyle Group Inc.

A

So I'll give you the big picture on that. We're 2,500 people at Carlyle. Maybe the precise head count is 2,600, but we're roughly 2,500 people [ph] at Carlyle (00:37:33). But obviously across our portfolio companies, we have 750,000 employees. We're one of the largest employers in the world across aerospace, defense, government services, healthcare, financial services, industrials et cetera, globally. And so, from our perspective, the way we think about data science, AI and technology is maybe overly simplified two ways. One is, how can we work with all of our portfolio companies to make sure that they're completely enabled and have access to all the resources around the world, so that those CEOs, those management teams can deploy technology in the most efficient way and they obviously have the flexibility to do that. And we work very closely with them on that across the global platform.

Internally at Carlyle, and the reason I started out with the 2,500 employees is because really for us this is not about, you know, we're not a large organization, a large bank with 100,000, 200,000, 300,000 people, where we're trying to think of, oh, how can we reduce head count by 10%? That's not how we're approaching this. The way we're thinking about data science is how can we use this data science as it continues to evolve, to run our business more effectively, have better investment outcomes, how can we help our teams make the best choice? And by the way, that's how do our investment teams work? How do we run Carlyle? So, that's how we're thinking about at a very high level.

I won't go through individual use cases, but use cases are super important for all of us in the management team to really understand what we can learn from as we go through this. And so, yeah, so we're investing capital in this. We're adding talent. But this is quite an important initiative for us and we think will go on for many years, because I personally think we're in the early innings of the impact data science can have across all businesses. It's probably going to take longer than people thought originally, but some pretty exciting things to do.

Operator: Thank you. Our next question comes from the line of Bart Dziarski with RBC Capital Markets. Your line is now open.

Bart Dziarski
Analyst, RBC Capital Markets

Q

Great. Thanks. Good morning, everyone. Wanted to ask around the insurance solutions business. AUM is ticking at around $86 billion, $87 billion. That's flat year to date, but it will get a boost later this year from the Unum deal. So, maybe just stepping back, how we should think about growth of that insurance solutions AUM over the near-term beyond the Unum deal? Thanks.

Harvey Mitchell Schwartz
Chief Executive Officer & Director, The Carlyle Group Inc.

A

Sure. So the flow business has been good, steady. The block business went through a period of time, was a little quieter, but the pipeline remains good. There is a point in time where the market sort of almost are ultracompetitive. It's still competitive, but the team is doing an excellent job in sourcing opportunities where they think they can add the most value. And so, I think you're going to see continued growth, but – because the pipelines feel good and the team is very focused. But I wouldn't point to say, okay, X is going to happen over the next six months or a year, because the business really is transaction point to transaction point. But they've been able to create really solid value consistently and their brand as a partner, as a true partner is pretty exceptional around the world.

Bart Dziarski
Analyst, RBC Capital Markets

Q

Great. Thanks for the color.

Operator: Thank you. I would now like to hand the call back over to Daniel Harris for closing remarks.

Daniel Harris

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

Thank you, everyone, for your time this morning. Should you have any follow-ups, please contact Investor Relations. We're happy to take your questions and enjoy the end of the summer. We'll look forward to talking to you next quarter.

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