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The Carlyle Group Inc. (CG)

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CORPORATE PARTICIPANTS

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

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Patrick Davitt

Analyst, Autonomous Research USLP

MANAGEMENT DISCUSSION SECTION

Patrick Davitt

Analyst, Autonomous Research USLP

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

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

Patrick, great to be here. Good to see everybody. Thanks for being here.

QUESTION AND ANSWER SECTION

Patrick Davitt

Analyst, Autonomous Research US LP

Q

As a reminder, if you want to try to get your own questions, and I have Pigeonhole here on this PDF, and you can do that through your device and I'll try to work it in as I see fit. Harvey, thanks again. So it's been just over two years now since you took over as CEO.

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

A

Yes.

Patrick Davitt

Analyst, Autonomous Research US LP

Q

So I think it'd be great to start with an update on your key takeaways from those first two years, what have you learned, biggest surprises, biggest challenges, and any strategy shifts you now think you might need to make.

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

A

Well, again, it's great to see everybody. So I would, maybe at the highest level, I would look at the last two years as implementing strategic growth initiatives, which I outlined with the team during the first year. And then separately, let's just call it sort of operational improvements to the platform. So let's start with the former. So on the strategic growth initiatives, it didn't take long coming into Carlyle to assess the incredible capabilities of the team, the diversification of the footprint, the business model, and really the history and the power of the brand to very quickly identify key areas where we could add value to our clients and grow.

So no particular order, the secondaries business, Carlyle AlInvest, tremendous track record, 25-year history, acquired by the firm in 2012 for something like \$25 million, \$90 billion of assets, growing incredibly quickly, capital markets, insurance, the credit platform. So we identified all these wealth and reorganized parts of the businesses to really mobilize the teams to execute against those initiatives. And you can clearly see the momentum behind those initiatives really started to pick up in the, I'd say, one year in and certainly, in a third, fourth quarter of last year, and the first quarter of this year, you just pick capital markets.

I think, in the six-month period, the two-quarter period we just went through, capital markets was a \$150 million of revenue. That's better than any full year the firm has ever had. And that's in a pretty, I'd say, average operating environment. And of course, those capital markets revenues, we're not community balance sheet. So that's just like literally strategic value-added, super high-quality revenues. And you can see, in an operating environment there was much more active, and we've gone back, so we get this question a lot, what would we then look like at a pick-up in environment, that's well over \$300 million. So that's a key driver. You've seen the wealth growth in terms of the footprint, the solutions that we've launched, CAPM and there's other solutions pending. And then, of course, the growth in credit and insurance.

So broadly speaking, super proud of what the team has done in terms of the growth initiatives. Now, the other plank, let's just say operational efficiencies, we can break that down in terms of cost control, really addressing which was a, well, inefficient deployment of resources and capital management. And on that front, if you want to

use FRE as a proxy, FRE is up close to 40% two years since I joined. Our operating margins were up 900 basis points, more in line certainly with the industry. We were last in the industry in terms of operating margins. Now, we're certainly in line. I think there's more room to grow there, but it's not really a cost story at this point. We obviously overhauled the entire compensation strategy, which was really a win-win for our LPs, our shareholders, and obviously, our teams want more alignment. So that was implemented and that's been a huge success.

And then lastly, on the capital management, we announced the share repurchase. We're over 50% of the way through that. So I would say, everything is coming together as well as we could expect, given it's a bit over two years as a new CEO coming in. And I'm super proud of all the work done by the senior leadership. They've really come together tremendously well. You've seen it in fundraising, raising over \$50 billion in the prior four quarters. We had a great first quarter. Momentum seems quite good. So overall, I feel really good about what the team has done.

Patrick Davitt

Analyst, Autonomous Research US LP

Q

Great. We'll get in, we'll dig in on a lot of that as we get through the conversation. But maybe to start, given we have most of the major alternative managers here on the macro side, I've been asking everyone kind of similar high-level questions to compare and contrast. Obviously been a very volatile couple of months. And I sense, despite the recovery in markets, there's still a lot of concern about sticky inflation, higher for longer rates, slowing economic growth. Do you agree with those concerns and what's the current thinking inside Carlyle on things like inflation rates in the economy?

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

A

So I'll make a couple of points. That could be an entire 50 minutes, by the way.

Patrick Davitt

Analyst, Autonomous Research US LP

Q

Yes. I know.

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

A

And I'll make a couple of high-level points. So I think there's a real temptation for all of us who have been doing this for a long time to make comparisons to prior cycles. And in some ways, I think that makes a huge amount of sense. Although, I do think this is entirely different and unique, because what we're really going through is a global policy shift, which is really amplified by the new administration's tariff policy, but was broadly in place starting several years ago. So again, like I said, this could be a 50-minute conversation itself, so I don't want to go through the course of history.

But if you really think back, the megatrends that drove economic development for 50 years, globalization was really about the integration of global economies, more efficient allocation of capital, both human and financial capital, declining interest rate, deflation, very limited geopolitical conflict. And the last several years have clearly been a trend in the opposite direction, got the war in the Middle East, we obviously have the war in Europe, and the sort of de-linking of the global economy was already starting. And the whole discussion about onshoring and having hyper-optimized supply chains, the pandemic really reminded everyone that there's risk in being hyper-optimized, and that was all part of this, too.

So we came into the new administration with incredibly high hopes, and I do think initial conditions are very relevant here. We came in with the dollar kind of at highest levels ever. US stock market has the highest levels ever, and an expectation that the administration would be very pro-growth, friendly to business. And I still think, fundamentally, that is the policy plan. If you really, if you step away from the news headlines and the tweets and you sort of look through the noise, the policy plan is still very friendly in the business, very pro-growth.

The tariff discussion, obviously, is a policy implementation we just haven't experienced before. So that would be the key thing, I would say, because, again, we can compare this to prior periods, but the fact that this is a policy-driven plan makes this somewhat uniquely different for a bunch of reasons, not the least of which policy can shift, and we've seen that shift very, very quickly. We've seen announcements about policy [indiscernible] (00:07:46), UK, European tariffs and then a switch several days later. So it can be quite fluid. I think, as it relates to how does that then translate into the economy, when we talk with clients around the world, and I've been in Asia, as you know, Europe, and having very high level conversations with administration officials, politicians around the world and all of our client CEOs, COOs and CIOs, I would say, we're in a period of uncertainty, which leads to lots of questions.

But completely unlike 2008 or the pandemic, or 2000 or 1998, this was just wholly different situation, which is why you see the markets being pretty cooperative, after liberation, there's obviously a big sell-off, but pretty cooperative. Credit markets are functioning, bond markets are functioning, spreads are reasonably tight. But there is this uncertainty element to what is the final landing point of equilibrium around the tariff policy.

And so I think we're in this period for several months where that uncertainty leads to the late capital markets activity, possibly delayed monetizations, a risk premium attached to committing capital, that's not just in this business, but this is in all businesses around the world, because you need more certainty to run your business. And a certainty around policy is certainly something that all businesses are looking for. It's very obvious the administration is aware of this. They want to get through this period of uncertainty as quickly as possible, and they're obviously doing all that. So I feel like we're going through this period of uncertainty which will pass, but it does have something of a chilling effect on business decision-making, which I think is totally understandable.

As it relates to interest rates specifically, all of our data would suggest, and I think as all of you know, we have portfolio – so we only have 2,300 people on the team at Carlyle, but we have about 700,000 employees in our portfolio companies around the world. For those of you know, that's down from a million, that's because we've been monetizing lots of assets in the past year. But we get really, really good proprietary data out of these 700,000 employees rolled up in these companies. Our data basically leads a few months based on the public data. So we can see the uptick in inventory accumulation in the first quarter. We were not surprised in the slightest by the negative GDP print.

So we could see all that in the data. I would say, EBITDA is growing quite well on the companies, performance remains good. We haven't seen drastic adjustments to hiring. Why is that? Because I think, there's confidence in that, even though the policy implementation has been a little bit start and stop that we're headed towards a constructive outcome. And so companies aren't aggressively withdrawing or cutting costs. They're still positioned quite well for growth. This uncertainty, of course, translates into the real economy over a period of time. And so I know there's been a lot of debate about what the Fed does.

I'll just give you my personal opinion. I don't think it really matters. I think the Fed has been super clear about their communication. They have said, we're in a period of uncertainty. We want to see what the data tells us. If inflation remains sticky, then we'll keep rates where they are. If inflation gives us some flexibility, they have huge policy flexibility to cut rates. And I think, this Fed has demonstrated historically a huge preference or a willingness to cut

rates. And I think they would be super responsive. For those who are kind of wishing for the Fed to cut today, or that the Fed to cutting today is a positive, I just, I honestly, I don't see it, we didn't see it a year or two ago when people were calling for it.

I think it means that the economy is slowing. We don't root for the economy to slow. I think a great outcome would be, we get through this period of uncertainty. We see lots of capital being committed. A lot of these transactions now start to translate through the economy. We get some resolution on tax policy and the other administration's sort of initiatives. And I think it'd be a great outcome if the Federal Reserve didn't have to cut rates. I think, it would mean the economy is really clicking along quite well, and we haven't had inflation spike. I think that would be a great outcome. But I think I'm an outlier.

Patrick Davitt

Analyst, Autonomous Research US LP

It makes sense though.

Q

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

But I also, I loved QE for a while. Then it was too much.

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Patrick Davitt

Analyst, Autonomous Research US LP

On the uncertainty issue, news yesterday that you just met with the Chinese Vice Premier late last week. So thanks for rushing back to be with us.

Q

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

Yeah. No. I changed the whole schedule for you, Patrick.

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Patrick Davitt

Analyst, Autonomous Research US LP

But more importantly, to the extent you can...

Q

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

You're my favorite analyst.

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Patrick Davitt

Analyst, Autonomous Research US LP

Thank you. To the extent you can, could you share...

Q

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

Today.

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Patrick Davitt

Analyst, Autonomous Research US LP



...any relevant takeaways on your view of the state of the trade negotiations and/or the opportunity for businesses like yours to continue benefiting from Chinese investment opportunities?

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.



Yeah. So just spent a week in Asia. The initial part of the trip was actually, we spent a few days in Japan celebrating our 25th anniversary in Japan. We're one of very few firms that have had such a long-term commitment to Japan. It was actually a fantastic event. I give the founders of the firm extraordinary credit in terms of the way they strategically built out the firm geographically. If you think about back to 2000s, not the easiest decision to decide you were going to go in Japan. Super popular being in Japan now. But in 2000, that was a pretty difficult time to think about going to Japan. And actually, made some really, really prudent decisions about, they wanted the business to be run by locals, so they built up this team over many, many years. We're quite proud of the achievement.

The most recent fund at a 25% net IRR, they just nearly doubled the size of the last fund. And there's a huge amount of activity in Japan. From there, I went around Southeast Asia, and then ultimately, I ended up in Beijing. And to the point of your question, I did meet with the Vice Premier and other officials. We've been investing in China and we opened our office in Hong Kong about 27 years ago. So again, we've been in the region for a long time. Some of the more notable transactions, some of you would have heard about over the years, China Pacific Insurance Group back, I think, it was 2005.

Last year, got a lot of attention. We sold McDonald's. When we acquired the Grand Foods platform, I think that was 2018, there were a couple of thousand restaurants, almost double the size of the franchise. McDonald's ultimately bought it back from us. It was a great, great job, creating value. It's classic Carlyle value creation strategy of going and working with management, expanding the franchise over a number of years. So we have a lot of touch points in China, a lot of history. And I personally been going to China for a long time, I sort of watch the evolution of the Chinese economy sometimes with great wonder over what's transpired in 50 years.

And I met with the Vice Premier, a couple of takeaways. I got the sense that their discussions with Treasury, as you've seen advertised, were really quite constructive. They just recently met with our Treasury Secretary, the Vice Premier had in Switzerland, and it sounded like that discussion was quite constructive. It obviously yielded a great outcome in terms of taking the tariff barriers down from really trade embargo to tradable. And they seem quite constructive about looking forward to making progress. My biggest takeaway would be, personally, I think it's really, really critical as we go through these policy changes that we try to figure out on both sides how the two countries can best optimize.

I think it's a really, really difficult global outcome if the two largest economies in the world can't structurally work well together regardless of where tariffs end up, and tariffs can make a lot of sense for a lot of reasons, specifically industry-specific tariffs. And they've been going on for a long time anyway. But I left there feeling pretty optimistic about the trend of things. But then again, I might have glass full kind of guy and I was pretty optimistic when I landed, but nothing about that meeting let me feeling less optimistic. And I think, obviously, this was on the heels of the really successful meeting with our Treasury Secretary. So it felt pretty good.

Patrick Davitt

Analyst, Autonomous Research US LP



Good. Helpful. Thanks. Let's switch to realizations. You mentioned that uncertainty can be kind of a freezing moment for things like business activity and your earnings build is a little bit more dependent on that earning stream than other managers.

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

Unclear, but okay.

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Patrick Davitt

Analyst, Autonomous Research US LP

But we've had a pretty significant positive shift in markets since the last call. So update us on how the realization environment has tracked since then, any noticeable improvement in pipelines, et cetera?

Q

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

Yeah. So today for everyone just to level set the platform, \$453 billion of assets. Obviously, the roots of the firm going back to 1987 were in private equity. That was in, private equity wasn't even called private equity then, as David [indiscernible] (00:17:03), the founders will remind us, it was called the leveraged buyout business. But obviously it's evolved. Obviously, private capital has evolved to really even where calling it alternative probably doesn't make any sense. But the platform today is, our largest segment is credit and insurance, it's about \$200 billion. I already talked about Carlyle Alpinvest, the secondaries business, plus co-invest, and a financing business, that's a \$90 billion on its way to \$100 billion quickly.

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And then you have the GP segment which is real estate, infra, real assets, and then you have obviously, the private equity footings. It was very obvious to everyone in the industry, still gets a lot of headlines that a lot of liquidity had not been coming back. Historically, give or take, the industry would return about 20% a year of capital. Then, of course, there was this huge capital return and capital deployment in the period of 2021-2022 when multiples were very, very high. And the industry sort of got stuck after that. So there's a bit of a vintage issue and this is not unique to Carlyle, this is broadly from middle market all the way through large buy-out, where the 2021-2022 period after that, when multiples compress interest rates went up, a lot of the companies were not financed really in anticipation of that kind of environment. So there's been a bit of a logjam to work through. It's an industry-wide logjam.

We strategically did a couple of things. One, from a liability management perspective, the companies are incredibly conservatively financed. So we were very early, I mean, before I showed up, the capital markets team had done an extraordinary job of really extending out duration of the liability structures in the [indiscernible] (00:18:44). That gave us lots of operating flexibility to navigate the higher rate period, which we're still in, the higher rate period, but the transition was easier for us, I think. But if you actually look at what we achieved in the past year, the platform returned about \$20 billion of capital. We returned about \$10 billion of capital, including secondaries we did just over the last couple of weeks in private equity alone.

And if you just look at private equity capital returned to our clients, we're running about 3 times the industry average in the past 12 months. So that includes taking Rigaku, which is the largest ever privately-owned sponsor company public in Japan. Hexaware, largest privately-owned company ever in India, taken public. StandardAero was the third largest IPO of the year last year. So we just did a secondary in StandardAero just two weeks ago. We just monetized another secondary. So we made a strategic decision that it was very important to monetize assets, and we just have great companies in the portfolio.

And I know there's been a lot of discussion about performance in private equity, specifically at Carlyle, where we have had one or two funds which have not been sort of traditional Carlyle performance. But if you actually look at our US buyout business, the current vintage fund, CPA, that's a second quartile fund. If you actually just look at it against large buyout, I think it's a top first quartile fund. So we feel really good about the momentum. And these are all areas where if you think into the sort of next five or 10 years, which is strategically the way we talk to all of our clients globally, the areas where we have extraordinary expertise and 30-plus years of experience are areas like healthcare, aerospace, defense, financial institutions and technology, which it runs adjacently across all those silos plus industrial. So I think, we feel really well-positioned in the platform for the next five, 10 years. And the great thing is, we've been returning a lot of capital and the fund performance has been really, really good.

Patrick Davitt

Analyst, Autonomous Research US LP

Q

On that, I sense there's still a lot of investors that just look at your flagship IRRs and compare it to the other large North American private equity funds and think it's underperforming, which you're obviously pushing back on. What are they missing when they do that, like what is the...

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

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It's just math. I'm not pushing back on, it's just math. I think sometimes narratives are a little stale. I think if you look at vintage by vintage, the vintage you're talking about CP7 where we had a lot of monetization, we returned billions of capital last year. That vintage is not going to be our best returning net IRR. Now, this gets into a lot of nuance which I don't want to bore people with. But that's the way you look at the headline net IRR. The way our clients look at it is in terms of co-invest and opportunities they've had to invest alongside us, which in many cases can materially uplift that net IRR. What I was talking about was CPA, the current fund, the current vintage really is tracking exceptionally well and it's growing its life.

So we feel really good about the momentum. Now, we did make some changes in the platform in terms of how we're operating the platform. A business that we weren't really performing to our expectations with the consumer business, so we shut down that vertical after I got there. The team has made other decisions actually in terms of value creation, which I think it really added a lot of momentum. As I said, we're returning a huge amount of capital to our LPs, and the performance of the current fund is quite good. And look, CP7 is not our best piece of art, but this is, you're going to have an off vintage. But the momentum in the US buyout business is really, really good.

Patrick Davitt

Analyst, Autonomous Research US LP

Q

So on that, there was a lot of optimism obviously about the next vintage fundraise coming this year. Has your confidence level shifted at all given the post-liberation day volatility? Do you think that extends the timelines or...?

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

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I think the current period of uncertainty, which it's very difficult to put a pin on when it will pass. But I think, three months into the year, my expectation just based on sort of gut feel, by the way, there's no signs on this because I do think this is such a dynamic process, it could accelerate dramatically. You could see a whole series of announcements come out very quickly, and we could be in a period of much greater policy certainty. It feels like all parties involved, when I talk to people all around the world, not just China, but other parts of the world, it feels like there's real momentum to try and resolve, because everybody knows this is a bit of a chilling effect for

business everywhere. So if you put something on sort of at the end of the year, yeah, do I think the IPO calendar and ability to monetize will stretch out a little bit. But this is not about if, this is just when, this is just a when question. And so, in terms of how we run the business, whether it's the fourth quarter or the first quarter, it's sort of irrelevant to us. It just has to be the right microenvironment.

Patrick Davitt

Analyst, Autonomous Research US LP

Q

So the other side of the coin is secondaries, and it feels like it's become a very constructive environment for secondaries, given the liquidity crunch at LPs, and now incremental pressure on endowments, et cetera. With that in mind, I think investors sometimes forget that you have a dominant secondaries business which could position you perfectly for this kind of sweet spot than we're in. So I think it'd be helpful to get an update on how that business is tracking, and what Carlyle is doing to better capitalize on the opportunity.

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

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Yeah. So I'll make a high level comment and then I'll address your question. So the high level comment I'd make is, the nature of private capital is evolving at an exceptionally quick pace. So what I mean by that is, I do think if you went back just several years, secondaries was a industry specialization which provided liquidity to secondary sellers. And on the other side, you had the primary business where you raise capital, you invested capital. And then in between, obviously, you've had the other parts of private capital which were evolving, and then, of course, you had different client channels. You had the emergence of wealth, and now potentially, the emergence of the retirement channel.

I think, while those different pockets of expertise certainly exist in the way they maybe did five or 10 years ago, I think, when you think private equity, and certainly the way that we think private equity, we don't think private equity as OUS buyout or secondaries. Private equity in and of itself is just an industry ecosystem now. So what is really happening is, it's becoming much more solution-driven. So the conversations that you have when you're in the secondaries business or a co-invest business or now the financing business that we've built out, because all that intelligence in that business for how do you evaluate, it's much more about how do you provide an effective solution, and these are all the same clients.

So it's really about how do you integrate with your clients. It could be a wealth client in Asia, it could be a wealth client in the US, in Europe, or it could be an institution. And it's really about having the breadth of the platform, because in one conversation you can talk about deploying assets into the US or Europe, or doing a secondary, or figuring out the right client solution. I do think it's just about private capital. And so there are a handful of us that are really dominant in what you would call this, what we would call the secondaries business, but it's much bigger than that, because it's really now becoming a solution- centric business around financing and EV facilities, how do we bring the most value to all of these discussions.

And by the way, these can be discussions from sovereign wealth funds, the pension plans, so as I said, the wealth channel. I think it's kind of next evolution of this business. You see it happening in private credit, where the discussion used to be like direct lending. And now it really is more about the full aperture of credit in private credit, whether it's asset-based finance, all the way through to opportunistic credit, and how do you bring the best solution to those people that need capital and those people that want to deploy capital, and that whole ecosystem is evolving at an incredibly fast pace.

Patrick Davitt

Analyst, Autonomous Research US LP

So like I said...

Q

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

So yes, secondaries is growing very quickly and I think it's [indiscernible] (00:27:26).

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Patrick Davitt

Analyst, Autonomous Research US LP

On that note, we're seeing a lot of your competitors raise upwards of \$25 billion funds in this space, and you have a fund in the market. Given your position broadly, should we start thinking about you being able to size to that scale?

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Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

I think our ability to deploy is exceptionally good. I think that we're not raising to have the biggest fund. I think we're really letting the capital and the opportunities that drive it, but the footprint of that business, I was at the 25th anniversary AGM in Amsterdam a few weeks ago, and really the future of that business will take a whole bunch of different paths. I do think, when you think about the evolving wealth, retail, retirement channel, I do think the secondaries business broadly defined, I do think really is a bit of a category killer because it has broad diversification, shorter J-curve, very stable predictable returns. And so I think, in a toolkit, in being a diversified private capital manager, I think it's incredibly fortunate that the founders bought AlInvest in 2012. And so I think it plays an incredibly valuable role across a whole bunch of different opportunity sets.

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Patrick Davitt

Analyst, Autonomous Research US LP

The last one on the side, I think you rebranded it back to kind of Carlyle AlInvest from investment solutions.

Q

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

Yes.

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Patrick Davitt

Analyst, Autonomous Research US LP

But what was the impetus for that? Is there something about the AlInvest brand that you think can drive better growth?

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Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

Well, it was really, when it was – the history here is, again, acquired in 2012, 25-year history, which I think if you fact check me on this, I'll be pretty great, like net returns really are pretty consistent around 16%, 17%, 18%. Well, there was one vintage year where it was a net 10%. It really was strategically not integrated into The Carlyle platform. Now, we have very strict walls for a bunch of reasons, obviously, because they're bidding on portfolios. But in terms of leveraging the full strength of The Carlyle brand, and so this is just making sure that we leverage

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the full breadth of what the AlInvest brand, which was developed over 25 years, and The Carlyle brand, which is obviously, quite global and very powerful. And so that's the rebranding.

Patrick Davitt

Analyst, Autonomous Research US LP

Got it.

Q

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

But I wouldn't – it's not much more than that. But strategically, we worked quite hard to integrate the distribution of AlInvest and their skillset into our institutional framework and also obviously into the wealth channel.

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Patrick Davitt

Analyst, Autonomous Research US LP

Got it. So I think that's a good segue to the broader fundraising and growth outlook. You stuck with your 2025 guidance of \$40 billion of flow, 6% FRE growth. You have two big insurance blocks coming in. But away from that, how should we think about the cadence and build to that 2025 target?

Q

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

Yeah. So it feels pretty good so far, and we'll see how the third quarter and fourth quarter looks. Again, in this policy environment, I think it's difficult. So I think I'd have to give you like real-time updates, but it feels pretty good.

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Patrick Davitt

Analyst, Autonomous Research US LP

Got it. Any shift in the LP conversations through the last couple of months, and in particular, through the lens of how they are thinking about allocating to the US versus non-US side of your businesses?

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Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

I wouldn't say that it had started a while back. I would summarize it as, last year this time when I was traveling around the world, a lot of the conversations with the largest allocators in the world were really, or were allocated to the United States, but we're going to allocate more. And I think, when the new administration came in, that only accelerated in terms of thinking about allocation. I don't think there's a shift away from the US, maybe that some of that's happening to liquid markets. But in our business, the conversations when we talk about policy change and what's happening globally, we're committing capital for many, many years on behalf of our clients, and they're committing capital for many, many years.

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So the lens through which they look at these things is really what is the opportunity set and how do we think and how do they think about the global opportunity. And my personal view on this is, and again, I think this was all in place before the recent policy shifts. But I would say that, if you think about what's happening in the world, clearly defense and energy as part of national security, and let's just broadly say national security was becoming a dominant semantic, whereas for maybe 30, 40 years, that just wasn't the case. So national security has become a dominant semantic.

Data management, energy, infrastructure, these are all kind of became somewhat increasingly dominant themes in discussions we were having with folks around the world, and I don't think that would be a surprise to anyone. Some of the other competing priorities remain, sustainability, ESG in Europe. These things are all competing for shelf space, but I would say, there was certainly a shift in priorities, and let's just call it, sort of a nationalizing and onshoring and investing locally. If we were sitting here a year ago, we would have felt quite strongly that there'd be a pickup in defense spending globally. We're obviously one of the few large-scale leaders in aerospace defense, but I don't think we would have thought Europe would be planning to spend over \$1 trillion.

And so it's been a pretty amazing pivot over the last several months in terms of how capital will deploy. But now step back and ask yourself, well, what is the duration of this capital that's needed, it's long tailed, and then ask yourself, where is it going to come from. And it's going to be difficult for sovereigns to fund everything they want to fund because of the inherent leverage across the sovereign universe. I personally think this means that, I think banks to some degree can play a really vital role. But a lot of this capital is going to come from firms like Carlyle, that have scale, that have ability to bring solutions, that have a global footprint, that can bring resources globally together to solve complex problems regardless of the jurisdiction, whether it's Japan's investment, Europe's investment, Canada, US, et cetera, and so are India. So you have to be active in these markets.

But I think the capital demands are going to be enormous over the next 10 or 15 years. I think there's a general consensus around that, and private capital will play the most material role there. That seems very clear to me because we have the ability to deploy the duration and the skillsets. And so a lot of this would be funded by private capital, which means private capital will be in demand, which means returns should be good. I do think it means likely cost of capital is up around the world. That doesn't mean that 10-year has to be some astronomically high number, but it definitely means it will be otherwise higher than it might have been. And I think that means the same for all global cost of capital.

And even if you look at it today, this gets back to a bit of your earlier question, the term premium in the 10-year is not particularly high relative to history. I'm a lot older than you, but when I got out of college and I was selling muni bonds, I was selling muni bonds for 12% tax free, and I was uniquely bad at it. Think of how bad you'd have to be at something to not be able to sell 12% tax free, but yet I sit here with you today. So has to have some levity. It just can't all be about cost of capital. But I think the cost of capital will be higher in aggregate over the next 10 years. That's really how our clients are thinking about it. If we stand the vast majority of our clients and said, do you think you'll be allocating more to private capital for the next 10 years, the answer is yes.

Patrick Davitt

Analyst, Autonomous Research US LP



On aerospace and defense point, it just occurred to me, do you think there's enough demand for both capital and LP demand to start thinking about a dedicated strategy given your positioning there, or do you think it's too nichey?

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.



No. It's not too nichey. It's just a question of what is the best. Again, this is not about, oh, can we launch a separate fund to do this as a dedicated vehicle? I think the answer is, what are we solving for. So if we're solving for an ability to provide capital, maybe in a more flexible way, that could be it, or could it be different parts of the capital structure. But we don't want to disrupt the success we've had by building this vertical out in DC for 37 years. One of the first transactions we did at the firm was in the aerospace. So we have a very, very long history here. And so we don't want to disrupt 38 years of expertise there. But are there things we could uniquely do? Probably, yes.

Patrick Davitt

Analyst, Autonomous Research US LP

Q

I'm moving to retail, you've had a lot of traction with your wealth products. I think the AUM is up more than 60% over the last year or flows at least.

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

A

Sounds about right. Yes.

Patrick Davitt

Analyst, Autonomous Research US LP

Q

How do you see the demand unfolding there in 2025? Any impacts from the recent volatility? And if there is continued market volatility, how do you expect that to play out for the rest of the year with your PE product launching?

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

A

So we sit here with the S&P essentially flat. So for all of volatility we're sort of back where we started.

Patrick Davitt

Analyst, Autonomous Research US LP

Q

Yes.

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

A

And the bond market is performing well. And as I said before, credit spreads are tight. So the demand in the wealth channel broadly, and I think, we said in the US, we tend to think about this as a really US-centric phenomenon. This is not a US-centric phenomenon. This is a phenomenon in Japan. This is a phenomenon in Europe, Southeast Asia, Middle East. We're on platforms in the Middle East, bank platforms all around the world. So I think, we're still in the early innings of this global shift towards wealth wanting to come into the space. Our advantages here are the breadth of the platform. So our ability to create solutions that have all the right parameters, and really, The Carlyle history and The Carlyle brand.

If you're in the Middle East or if you're in Japan, and we're in Japan for 25 years, the team has established an incredible track record that has a credibility in Japan such that when The Carlyle name is on a platform, people know Carlyle in Japan. And so that's the strategic competitive advantage. We just need to make sure that certainly as an industry we execute well as all this capital comes in, because I do think at the margin, when you think 10 years forward, big flows like this, out of wealth, insurance capital will be the big marginal drivers of capital. Certainly, all of our historical clients will be incredibly important, whether they're endowments, foundations, pension, sovereign wealth funds. But this marginal capital that's coming into the history now will be defining.

Patrick Davitt

Analyst, Autonomous Research US LP

Q

We mentioned the PE product expected later this year. What's the kind of lab up to in terms of expanding the suite into other asset classes beyond what you have now?

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

Busy labbing.

A

Patrick Davitt

Analyst, Autonomous Research US LP

Yeah. Busy labbing.

Q

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

Busy labbing.

A

Patrick Davitt

Analyst, Autonomous Research US LP

Fair enough.

Q

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

Busy labbing.

A

Patrick Davitt

Analyst, Autonomous Research US LP

In that vein, Apollo and KKR have launched hybrid, illiquid, liquid products. What are your thoughts around...

Q

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

Busy labbing.

A

Patrick Davitt

Analyst, Autonomous Research US LP

That's it?

Q

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

Busy labbing. No. I think, let's take the question seriously. Sorry. Do you want to finish it?

A

Patrick Davitt

Analyst, Autonomous Research US LP

Well, yes. What are your thoughts around partnering with a traditional manager to do something like that, which would be a better fit for a mass affluent investor?

Q

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

So I think it's all a question of, again, what are you solving for. So we have all the product capabilities. The real question is, flip it around to who is the client. That is the single most important thing. There is a very big difference

A

between, let's say, a wealth client managed by an advisor on a bank platform or one of our [ph] RIA (00:39:50) partners versus when you start going into sort of what's called the 401(k) channel or the retirement channel, call it somewhat of a new frontier. And I think this is all about making sure that the client that you're approaching, that you're solving whatever problem it is that they have. And so that's how we're thinking about it.

Now, there's lots of ways you could – if you were in a lab with us, you could start in a whole bunch of different places. But if you put the client at the center of everything you do and you said to yourself, okay, look, let's just say the 401(k) channel, okay, what are the key parameters. Obviously, you want to have historical outperformance, but really what you want to make sure you're doing is you're helping in that particular channel that all the liquidity provisions are met. So right now there's, I don't know, 30-plus million teachers, firefighters in the United States that are already on plans that have private assets.

The pension plans may have caps on private capital of 35% or 40% or higher, but effectively those plans are just managing the liquidity function. But all these school teachers, all these firefighters, et cetera, they already have the exposure to private markets in their retirement plan. So it's just a question of, as we continue as an industry to expand out, we just have to make sure that we get all the aspects of what's the return expectation, do you get outperformance, and do we manage my outperformance, not just the performance of the asset class and how it fits into the portfolio construction, but the liquidity construction as well. I think we'll just have to make sure we solve for all those parameters quite thoughtfully as an industry.

Patrick Davitt

Analyst, Autonomous Research US LP

Q

Helpful. Insurance, we mentioned briefly the \$8 billion of block transactions coming to Fortitude this year. Remind us how these particular transactions flow through your results, and then more broadly, how the reinsurance pipeline is looking, what Fortitude's capacity is to take advantage of more of these opportunities this year?

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

A

Yeah. So when I went to Carlyle, there were a lot of extraordinary things that I was privileged to be part of. Obviously, the team, the iconic nature of the business, largest CLO business in the world, a lot of great things all around the world. And one of the great things was Fortitude have been established. And Fortitude is valuable for a whole host of reasons. One, we have great partners in Fortitude, and so just the asset in and of itself, Fortitude is fantastic. On behalf of Fortitude, over many years now, we've been managing capital for Fortitude. That gave us the internal DNA to manage assets for an insurance enterprise, and that learning is super critical. And that's given us, again, a whole team internally that understands asset liability management, regulatory considerations, reporting requirements that insurance companies have. And of course, now we're being able to build out and extend that across the entire insurance space.

So we, because it's noticeable and sometimes it's significant, we get a lot of focus if Fortitude does a reinsurance transaction, which ultimately, we manage a portion those assets in private capital for Fortitude, that gets a lot of attention, and it's certainly very valuable in terms of contributing to our franchise. The real value is in the partnership with Fortitude and an ability to build out that expertise because it gives us real skillsets internally in terms of how to be the best provider of solutions to insurance broadly. Now, and then beyond that, the future of how insurance evolve, I think will be fascinating. It's one of the most dynamic parts of the industry right now in terms of competitive dynamics in insurance, regulatory changes globally in insurance, it occupies a lot of mindshare for me and the senior leadership, and Mark Jenkins and the whole team that drives our credit solutions.

Patrick Davitt

Analyst, Autonomous Research US LP

Q

On that, there's an inorganic side to the story, the insurance story for a lot of people. You got a lot of buzz on the last earnings call. Any updated thoughts on the potential to use the inorganic channel to broaden the insurance business?

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

A

Yeah. I think when I first showed up, you rightly asked me, how are you thinking about inorganic growth, and I really downplayed it. I downplayed it because I felt like at that particular point in the company's life cycle there were lots of things the team needed to work on with me, and I really needed to get to know the team and our clients and immerse myself in it. It wasn't off the table back then, but all the things I went through before in terms of optimizing the capital management, the cost structure, the growth initiatives, they just seem so obvious that doing something inorganic in a period of me being a new CEO, it just didn't feel high on my priority list.

I would say, we're certainly capable of executing anything that would make sense. I think it's got to really be right. Culturally, we don't lend ourselves to being serial acquirers. The firm has made some, when I mentioned AlInvest, I mean, AlInvest, I think, the firm acquired something for like net \$25 million. There's only a handful of us in the world that even provide that service at scale these days. And so that's obviously worth many, many, many billions in terms of its implied market value. But I think that it would have to really tick a lot of boxes for us.

Obviously, the strategic sense has to fit both financially. The footprint, it has to make financial sense, it's got to be accretive. So it doesn't tick all the right boxes. When I think about the footprint of what we have at Carlyle, it's so extraordinary from a secondaries business to the credit business to insurance to everything we can do in private equity, infrastructure, et cetera, there's no pressure. I also have three great shareholders in addition to all of you shareholders in the room, who take a bit of a long-term perspective and just want to see value creation over time. But certainly, we're well-positioned if the right opportunity came along.

Patrick Davitt

Analyst, Autonomous Research US LP

Q

I'm going to end on a capital question. But on capital markets, it's obviously been a big piece of your FRE growth story. You provided a sneak peek on the 1Q call on initiatives to kind of grow that broad net restructure that to unlock more value. Can you give us a little bit more color on what that means, what you've done there, and the path for further growth, which has already been pretty substantial?

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

A

Yes. So and there's again, our nuances, but the firm, when I showed up, had an amazingly well-developed capital markets team.

Patrick Davitt

Analyst, Autonomous Research US LP

Q

Right.

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

A

But they really were focused almost exclusively on the liability management, not on also being a revenue generating part of the firm. And that is a much easier piece to build than the first piece. So the first piece was super well-developed, great team, as I mentioned. Bloomberg put out a piece, I don't know, maybe two years ago, and ranked a lot of the firms in terms of what I'll broadly say, most conservatively a well-managed capital structures and portfolio companies, and Carlyle was at the top. So it's an incredible team. Getting the team to work with the fund heads in terms of how to think about monetizing our capital market skillset, because they do a lot of work on these transactions.

When they're running liability management, they do a lot of the liability creation. This is something other firms have been doing for years. So it's really just a question of creating the right incentives, positioning the business properly, driving the initiative and turning the lights on, if you will. But all the pieces were in place. Now, what we haven't done is, we haven't decided, hey, we want to compete with other people, who, okay, the JPMorgans, Morgan Stanleys, Goldman Sachs of the world, and commit a lot of balance sheet to capital markets, and we don't have a desire to do that.

So what you saw us do was really take the fee-generating engine piece of this up to the [ph] \$150 million (00:48:34) that I described over six months, again, which would have been our best year ever. But that'll be episodic, and it'll be driven by activity levels, right? So quarter-to-quarter, you may see volatility in the capital markets numbers. Personally, I think that's wildly irrelevant. We're not committing capital. We don't have debt balance sheet sitting there. This is just embedded operating leverage. And again, we don't historically look at it this way, but we did go back because smart folks like you were asking. It does look like at peak levels, this can be a \$350 million activity. There are still parts of our business as they evolve, which just because of historical creation weren't allowed to participate in this activity, and that'll even free up over the next couple of years as we launch new businesses. And so we feel really good. I mean, I think the team has done an amazing job here, pivoting quite quickly to this opportunity.

Patrick Davitt

Analyst, Autonomous Research US LP

Q

So then I'm going back to capital, I think you think the stock is cheap.

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

A

Yes.

Patrick Davitt

Analyst, Autonomous Research US LP

Q

So how should we think about the timeline, or how you're thinking about repurchases with that big \$1.4 billion authorization?

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

A

I think you should think I tried to buy it personally during the sell-off and the lawyers wouldn't let me do it, which I think doesn't seem right to me. But anyway, I can say that at the conference I think. But yeah, I think, we, as a company are on, I think, an amazing journey. Like I said, I'm super proud of the teams. If you think about record FRE margins, record FRE, in that what is really globally a difficult capital raising environment, \$50 billion over the last four quarters, \$14 billion of inflows in the first quarter, the momentum behind the firm is really, really great right now.

And we have the real estate business which will be wrapping up that fundraise shortly. We're going to consume a lot of the available real estate capital that even gets raised this year. Their performance is so extraordinary. So there's a lot of really good things happening at the firm that we feel great about. I think the stock will react over time. And again, I don't really love when CEOs pitch their stock, but since you asked, I think it's super cheap. But I work at the company and I know the team, and I know what they're capable of, and I know the market environment, I know the footprint, I know the brand. So I know the earnings power and the potential.

And when you look at just all aspects of it, the financial footings through to the power, what the firm and the trajectory, I think the idiosyncratic macro factors, I think all those things, the tailwinds are pretty extraordinary in the industry. And I think we're really well-placed, and I do think scale really matters. And having the scale at this particular point in the evolution of this industry is really vital. And I think the next five to 10 years look really great for Carlyle. So I feel good about it. I never really encourage people to buy the stock. If you buy the stock, great. We want to really deliver for you. If the stock is not for you, we understand it. But I truly appreciate all you being here today. So thanks very much.

Patrick Davitt

Analyst, Autonomous Research US LP

Good to see you, man. Thanks.

Patrick Davitt

Analyst, Autonomous Research US LP

Yeah. Thank you.

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