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The Carlyle Group LP (CG)

Q3 2018 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to The Carlyle Group, Third Quarter 2018 Earnings Conference Call. At this time, all participants are in a listen-only mode. Following management's prepared remarks, we will host a question-answer session and our instructions will be given at that time. [Operator Instructions] As a reminder, this conference call may be recorded for replay purposes.

It is now my pleasure to hand the conference over to Mr. Daniel Harris, Head of Investor Relations. Sir, you may begin.

Daniel F. Harris
Managing Director & Head-Public Investor Relations, The Carlyle Group LP

Thank you, Brian. Good morning and welcome to Carlyle's third quarter 2018 earnings call. With me on the call today are our Co-Chief Executive Officers, Kewsong Lee and Glenn Youngkin, and our Chief Financial Officer, Curt Buser. This call is being webcast and the replay will also be available on our website.

We will refer to certain non-GAAP financial measures during today's call. These measures should not be considered in isolation from or as a substitute for measures prepared in accordance with Generally Accepted Accounting Principles. We have provided reconciliations of these measures to GAAP in our earnings release.

Any forward-looking statements made today do not guarantee future performance and undue reliance should not be placed on them. These statements are based on current management expectations and involve inherent risks and uncertainties, including those identified in the Risk Factors section of our Annual Report on Form 10-K that could cause actual results to differ materially from those indicated. Carlyle assumes no obligation to update any forward-looking statements at any time.

Early this morning, we issued a press release and detailed earnings presentation with our third quarter results, a copy of which is available on our Investor Relations website.

Let me quickly summarize our results for the quarter. We generated $89 million in Fee Related Earnings and $210 million in Distributable Earnings in the quarter, with DE per common unit of $0.56 in the quarter and year-to-date DE per common unit of $1.21. Economic Income in the third quarter was $111 million with after tax ENI per unit of $0.25 and year-to-date ENI per unit of $1.41. Our distribution for the quarter will be $0.42 per common unit and year-to-date we will have distributed $0.91 per common unit.

Early in the fourth quarter, we announced the acquisition of 100% of Apollo Aviation Group, or AAG for short, which will become part of our Global Credit segment and is expected to close prior to the end of January 2019. There's a lot going on across global markets and within Carlyle. Today we want to work through our prepared remarks quickly and move to Q&A to ensure we have enough time for your questions. To that end and to ensure participation by all who is on the call, please limit yourself to one question and only one follow-up, and return to the queue for any additional questions.

With that, let me turn it over to Curt Buser.

Curtis L. Buser

Chief Financial Officer, The Carlyle Group LP

Thanks, Dan. Our results for the quarter and year-to-date are strong. Fee-related earnings is ahead of our expectations and the flow of both realized performance revenue and realized investment income help drive Distributable Earnings in the quarter. Economic income in the quarter was muted, however, reflecting the impact of significant market volatility on our Asia private equity funds. Now, let me highlight some key metrics underpinning our results in the quarter.

Specifically, we raised $6 billion in new capital and have now raised $26 billion year-to-date and $51 billion over the last 12 months. We invested $3.3 billion across our carry funds with nearly 70% of that deployed outside Corporate Private Equity and we have over $7 billion in announced transactions including Sedgwick and Nouryon, formerly known as AkzoNobel Specialty Chemicals, which closed in October.

We've realized proceeds of $6.4 billion in our carry funds with $27 billion returned to our fund investors over the last 12 months, very much in line with our long-term average. Our carry fund portfolio appreciated 3% in the quarter and 17% over the last 12 months. We saw continued appreciation in the quarter from several U.S. buyout, real estate, energy and AlpInvest funds, partially offset by lower valuation marks in our Asia funds. Net accrued carry as of September 30 was $1.9 billion, up 28% over the past year.

Fee earning assets under management increased 21% since last year to $147 billion and total AUM increased to $212 million up 22% over the last 12 months. Fee Related Earnings, the focus of substantial management attention, was $89 million for the quarter and [indiscernible] (00:04:49) already higher than the previously increased target for the fourth quarter of $85 million. We achieved this goal a quarter earlier as fundraising and revenue growth exceeded our expectations. Fee Related Earnings this quarter was more than double the FRE from the third quarter of 2017 when excluding insurance recoveries in that period.

We continue to raise substantial new capital across our platform. Earlier this year, we initially targeted a $25 billion fundraising goal for 2018, but demand for our funds quickly outpaced that goal and we increased our expectation to $30 billion and today we are confident we will exceed that level. In total, as of September 30, we have raised $83 billion towards our multi-year $100 billion fundraising goal and are equally confident about exceeding this goal given the funds we still have in the market and those that we expect to begin to raise over the next few quarters.

During the third quarter, our newly raised U.S. and Asia Buyout funds contributed an incremental $28 million in base management fees compared to the second quarter of this year. And we benefited from $8 million in catch-up management fees in the quarter compared to $1 million in the year ago quarter.

Third quarter cash compensation expense was $186 million, an increase of 5% relative to the third quarter of 2017. Over the same time period, management fees increased 28%, creating significant operating margin expansion from last year's third quarter. Equity-based compensation expense was $52 million in the third quarter, up modestly relative to the second quarter of this year and we expected to remain at or just below these levels going forward.

Now, let's turn to a review of our business segments. In Corporate Private Equity, our platform is scaled to record levels. Fundraising has equipped our Corporate Private Equity fund teams with $40 billion of capital to invest. We have final close on our seventh U.S. buyout fund at $18.5 billion during the quarter and our fifth Europe buyout fund reached €5 billion.

In Corporate Private Equity, over the next several quarters, we expect to complete fundraising for Europe Buyout and actively raise our next funds for European technology, long-dated private equity and Japan Buyout.

Fee Related Earnings in Corporate Private Equity increased to $44 million in the quarter, up from $8 million in last year's third quarter. Management fees reached a record $176 million in the quarter, an increase of 49% over the third quarter of 2017. Additionally, we activated fees on the new Europe Buyout fund on October 1, which will further increase management fees in the fourth quarter.

For the quarter, Corporate Private Equity's Distributable Earnings were $121 million with $78 million in net realized performance revenues driven by $1.5 billion in realized proceeds. Economic income was $47 million with 1% carry fund appreciation reflecting the lower valuations primarily in the Asia public portfolio below the 4% Corporate Private Equity appreciation in the third quarter of 2017.

Turning now to Real Assets. Our results in this segment continue to benefit from strong fund appreciation. Distributable Earnings were $66 million in the third quarter and year-to-date Distributable Earnings of $151 million are already higher than any prior full-year level. Fee Related Earnings of $26 million in the third quarter increased more than 60% from $16 million in the third quarter of 2017 as fee earning assets under management of $32 billion increased 6% year-over-year.

Catch-up management fees in Real Assets were $3 million in the quarter compared to $1 million in the third quarter of 2017. We produced $42 million of net realized performance revenue this quarter, driven by realizations in our U.S. Realty fund. Fund appreciation was 3% in both Real Estate and Natural Resources this quarter, similar to the third quarter of 2017.

Economic Income was $51 million in Real Assets and while net accrued carry declined modestly from realizations to $570 million on a quarterly sequential basis, it remains up 35% over the past year. Real Assets deployed about

$800 million of capital in the quarter and year-to-date capital deployed of $3.6 billion is nearly 30% higher than the same period in 2017.

Moving on to Global Credit. Our investments in the business are beginning to drive growth in our results. Fee earning assets under management increased 16% over last year to $30 billion, driving a 27% year-over-year increase in management fees to $60 million. However, we expect to make further investment in this business which could dampen Fee Related Earnings in the near term.

We've raised $2 billion of new capital for Global Credit in the quarter, including incremental capital raised for opportunistic credit funds and our Direct Lending business while also launching two new CLOs and re-pricing several existing CLOs. Distributable Earnings were $10 million in the third quarter with Fee Related Earnings accounting for $9 million of the total. FRE was nearly triple the third quarter of 2017 when excluding the $74 million of insurance recoveries from the 2017 results.

Now, Investment Solutions. It had another active quarter realizing over $3 billion in proceeds from fund investors and driving total realized proceeds over the last 12 months to more than $10 billion. Strong realizations are a good outcome for fund investors, but decreased fee earning assets under management which declined 3% year-over-year to $29.5 billion. As discussed previously, we expect investment solutions fee earning assets under management to decline slightly over the next few years as legacy assets under management run-off. This will put downward pressure on management fees and FRE in Investment Solutions in the near-term.

Investment performance remained strong with fund appreciation of 5% in the quarter and 20% over the last 12 months. Investment Solutions' net accrued performance revenue of $93 million increased 48% compared to last year and over time, this increase will have a significant impact on realized performance revenues, though this is likely several years out given AlpInvest funds typically have a European waterfall structure which delays carry realization. Distributable Earnings were $13 million in the quarter while economic income was $11 million.

Before I turn it over to Glenn, three final comments. First, we've recognized a $64 million charge in our GAAP results related to the assignment of one of our existing offices in New York as we prepare to move to our new offices in late 2020. This charge is a lease incentive for our new space and is expected to be paid over approximately 15 years.

Second, we issued $350 million in 30-year bonds at 5.65% and used the proceeds to repay $250 million of our 10-year notes due in 2023 and prepaid $109 million remaining on an outstanding note from the NGP acquisition. Effectively, we extended the duration of our debt structure at attractive rates and modestly reduced our debt levels.

And third, during the quarter, we've repurchased and retired 1.5 million units for $36 million. As of September 30, we had approximately $50 million remaining under our current authorization to repurchase units.

With that, let me turn it over to Glenn.

Glenn A. Youngkin
Co-Chief Executive Officer, The Carlyle Group LP

Thank you, Curt, and good morning, everyone. Let me start by saying that Kew and I are pleased with how the firm is performing. We established a robust agenda at the beginning of the year and our teams have executed aggressively against that agenda, putting us on track to meet or exceed the targets we set back in January.

Investment performance is good, fundraising continues to be strong and we are delivering higher and more sustainable levels of FRE. You've already heard that the firm is ahead of our revised 2018 FRE goal. And early next year, we'll provide our outlook for 2019.

Let me make a few additional comments regarding FRE where we continue to make progress on several fronts. First, we remain focused on diversification. It's been our intention to generate incremental FRE across segments and just as importantly across fund families within the segments. The significant capital raises we have completed have not only underpinned the current increase in the absolute level of FRE, but will provide increased segment diversification and reduce the reliance on any single fund family over time.

Second, we are focusing on margins. We are working to realize the benefits from our operating leverage wherever possible. As Curt mentioned, even though there has been an increase in compensation expense versus last year, as we selectively invest in our teams, we have seen a substantially higher increase in revenue, driving higher FRE margins in 2018. And you should expect that we will continue to focus on this dynamic over time.

Third, we are working to reduce FRE volatility. Understand there will always be some cyclicality in our business, but building out the Real Assets and Global Credit segments provides a natural offset to the breadth of our CPE business. Looking forward, we believe volatility in FRE will decline relative to prior years, driving increased investor confidence in our results.

In addition to FRE, we also continue to focus on the investment success of our funds. Across all four segments carry fund families, we have a total of [ph] $103 billion (15:40) of fair value in the ground and the funds appreciated this quarter at 3% and 17% over the last 12 months, roughly 900 basis points better than the 12-month return on the MSCI All-Cap World Index, a strong result, particularly given the challenges in Asian markets.

Strong fund returns over time have driven our net accrued performance fee balance up 28% year-over-year to $1.9 billion, as Curt mentioned. Again, diversification is key with many different funds contributing. So even in a year where we expected realized performance revenues would be below trend, we have generated nearly $400 million of realized performance revenues over the last 12 months. It's the quality of our funds' portfolios and the near record accrued carry balance that gives us confidence in our ability to generate significant realized performance revenues over time.

As we look back, not just over the quarter, but over the past year, the firm is performing well and we continue to move through very important milestones, milestones related to fundraising, margin expansion, Fee Related Earnings and accrued performance revenue balance, which all set a solid foundation for us looking forward.

With that, let me turn it over to Kew.

Kewsong Lee

Co-Chief Executive Officer & Chairman of the Executive Group, The Carlyle Group LP

Thank you. With our performance on track, as Glenn just described, I want to highlight our progress positioning Carlyle for future growth. However, before I get to these comments, allow me a moment to provide some perspective on the current environment.

Global markets have declined in value and become increasingly volatile and divergent over the past few quarters. As we have previously stated, we continue to remind our own professionals to be cautious in this environment and avoid complacency. A stark example of this divergence is the difference between the U.S. public equity markets and the rest of the world, with the S&P 500 down about 1% on the year compared to the China-focused

Hang Seng Index, which has declined almost 20% in the same period. This volatility affects the valuation of our fund portfolios, especially those in Asia with a higher level of public equity and foreign exchange exposure. And should current global market conditions persist, we would expect our fourth quarter appreciation to be affected as well.

That said, our private equity portfolio on the whole is currently performing well on a fundamental basis. In fact, the weighted average revenue growth over the past year across the entire portfolio was 17% with 10% EBITDA growth. While the U.S. continues to show signs of reasonable growth, we note that rates of growth in Asia and Europe are lower this year than last year. So long as the real economy continues to expand, our portfolio operationally should perform well, even as markets may be less of a tailwind to the appreciation of our marks.

More importantly, recent volatility and lower public valuations could result in future investment activity, what may be relatively more attractive valuation multiples than we've experienced recently. It's important to keep in mind that we are long-term investors and our funds generally have five or more years to invest.

Uncertainty in the environment may make it slightly more complicated in the short-term to buy and exit companies, but we believe we are well positioned around the world to take advantage of market dislocations and opportunities as they arise to find interesting investments across Private Equity, Global Credit and Real Assets.

Let me now turn to the future and provide some comments on three important ways Carlyle is driving growth of fee revenues and earnings. First, our large existing funds across Private Equity, Real Assets and Investment Solutions, has significantly scaled and our new vintage funds are on average 30% to 40% larger relative to their predecessors. Some examples of our larger fund sizes include our seventh U.S. Buyout fund, which closed at $18.5 billion, more than 40% larger than its predecessor.

Our fifth Asia Buyout fund closed at $6.55 billion, more than 50% larger. And lastly, our eighth U.S. real estate fund closed at $5.5 billion, more than 30% larger than the prior fund. The growth and scale of our existing funds sets the stage nicely for a natural increase in fee revenues over the next several years.

Second, we will selectively pursue strategic investments to drive growth. For example, Fortitude Holdings, which we announced last quarter and is expected to close, soon not only adds incremental revenue across our platform, but is expected to be a source of quasi-permanent capital. We also recently announced the 100% acquisition of AAG to extend the capabilities of our Global Credit platform. AAG, to be renamed Carlyle Aviation Partners upon closing, raises closed end funds similar to our private equity funds to purchase and service portfolios of commercial aircraft lease financings around the world. The transaction will add over $5 billion to our AUM and will be immediately accretive to earnings. Once closed, we expect annual Fee Related Earnings to be more than $10 million in the first year.

Both of these investments add new sources of fee revenue, should help mitigate some of our historical FRE volatility and diversify our earnings profile. However, please, please don't expect that we will announce a corporate deal every quarter. Rather, please appreciate that we will only selectively acquire businesses and capabilities if they have potential to scale significantly, leverage and extend our platform and are a strategic and cultural fit with Carlyle.

The third driver of growth, our firm will launch new products where we believe large opportunities exist as our natural bias is organic growth wherever possible. Over the past several years, we've launched new investment strategies such as core plus real estate, infrastructure, long-dated private equity, international energy and opportunistic credit. It is our intention to launch new funds when we identify opportunities to meet the needs of our

LPs and for which there is a large potential market, thereby growing AUM over time and diversifying our earnings. Combined with a significant ramp-up of existing funds and our strategic development efforts, recent new initiative is positioning Carlyle well for growth moving forward.

In conclusion, Glenn and I are pleased that the firm's performance to-date is on track. We believe our firm is well-positioned to manage through and take advantage of today's complex global environment and we have been working hard to establish good momentum to position the firm for future growth.

With that, we are now ready to take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you, sir. [Operator Instructions] And our first question will come from the line of Michael Cyprys with Morgan Stanley. Your line is now open.

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

Q

Hey, good morning. Thanks for taking the question. Sorry about the voice, a little under the weather. I was just hoping you could talk a little bit more about the asset-based finance opportunity and direct origination, how you're thinking about that opportunity set? How you're approaching building it out? What other areas do you find attractive and how you're thinking about sizing this opportunity set? And if you could also tie in how the aircraft leasing finance business fits into here as well as [indiscernible] (00:23:45)? Thank you.

Kewsong Lee
Co-Chief Executive Officer & Chairman of the Executive Group, The Carlyle Group LP

A

Okay. That was a broad question. Hey, Mike. It's Kew. Thanks for the question. I think it's fair to say, we're really pleased with the progress that we've made in building Global Credit and the platform out. So, as you know, and let me just set the stage by saying, we've got a terrific CLO business. We made great progress scaling our Direct Lending business. We are in the market and doing well with our opportunistic strategies. We've got focus strategies in energy credit and obviously we've got a very seasoned team in distress.

The one part of the platform that we've always been looking to build capability set in is the asset-based finance business. We're not a finance company. We're an investment management firm. And so, the way we are trying to do this is the way we always try to build out our business, acquiring top-level investment professionals. We go out, we raise funds from our institutional clients, and we make a business out of managing investment assets and hopefully performing well on behalf of our LPs.

With respect to AAG, which we just acquired, this is one of the top-performing management teams and platforms. They've been through good cycles and bad. This team has built out a terrific business and it's just the beginning of what our global credit platform wants to do in terms of tapping into opportunities to drive investment strategies that are based on hard assets as opposed to the other types of lending that the global platform does. Other spaces that we may look into might be lending related to Real Assets, in real estate and potentially infrastructure. But I think it's premature for us to describe all the different things we're looking at.

I do want to end by saying one thing. We are building this platform for the long-term. We are quite cognizant of conditions around us and we are not going to rush into anything and be overly aggressive with an ambition just to grow. We are building this thing to survive and sustain itself and deliver great returns over the long-term. And it's with that mindset that we go into building out the platform. Hopefully that gives you a little bit of color for what we're trying to do.

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

Q

Great. Thank you. And just as a follow-up question, there have been some reports in the press about a Dubai-based private equity firm, Abraaj Holdings, some article suggested that they misused funds and maybe some possible fraud there. I guess, just what's your exposure within your solutions business? What's your take on what happened there in terms of fact versus fiction? A lot of conflicting reports possibly out there. And how does the situation impact how you approach the diligence within the secondaries business?

Glenn A. Youngkin
Co-Chief Executive Officer, The Carlyle Group LP

A

Yeah. So, Michael, it's Glenn. First, we're just not in a position to comment on that particular circumstance. I'll just say that the teams in the Investment Solutions business, both on the private equity side and the real estate side of the business have just tremendous reputations for being incredibly diligent in the funds they pick. And that's why the performance has been as strong as it has been. You should look at the Investment Solutions performance over the last 12 months, it's at 20% appreciation, 5% in the quarter, and that just reflects the quality of the business they do.

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

Q

Are you able to confirm if you have any exposure?

Glenn A. Youngkin
Co-Chief Executive Officer, The Carlyle Group LP

A

Michael, as we said, we're not able to really comment on anything with regards to that particular situation.

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

Q

Okay. Thank you.

Glenn A. Youngkin
Co-Chief Executive Officer, The Carlyle Group LP

A

Thank you.

Operator: Thank you. And our next question will come from the line of Gerry O'Hara with Jefferies. Your line is now open.

Gerald Edward O'Hara
Analyst, Jefferies LLC

Q

Great. Thanks. Perhaps one on Glenn's Fee Related Earnings comments and I think we can all appreciate the focus on margins here, but perhaps you could help us quantify where those FRE margins might be able to go over the next couple of years? And how balancing the comments around diversification versus obviously scale can perhaps [indiscernible] (00:28:01) play there, can perhaps help drive those margins? Thank you.

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

A

Hey, Gerry. It's Curt. I'll start and then maybe Glenn or Kew will add on. Maybe just to level set in terms of where we are, where we've been. Our Fee Related Earnings margin year-to-date is about 18% and here in the third quarter, it's 24.5%. As I commented in prior quarters, our [ph] prior year (00:28:23) peak was 23%. So we've made really good progress focusing on Fee Related Earnings, using our operating leverage, managing expenses across to the platform and really getting to [indiscernible] (00:28:37) where we can have a higher sustainable level of FRE.

As Glenn said in his opening remarks, we're not yet to reset expectations for 2019. We will do that as we wrap up our budget process and wrap up the 2018 year, but not quite yet. As I just said, we do have good momentum. Including in that momentum is we're going to activate fees on our next Europe Buyout fund on October 1, in fact, we've done that. So, you're going to see a natural management fee lift that'll come in the fourth quarter from that.

Now, we're going to continue to invest in the platform, as I mentioned with respect to Global Credit and so that can counter that somewhat. Keep in mind, over time, there are lots of factors that can drive FRE up or down in a given quarter, things like catch-up management fees, transaction fees or fundraising expenses. But as you look forward to 2019 from a margin perspective, I think it's safe to be thinking about us in the mid-20s. Generally using a 25% FRE margin is a safe place right now.

Gerald Edward O'Hara
Analyst, Jefferies LLC

Q

That's helpful color. Appreciate that. And perhaps just one quick follow-up. You mentioned the catch-up management fees. Perhaps you can kind of give us a sense of how we should expect that to ebb and flow here over the next maybe four to six quarters?

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

A

Sure. So, look, catch-up management fees really [indiscernible] (00:29:55) driven by follow-on fundraising in funds where the fee is already been activated. So it's a little bit hard to predict always because it's always driven off of what you're able to raise in any given quarter. I think the fourth quarter though should be pretty good with respect to catch-up management fees and then it will ebb and flow in 2019.

Gerald Edward O'Hara
Analyst, Jefferies LLC

Q

Great. Thanks for taking my questions.

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

A

Yeah.

Operator: Thank you. And our next question will come from the line of Patrick Davitt with Autonomous Research. Your line is now open.

Patrick Davitt
Analyst, Autonomous Research US LP

Q

Hey, good morning. Thank you. So, we've seen kind of increasing credit concerns and in particular, I think credit concerns in what are considered more shadow lending markets and from the alternative side of things. Could you speak to the trends you're seeing in your own portfolio? Any potential stress points you would point out? And then, within that specifically speak to the increasing focus on credit risk in bank loans and then CLOs more broadly?

Glenn A. Youngkin
Co-Chief Executive Officer, The Carlyle Group LP

A

Okay. Patrick, thanks for the question. Obviously, it's a very diverse asset class and believe me, we are very focused on general conditions and being appropriately cautious as we are decidedly late cycle here in the States and around the world. Having said that, our CLO business, we are – it's one of the top, one or two performers and we are known for having exceptional credit quality. So, I mean, our loss ratio is a fraction of that of industry average and I think you should expect that that type of vigilance will continue. And it is one reason why we're being very discerning as it relates to putting on new assets into these structures.

Our Direct Lending basis, our business, the profile of the direct loans that they are putting into that profile is very much as senior as you can get up into the stack. 70%, 80% plus of our Direct Lending portfolio is true first lien. It's not first lien/last out. It's not second lien. It's not [indiscernible] (00:32:16). It's true first lien as senior as you can go. And as a result, we feel like we're in the best part of the segment of that market, especially if the cycle were to start turning.

With respect to distressed and opportunistic credit, clearly those are businesses where should there be more volatility, their business actually does better. They'll start to see more deals and start to see more opportunities. So, I don't know if this is helpful color for you, but I don't think you can just say how does the environment affect one strategy, you've got to take a look at everything as a whole, but clearly we are being eyes wide open in this market. As of right now, we are continuing to see things perform, but we're going to be cautious as we enter this later cycle stage that we're in.

Patrick Davitt
Analyst, Autonomous Research US LP

Q

Yeah, that is helpful. And maybe a quick follow-up. I guess, to the point about the strong credit in your own portfolio, are you seeing, I guess, things getting stretched away from you then or things that you think are concerning in terms of what people are willing to do?

Glenn A. Youngkin
Co-Chief Executive Officer, The Carlyle Group LP

A

Well, clearly, we always see that behavior and we've been seeing that behavior over the several years. We're always complaining that there's a lot of capital out there, but we're pleased with the credits we are putting on the books. It's fair to say structural protection such as covenants and pricing. I've never met a lender who or an investor professional who thinks that they wish they could be doing better. That's just the state of the market that things are in. As a general commentary, I would say though that I think the market is starting to push back a little bit and you're starting to see spreads widen. You're starting to see more discerning reviews of credits that are in the market. So it feels to me like you're starting to see the buy side push back a little bit on issuers.

Patrick Davitt
Analyst, Autonomous Research US LP

Q

Thank you.

Operator: Thank you. And our next question will come from the line of Craig Siegenthaler with Credit Suisse. Your line is now open.

Craig Siegenthaler
Analyst, Credit Suisse Securities (USA) LLC

Q

Thanks. Good morning, everyone. So I just wanted to ask a prior FRE question a slightly different way. When you add up your operating expenses and we're looking at base comp, equity-based comp, G&A, we get a number in the $600 million zone for 2018, which is up about 11% from 2017. You don't need to confirm my math, but how should we think about the future growth in the more fixed expenses on a go-forward basis, especially given your investments in areas like private credit?

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

A

Craig, it's Curt here. So thanks for the question. I think one of the things to look at is, [ph] our recall is (00:35:15), we are very much focused on Fee Related Earnings and we're very much focused on managing that margin. And I just said kind of what you're going to expect for 2019 and so we feel very comfortable with doing that and hence the reason why we were able to disclose it.

The other thing from an expense-based standpoint, well, you'll see some movement in our cash comp, especially if you're looking at year-over-year numbers, but if you look at page 16 of the earnings release, you'll see the last five quarters. And while this quarter is up a little get compared to the second quarter of this year, it's below the first quarter of this year. And in total, it's above 5% up over a year-ago quarter.

So we'll continue to invest, just as we said in Global Credit, in key people and we're going to try to do that obviously in line with initiatives and platform expansion that we need to do and it'll ebb and flow a little bit, hence the cautionary comments around potential dampening on the global credit FRE. But again, we're focused on growing [ph] total firm (00:36:23) FRE and feel pretty good about that.

In terms of our fixed based process, generally, they've been running pretty stable [indiscernible] (00:36:30). So, if you look at G&A and the like, the movement in there can be external fundraising costs and so that generally obviously hits us upfront. We're working out ways to better manage that over time, but that's generally a good thing when we have high fundraising driving high fundraising costs.

On the equity-based comp, yes, it's up a tad this quarter and second quarter. Usually the second and third quarters are our higher quarters in equity-based comp. That's really because we tend to grant equity in Q1 and we have a lot of vesting that will occur in Q3. And so Q1 and Q4 will usually have a little bit less vesting. The other [indiscernible] (00:37:13) this year, we had some terminations and some accelerations on some vesting that caused a little bit of a pickup in Q2 and we have some performance-based equity grants. And given that we were hitting the marks pretty strong, some of that also ticked up and you had a little bit of a catch-up comp in the third quarter. So, just as I said on my remarks, I think that you're going to see stability in that number on a go forward basis. And so, hopefully that gives you some color, Craig, on kind of FRE and some of the cost structure.

Craig Siegenthaler
Analyst, Credit Suisse Securities (USA) LLC

Q

Thanks, Curt. Very comprehensive. Just as my follow-up, can you guys update us on your strategic partnership with AIG in your new minority investment in DSA Re? And how should we think about sizing the business opportunity from this new venture? And could we see Carlyle make additional acquisitions of either entire insurance businesses or [ph] closed box (00:38:05)?

Kewsong Lee
Co-Chief Executive Officer & Chairman of the Executive Group, The Carlyle Group LP

A

Thanks. Hi, it's Kew. As you know, we announced this last quarter. We do expect our partnership to formally close sometime soon. Maybe I don't know if it's a matter of days but certainly a matter of weeks is our current expectation. And I think everything that we talked about last quarter is on track. And so, I don't think you should assume that there have been any significant changes from what we have announced to what we intend to close. The partnership is going great. The teams are already starting to work through rotation of investment assets, working on the carve-out of AIG. And so, that partnership is quite healthy.

And as we expressed to you last quarter, we do expect three different ways that this will impact our business. Approximately $50 million plus of new fee revenue that comes in from the assets being rotated. Second, performance fees obviously related to the assets that do come in where we intend hopefully if we can perform we will generate carry. And then, finally on the balance sheet investment which is remember, this was a corporate investment, on the balance sheet investment itself, we expect an attractive return on that investment which will flow through our financials.

We do, I want to just caution you that when you think about how to size this all up, this will rotate in over time. And I think I said about, let's say, over three years. And so, I wouldn't add all this math up and assume it's day one. This does rotate in over time. But we're on track. We feel great about our partnership.

In terms of the final part of your question, which was, do we intend to do more. And I think it's, suffice it to say, I'll rest on my prepared comments, which is we are not in a mode to just do a [ph] deal accord or (00:40:08) by any stretch. We are being very selective and being very careful. Where it makes sense for DSA to expand its business, which is clearly the plan because this is a platform, it does have a lot of its own internal cash flow, but where it does make sense, we and AIG will consider it. But that's not something – there's nothing out-of-the-box that we're thinking about doing right now to aggressively expanded in that segment with new acquisitions.

Craig Siegenthaler
Analyst, Credit Suisse Securities (USA) LLC

Q

Thanks, Kew.

Operator: Thank you. And our next question will come from the line of Michael Carrier with Bank of America Merrill Lynch. Your line is now open.

Q

Hey, thanks. Good morning. It's [ph] Mike Needleman (00:40:51) for Mike Carrier. The first question I have is on realizations. Wondering how the market sell-off affects your ability to monetize your investments. You'd already been guiding to lower realized performance fees this year. Should we expect the distribution to be pretty modest over the next couple of quarters?

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

A

Thanks, Mike. It's Curt. Look, as we said before and as you picked up, we said 2018 was going to be lower than 2017 largely because of mix of the funds that we have in terms of where they are from a maturity perspective. As you can see our realizations capital [indiscernible] (00:41:30) back to our limited partners has been as strong as it's been, $27 billion over the last 12 months. So it's not a question of realization. It is a question of where a fund is relative to being able to take carry as we manage clawback risk.

Good news here is, we've got $1.9 billion of net accrued carry. That number is up from a year ago 28% and it's underpinned by $73 billion of carry in the ground. That's exclusive of investment solutions. And that capital is roughly at a 70% in carry ratio. And the nature of those vintages are well positioned to begin to generate realized carry. Now, my crystal ball on predicting carry realizations is really good over the long-term. So I think that that $1.9 billion is realized over a three to five-year period. My crystal ball is also pretty good when markets are benign, stable and growing, but it becomes more and more cloudy when markets are choppy. And so, my ability right now to predict near-term is more challenged than I would say before. But good news is, just as Kew said, underlying portfolio remains in good shape. The portfolios are good and I feel good about our ability to turn this $1.9 billion into realized carry. Hopefully that helps.

Q

Yeah, thanks. As a follow-up, just on marks, you guys touched on this in the prepared remarks for 4Q, but can you remind me roughly how much of the private equity portfolio is marked on comps versus models? And for the model marks, have those held up reasonably well given the strong revenue and EBITDA growth? Or have you also kind of started to take those marks down too? Thanks.

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

A

So, the goal here is always to reflect investments at fair value, what we think we can actually sell them for. 88% of the portfolio is privately-held, 12% is publicly-traded. The publicly-traded portion real simple, it's P times Q. The privately-held piece is fundamentally a model approach. Where we can, we will do – look really at three-pronged approach. We're looking at what are the public multiples. We're looking at [indiscernible] (00:44:03) transactions and we're looking at projected cash flows. In our approach, what we try to do is align all three of those and make conclusions with respect to that.

Now, obviously, there are some assets that you can't do all three methods, but that's always the underlying methodology is what can we sell this asset for. And so, the other piece, I would say is embedded in your question, we [ph] back test (00:44:26) our marks pretty well and then from a back testing perspective, the valuations have been clearly supported. Feel really good about our process. We also use a lot of third-party input in terms of reviewing things. So, we engage not just our audit firm but a number of valuation experts and we don't even use just one firm. We use multiple firms just to make sure that our processes are robust and [indiscernible] (00:44:54) the best we can. Hopefully that helps.

Q

Thanks. And just so for the 4Q guidance, your comments were mainly just you're looking at like how Asia and U.S. market [indiscernible] (00:45:09) are reacting?

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

A

The fourth quarter itself – look, in terms of calling it, hard to say, but as you look at right now, public marks are down. And if Asia were to continue to be down, then that's going to be problematic for economic income. The thing I have learned in terms of doing this is be real careful about calling numbers before the quarter is over [indiscernible] (00:45:34) things have a way of changing. Sometimes they change day-to-day and on those P times Q marks, it's what is the mark as of the end of the quarter with respect to the public portfolio and what really hurt us here in the third quarter was really while our overall public portfolio is small, it's much more concentrated in Asia where you've seen a lot of the market index has really come down.

Q

Thank you.

Operator: Thank you. And our next question will come from the line of Bill Katz with Citigroup. Your line is now open.

William Katz
Analyst, Citigroup Global Markets, Inc.

Q

Okay. Thank you very much for taking the question. So, first question, maybe the way you level set on FRE, I was wondering if you could level set on sort of the incremental growth opportunities. I think you sort of said you still feel good about that $100 billion mark. So, A, is that sort of – what's the latest thinking around that? And then, I think you ticked off two or three other things you're going to be in the market for. I think tech and then longer-dated private equity in Japan Buyout. What was the prior aggregate size of that? And then, based on your commentary of running [indiscernible] (00:46:37) funds, is it fair to assume that you might have the same success there? And is that [indiscernible] (00:46:43) $100 billion mark?

Glenn A. Youngkin
Co-Chief Executive Officer, The Carlyle Group LP

A

Bill, it's Glenn. Thanks for the question. So first, just to level set a little bit, we were at 83% of the $100 billion goal. The original $100 billion goal was set through 2019. As we've said in the last couple of calls, we've raised more money faster than we expected. So that's why we're ahead. As Curt said in his remarks, we not only feel good about reaching the $100 billion goal by next year but we fully expect that we will exceed it.

As we move through and look further down the road, and we will get through this series of fundraises and keep everybody updated on how we're doing as we move through that $100 billion goal, we'll have to set a new one. We would expect that at that point a longer-term outlook through another full fundraising cycle just given the additions to the overall portfolio of funds as Kew went through in Real Assets and in private equity and in credit and in the solutions business, plus the acquisitions we've made, we would of course expect the $100 billion goal to be more than $100 billion next time.

We haven't gone through that work yet, but we also know that what happens in that next fundraising cycle will, of course, be dependent on our continued performance at the fund level, what's going on in the overall economic environment during that time period, et cetera, et cetera. But in a very simplistic way, we expect to move through this $100 billion goal next year and we will set a new one at that point and we would expect that to be more than a $100 billion.

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

A

And Bill, the only thing I will add to that and let me just get very granular, you asked about three specific funds. I would just say European technology, the current fund, it's in euros, [ph] €600 million (00:48:44). Japan is a yen-denominated fund, a little bit over $1 billion. And then, our long-dated fund current vintage is $3.5 billion. And you should assume all three of those funds will either be in the market or sometime soon may be in the market over the next year.

William Katz
Analyst, Citigroup Global Markets, Inc.

Q

Okay. It's helpful. And just as a follow-up, now stepping back, it's nice to see you buyback some stock in the quarter. How you should think about capital management here? Obviously, you have a lot of good de novo growth. [indiscernible] (00:49:13) strategic acquisitions, but your stock is also down quite a bit despite the good underlying internals of the company. So, you're running up towards, I think the end of the current buyback. How do we think about maybe exhaustion of that buyback and more broadly to a capital deployment priorities going into 2019?

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

A

Thanks, Bill, for the question and, yeah, I would agree. I think now [indiscernible] (00:49:40) attractive valuation, as you point out, given the momentum we have in the marketplace and the growth you've seen in the FRE. Look, as I think about things, our goal is to manage earnings per unit, whether that's ENI per unit or Distributable Earnings per unit and so there's two components to that. Just as you pointed out, there's the numerator, so investing in future growth, really important and we've deployed capital now to investments or acquisitions as we've talked about and we continue to also grow the business organically. That too requires capital at times.

The other piece obviously is managing the denominator and managing the dilution of the outstanding units and that's very important to us and having the capital to do that is important to us. And then, obviously, we do distribute 75% of our after-tax earnings and that's the other capital use that we have at play, and that needs to be managed into the equation as well. So that's the balancing mix. Now, I think we've done a pretty good job here over the past year. We've bought back 3.9 million units for about $87 million. We have about $50 million left on our current authorization. And as I said before, it's important that we manage the outstanding units. And it's important that we have the capital there. So, as we use that existing authorization, we'll look to reset it. And once we do that, we'll come back to and report that to all of you.

William Katz
Analyst, Citigroup Global Markets, Inc.

Q

Okay. Thank you.

Operator: Thank you. Our next question will come from the line of Robert Lee with KBW. Your line is open.

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

Q

Great. Thank you for taking my questions. I just maybe would like to focus a tiny bit – a little bit on your high net worth initiatives, I mean, something you've obviously talked about a bunch in the past and maybe specifically with that, you have that venture with Oppenheimer who is obviously going through a transaction of their own. So could you maybe just – where, how you feel about kind of some of your initiatives in that market and then, if you think there will be any change or setback with your Oppenheimer venture?

Glenn A. Youngkin
Co-Chief Executive Officer, The Carlyle Group LP

A

Great. Thanks, Rob. It's Glenn. I'm going to get started and Kew [indiscernible] (00:51:59) this a little bit. So just first, broadly in high net worth investors, as we've talked about over many quarters, it continues to be a reasonably deep well for us. We have active strategies to raise capital into all of our funds through these channels. I have to say one of the big challenges today is that where our funds raise themselves quickly and oftentimes they're capped. And so, as Kew described, we hit the cap on the U.S. Buyout fund at $18.5 billion. We hit the cap on the Asia Buyout fund at $6.55 billion. We hit the cap on the U.S. real estate fund at $5.5 billion. And so, part of what we are doing is consistently tapping into that group of investors, but also recognizing that there's just a little bit of scarce inventory for us every time when we go to raise.

I think second of all, we are opening up new channels where we are trying to particularly customize product so that we can offer things to this group specifically. And, of course, that's Oppenheimer joint venture as a good example of that. We actually have a couple other initiatives in order to do that as well. And then, finally across this growing group of high net worth investors, it represents 16% to 20% of our most recent and historical fundraising, but that's a reasonably big number and it captures a lot of high net worth families that are very, very, very high net worth families. And some of these new initiatives actually give us the ability to tap into, I would say wealthy people, but not the ultra-wealthy people. Kew, [indiscernible] (00:53:51) comment on the Oppenheimer JV?

Kewsong Lee
Co-Chief Executive Officer & Chairman of the Executive Group, The Carlyle Group LP

A

Yeah. Glenn, I think you covered it quite well. I would just add with respect to specifically, Robert, your question on the Oppenheimer joint venture, I mean, look, it's early days. This is a retail investment vehicle which we've done in partnership with Oppenheimer. All things are going quite well right now. The OFI, as we refer to it, has already been approved on a bunch of different additional platforms that target and market to high net worth and retail. And we're in active dialogue with a whole bunch of other firms in order to expand the distribution. So, I think it's too early to comment on financials, although, I think it's fair to say based on the business progress to-date, we feel pretty darn good about it and we're very pleased with our partnership with Oppenheimer and see no reason why the plan that we set forth with them isn't something we can't execute on.

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

Q

Great. And maybe just a quick follow-up, I mean, you're clearly pretty bullish on your fundraising outlook. I mean, it's been very good and continues to be so, but just given human nature being what it is, some global markets down 20%, people getting incrementally worried about credit at the margin and things. I mean, are you seeing any change in tone or pace of fundraising or anything that LPs may be – any change in the types of questions they're asking you now versus say, even six months ago on what's on their minds?

Glenn A. Youngkin
Co-Chief Executive Officer, The Carlyle Group LP

A

Rob, it's Glenn again. The short answer is, we're really glad that we've gotten 83% of our goal behind us, because I think your question is one, we scratch our heads on every day, which is, can it continue to be as good as it's been? Now, let me just tell you what we're seeing in the marketplace. We're not seeing a slowing of interest. We're not seeing any changing of people's allocations. And in fact, we continue to see the increase in allocations to private capital across the board and that had everything to do with not just the recent experience in private capital, but when you look back at private capital through the great financial crisis and over the last 5 years and 10 years and 20 years, we just see universally across our investor set a recognition that larger pieces of their portfolio need to be allocated to private capital.

So the short answer is, no, we're not seeing any changing in the pace or interest in what we do. The big answer is, of course, with volatility in the markets and [indiscernible] (00:56:51) mean over time, we're of course conscientious of that and we're very happy we've made the progress we've made to the degree we've made it at the pace we've made it.

One last comment. In the market today as we went through the funds earlier, we have a great collection of credit funds, of Real Assets funds and some select Corporate Private Equity funds. And it is interesting right now, the interest level in particularly real asset funds, infrastructure, energy and credit funds, opportunistic credit, particularly, really does reflect the fact that investors are thinking about what's happening in the markets and off they go. And then, finally, long dated private equity is just a very new asset class for folks and we're really pleased what we're seeing there.

Kewsong Lee
Co-Chief Executive Officer & Chairman of the Executive Group, The Carlyle Group LP
A

And the only thing I'd add is – and clearly your question there's an undertone of concern around the volatility in the short-term of what we're seeing in the market impact on fundraising. Please keep in mind, we're in a long-term business. There are tons of opportunities over the long-term, but our LPs have gotten to appreciate that there is real value in having a steady pair of hands, a firm that has been through good cycles and bad, a firm that is around the world with deep investment teams, deep sector experience. We have managed through all different types of cycles with terrific results. And that reputation and the ability to deliver and that steady pair of hands and the ability to always think about broadly doing the right thing, making the best investments, the best decisions that we can on behalf of our LPs, that is something that truly I believe that differentiates us.

And as uncertain times are upon us right now in the short-term, this is just something which I think more [indiscernible] (00:58:21) to the benefit of quality institutions and leaders like Carlyle. And so, while it's always fun to focus on the screen and note what's happening that's in red or green and the volatility, we are in a long-term business. Our relationships are very long-term and we have been tested through time, in good and bad. So in many respects, I think this is, I wouldn't quite say business as usual but more likely that our historical franchises what will allow us to keep going and keep delivering the great results we've done in the past.

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

Great. Thanks for taking my questions.

Operator: Thank you. And our next question will come from the line of Brian Bedell with Deutsche Bank. Your line is now open.

Melinda Roy
Analyst, Deutsche Bank Securities, Inc.
Q

Hi. This is Melinda Roy in for Brian Bedell, maybe just a quick one. Do you think you could ramp up your pace of capital deployment in 4Q just given [ph] our (00:59:52) more volatile markets we've seen so far?

Kewsong Lee
Co-Chief Executive Officer & Chairman of the Executive Group, The Carlyle Group LP

A

Hi, Melinda. It's Kew. I will say the following. When there's volatility, it's sometimes the pace could be affected because with uncertainty it's just harder to transact. And I would just say as a rule and this is just my experience, buyers tend to mark-to-market a little bit faster than sellers. And so, we're always forward-looking and whereas sellers tend to be thinking about how good things used to be or what the 12-month high was, et cetera. So, there may be a period of time where we're trying to find and level set clearing prices. So with respect to current conditions, it could affect the ability to transact.

Now, having said that, we're pretty well positioned, because we've already closed on AkzoNobel, now known as Nouryon and we've announced a very large deal in Sedgwick, and that's all to come. So, we feel pretty good about what we have in pipeline that has already been signed up that we expect to close fourth quarter, first quarter, second quarter of next year. So having given you my commentary on kind of behavior and volatility and what that means to the industry in general, but as it relates to Carlyle, we feel pretty good about all the activity that has gone into the ground thus far and kind of what that means for actual closing of deals and pace Q4, Q1, Q2, into next year.

Melinda Roy
Analyst, Deutsche Bank Securities, Inc.

Q

All right. Thank you.

Operator: Thank you. Our next question will come from the line of Alex Blostein with Goldman Sachs. Your line is now open.

Q

Hi. Good morning. This is [indiscernible] (01:01:41) filling in for Alex. Thanks for taking our questions. Just a quick one on the expenses. Can you provide for us a little bit more color on kind of the run rate performance comp ratio? Just kind of digging into what happened this quarter, looks like the pickup was partially mix-related [indiscernible] (01:01:57) towards solutions, but even within solutions, the performance comp rate looked a little bit elevated, so if you can just provide some incremental color there on to kind of how we should think about the run rate going forward, that'd be great. Thanks.

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

A

Thanks to your question. This quarter when you look at on aggregate basis, you're absolutely right. It looks odd. It looks odd because the mix of Investment Solutions in terms [ph] of the total (01:02:21) really distorts the results. One of the things you've got to be careful of, Investment Solutions, we really didn't buy a lot of the embedded carry. Our position there was very small, so it's going to take a time before that really comes through. Now, what happens in the current quarter is 5% appreciation. So from a revenue standpoint, great revenue, but the portion of that that comes to us versus the employees versus that's going to taxes versus that's going to [indiscernible] (01:02:51) owners is small. And so, that's what distorting the overall piece.

If you look in the corporate private equity, there's really no change in ratios there. If you look in Global Credit and Real Assets, it's always a little harder to call it, because in Real Assets, for example, we'll get revenues from NGP and from Riverstone with no associated expenses to speak of. And then on Global Credit, we have some different mixtures as well. And so, those can have some volatility. The lion's share to-date has been in Corporate Private Equity and that ratio is fixed. So hopefully that gives you the color. It's Investment Solutions that's distorting the numbers for this quarter.

Q

Got it. That's helpful. Thank you very much.

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

Glenn Schorr
Analyst, Evercore ISI

Q

Hi. Two quick follow-ups, please. I just wanted to get a little more color on your comments about the re-pricing two existing CLOs [indiscernible] (01:03:58) in the release, I think it said CLO resets. Just how that works and how [ph] expensive (01:04:02) was that?

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

A

Well, without getting into particulars, how expensive it was, the resets is a phenomena that is or a market trend that's been happening a lot this year. Suffice it to say, I think we and the market are running out of structures to reset. Resets are actually a good thing in the sense that it extends out the assets under management, locks in fees. And usually in the CLO business, there's a [ph] slough off (01:04:35) or a run off of assets that you're constantly trying to replace with new originations. Obviously, having done all the resets that we've done is a good thing in the sense that our asset base can only grow from here.

Glenn Schorr
Analyst, Evercore ISI

Q

And [indiscernible] (01:04:55) your call? I'm just curious on process.

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

A

I'm sorry. Can you say that again, Glenn?

Glenn Schorr
Analyst, Evercore ISI

Q

Sorry about that. How the process works? Is it all Carlyle's decision on the re-pricing?

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

A

In terms of – well, you need folks to agree. So, you work with these structures to reset them. And if everyone agrees, you get them reset and you lock it down and off to the races you go.

Glenn Schorr
Analyst, Evercore ISI

Q

Okay. Thank you. One other follow-up for the previous question is, I heard your comments about current environment and maybe the lag of buyer and seller expectations. I totally get it. Is it obvious what's the difference between first quarter of 2016 when we saw energy falling and you and others were able to put money to work pretty quickly? Is the difference is – there was a group of companies that really, really needed money back then, and now [indiscernible] (01:05:59) markets fell but the economy is still strong?

Glenn A. Youngkin
Co-Chief Executive Officer, The Carlyle Group LP

A

Yeah, Glenn, it's Glenn. Just to put into context to that question, remember oil prices cracked in 2014 and 2015, and the capital actually didn't go to work until really until 2016 when buyers and sellers began to have an overlap of price expectation. So that's just always the way this works, which is when good, really high multiples and steady stock price appreciation is only three months or six months in the rearview mirror, no seller is going to conclude that it's changed permanently. And so, this just takes time.

To Kew's earlier comments, what we're going to do in the fourth quarter from an investment standpoint, it's locked up. We've been working on it since Q1 and Q2 and Q3. And in fact, things we're working on now in Q4, which will I'm sure extend into Q1 and Q2 [indiscernible] (01:06:56) get done, will show up next year sometime. And so this process of buyers and sellers resetting expectations is one that we'll, one, have to reflect whether this is really a long-term trend or not. And you've heard Curt say earlier we're really good looking in longer term, but three-week resets or movements are hard for us to adjust to.

So we're just paying a lot of attention to what's happening and the ups and the downs and we're being, of course, careful as we construct our portfolios, as we've talked about. And finally, when there's a chance for us to jump in and buy a great company and have a chance to make it into an even better company to provide the kinds of returns we do, we're going to take advantage of that. The net of all of that is, I just wouldn't – I wouldn't read a whole lot into three or four weeks of market volatility into immediate changes in investment pace or anything for us or anybody in our industry.

Glenn Schorr
Analyst, Evercore ISI

Q

I appreciate it. Thanks, Glenn.

Operator: Thank you. There are no further questions in queue. So now, it is my pleasure to turn the conference back over to Mr. Daniel Harris, Head of Investor Relations, for closing comments or remarks.

Daniel F. Harris
Managing Director & Head-Public Investor Relations, The Carlyle Group LP

Thank you for your time today. If you do have any follow-up questions, feel free to call me or Investor Relations. Otherwise, we look forward to speaking with you again next quarter.

Operator: Ladies and gentlemen, thank you for your participation on today's conference. This does conclude our program and you may all now disconnect. Everybody have a wonderful day.