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The Carlyle Group Inc. (CG)

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MANAGEMENT DISCUSSION SECTION

Operator: Hello, everyone, and welcome to The Carlyle Group Fourth Quarter 2024 Earnings. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded.

Now, it is my pleasure to turn the call over to the Head of Investor Relations, Daniel Harris. Please proceed.

Daniel Harris

Head-Public Investor Relations, The Carlyle Group Inc.

Thank you, Carmen. Good morning and welcome to Carlyle's fourth quarter and full-year 2024 earnings call. With me on the call this morning is our Chief Executive Officer, Harvey Schwartz; and our Chief Financial Officer and Head of Corporate Strategy, John Redett.

Earlier this morning, we issued a press release and a detailed earnings presentation, which is available on our Investor Relations website. This call is being webcast and a replay will be available. We will refer to certain non-GAAP financial measures during today's call. These measures should not be considered in isolation from or as a substitute for measures prepared in accordance with generally accepted accounting principles. We've provided reconciliation of these measures to GAAP in our earnings release to the extent reasonably available.

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

In order to ensure participation by all those on the line today, please limit yourself to one question and return to the queue for any additional follow-ups.

With that, let me turn the call over to our Chief Executive Officer, Harvey Schwartz.

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

Thanks, Dan. Good morning, everyone, and thank you for joining us. We had a very strong 2024 and I'm pleased to say, delivered on each of our financial targets. Our record performance demonstrates our ability to mobilize across the firm and deliver long-term value.

We generated over \$1.1 billion of fee-related earnings and we have 30% increase over 2023. We expanded our FRE margin to 46%, a 900-basis-point year-over-year increase. Inflows exceeded \$40 billion. That brings us to more than \$100 billion in inflows over the last two years. And we returned more than \$1 billion in capital to shareholders.

As I approach my two-year anniversary at Carlyle this week, I'd like to reflect on some of our key achievements. When I joined Carlyle, it was clear the firm had a proven investment track record, a leading global brand, an iconic name and financial history. However, there were certainly some work to do.

Let me share some of the progress we made across our firm. We bolstered our leadership team through a combination of promotions from within and hiring of external industry leaders. This group has quickly come together to mobilize our efforts around improving operations across the firm and delivering performance excellence. We overhauled our compensation strategy, which improved alignment across all of our stakeholders. You, our shareholders, get more of what you value most, fees, and our investment team's compensation is even more driven by performance.

We implemented a new capital allocation strategy with a \$1.4 billion share repurchase authorization, reflecting our strong belief that this share price is significantly undervalued. And most importantly, we have boast strong momentum in areas we strategically identified for growth over the last two years, like Global Credit and Insurance, Global Investment Solutions, Global Wealth and Capital Markets. Together, these businesses delivered two-year revenue growth of approximately 40%. Let me underscore that again. Together, these businesses delivered two-year revenue growth of 40%.

Now, let me focus on our 2024 highlights. First, Global Credit has remained our fastest-growing area over the past five years, with revenues increasing 22% in 2024. This business has finished the year at \$190 billion of assets under management and closed our third Opportunistic Credit fund, which was 30% larger than the prior vintage. We also completed the landmark Discover transaction, one of the largest asset-backed finance transactions of the year. At \$25 trillion globally, asset-backed finance is a massive addressable market and we see significant opportunity to continue scaling this business.

Moving on to Capital Markets, this business was clearly subscale when I arrived two years ago. We made a number of changes to drive value in this business. We appointed a new global head of Capital Markets and revised our incentive program. As a result, we had a record year in transaction fees. It's worth noting, this record result was achieved in a market environment well-below peak activity levels. New areas like asset-backed finance, infrastructure and renewable energy are now all meaningful capital markets fee contributors. These areas accounted for nearly 40% of our Capital Markets revenue in 2024, up from single digits two years ago. 2025, we expect continued growth in this area.

Another priority is in broadening the scope of our Global Investment Solutions business. This year, solutions produced a 44% increase in fee revenue compared to the prior year. This platform has broadened its product set. New areas like CAPM, AlInvest, Global Wealth Evergreen Fund and our portfolio finance strategy are adding to the platform scale. As an example of this growth, we closed a \$1 billion collateralized fund obligation in the fourth quarter.

There are two things to note here. One is that the design of this structure improved access to key AlInvest funds for insurance clients. Two, this is the largest instrument of its kind ever raised. And of course, the core of this business continues to accelerate. We're finalizing fund raising for our eighth vintage Secondaries Fund, which is already substantially larger than its predecessor.

2024 was also a notable year for our Global Wealth business. We saw record inflows of \$4.5 billion and we expect to build on that success in 2025. Our evergreen wealth product saw a 65% step-up in AUM in 2024 to over \$9 billion. There is strong demand across the globe for Carlyle solutions. We've added new distribution partners and we expect our new private equity product to launch in the latter half of 2025.

Now moving on to Global Private Equity, I want to highlight the performance of our two latest US buyout funds. Performance in these two funds appreciated 15% and 21%, respectively, in 2024. That is more than \$5 billion of

value creation. It's a fantastic year for these two funds. Activity levels accelerated across our US buyout franchise over the past year. We took StandardAero public in one of the most successful IPOs of the year. We also invested capital into leading businesses like Vantive, \$4 billion carve-out of a leading global kidney care business; and Worldpac, \$2 billion carve-out of a leading automotive equipment provider. We want to congratulate the team for driving value for all of our investor in these funds, our firm, and our shareholders. It's really great to see.

Switching to real estate, our leading US real estate franchise is finalizing its latest opportunistic fund. We expect this fund to close larger than its predecessor. AUM of this business has increased more than 80% over the past four years, and the team has done an extraordinary job navigating the real estate market. Really impressive.

Before I turn it over to John, let me give you some thoughts on the broader macro environment. We have unique insights into the global economy through data from our investment portfolio, and the indicators remain positive around economic growth and employment. This reinforces our perspective that interest rates will stay higher for longer. This should spur new investment activity regardless of the amount of future monetary easing by the Fed and other major central banks.

Now, with respect to new administration, our roots in DC are particularly helpful here. We have a long history of working through various cycles, administration, and legislative priorities. We have mobilized the team as we evaluate changes in policy and regulatory action. The new administration promotes a pro-growth and pro-business agenda, which broadly supports our portfolio and global economic activity.

On tariffs, an area getting a lot of attention, situation remains fluid, but the majority of our portfolio is either domestically focused or more services-oriented versus goods, insulating it well from the impact of tariffs. Nearly 80% of our global private equity portfolio is US-based. And though it is early days, we anticipate very manageable impact across the portfolio, but continue monitor closely obviously. On regulation, we feel that the regulation will be an overall positive for all market participants, and again, pro-growth, pro-business.

In conclusion, we wrap up a solid 2024 and we anticipate a strong year of investment activity realizations and fundraising in 2025. John will provide specific color on our 2025 outlook, but all the work we've done in helping position Carlyle for continued long-term growth. With all of it, we're confident that we can further build on our progress in the years ahead.

With that, let me now turn the call over to John.

John C. Redett

Chief Financial Officer & Head-Corporate Strategy, The Carlyle Group Inc.

Thanks, Harvey. Good morning, everyone. Let's start with our results. We generated \$1.5 billion in DE for the year, or \$3.66 in DE per share. Fee-related earnings of \$287 million in the fourth quarter and \$1.1 billion for the full year were both records. FRE increased nearly 30% in 2024 and our full-year FRE margin of 46% increased nearly 900 basis points year over year. Clearly, we delivered on all of our 2024 financial targets. Notably, we delivered record FRE while also investing for growth in key areas across our platform. We increased the size of our global wealth distribution team by more than a third this year. And the business itself grew assets under management by 65%.

In our asset-backed finance business, our team grew by nearly 30%. We will continue to scale platforms where we see significant opportunity for growth. We had strong performance revenue in transaction fees, which more than doubled to \$164 million. As Harvey mentioned, our Capital Markets business remains an important growth

driver for Carlyle. Our focus in investment in this area led to record levels of transaction fees in 2024, which we accomplished even as broader market activity levels remained well below that of prior year's.

While transaction fees may vary quarter to quarter, over time, we expect this earnings stream to continue to expand. We saw a nearly 40% increase in Global Investment Solutions management fees and a 9% increase in Global Credit management fees, while Global Private Equity declined 7%. We expect continued growth in Global Credit and Global Investment Solutions in 2025 and a more modest decline in Global Private Equity. We expect growth in private equity to resume as we progress through our next US buyout fundraise.

We also ended the year with \$23 billion in pending fee-earning AUM across our platform, up nearly 50% year over year. The management fee contribution from activating this pending AUM is close to \$200 million annually. Our FRE cash compensation ratio improved to 36% in 2024, down from 45% in the prior year. This improvement was a direct outcome of our strategic compensation realignment that we implemented last year, as well as continued scaling of our platform. We are well on our way to achieving a compensation ratio of 35% or less.

Activity levels increased across the platform with strong inflows of more than \$14 billion in the fourth quarter and nearly \$41 billion for the year. This was our third best fundraising year ever. Deployment increased nearly 50% versus 2023, with global credit, corporate private equity and secondaries showing the most acceleration. With \$84 billion in dry powder, we are well-positioned for increased investment activity.

In terms of exits, corporate private equity realized proceeds nearly doubled from the prior year. We completed four portfolio company sales in the fourth quarter and sold nearly \$2 billion in public securities, including proceeds from the IPOs of StandardAero in the US and Rigaku in Japan. Additionally, there are several exits in process.

And in US buyout, our largest and most profitable fund strategy, we created meaningful value for our LPs in 2024. We also distributed \$5.3 billion in proceeds back to US buyout investors throughout the year and generated nearly \$600 million of net accrued performance revenues in our two most recent US buyout funds.

Moving on, let me turn to our 2025 outlook. We expect 2025 to be a year of growth and increased investment across our core businesses, including Global Wealth, Global Credit and Solutions. We expect FRE to increase 6% compared to 2024.

However, we do see the potential for upside driven both by opportunities and market environment. We expect 2025 FRE margin to be at a similar level to that of 2024. We will update you as we progress throughout the year. We expect inflows in 2025 to be similar to 2024 levels. Credit is once again poised to raise the most capital across our platform, and we have a diversified fundraising pipeline across all segments.

In closing, we enter 2025 with conviction in the direction of our overall platform. We will continue to invest into areas where we see the most opportunity to drive continued long-term shareholder value. And we remain focused on delivering great investment outcomes for our investors.

Now, let me turn the call over to the operator so we can take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you so much. [Operator Instructions] And it is from Alexander Blostein with Goldman Sachs. Please proceed.

Alexander Blostein

Analyst, Goldman Sachs & Co. LLC

Hey. Good morning, everybody. Thank you for taking the morning,

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

Good morning, Alex.

Alexander Blostein

Analyst, Goldman Sachs & Co. LLC

Good morning, Harvey. So, appreciate the guidance. Good color, how you guys are thinking about 2025. I was hoping we could unpack that a little bit. So, I heard your comments in growth in Credit and Solutions offset by a more modest decline in Global Private Equity. What are some of the bigger drivers in Credit that you guys see for 2025 and Solutions that will drive some of that growth? And as you think about the Global Private Equity business, can you help us unpack perhaps the timing of when you expect to come back to market with the next flagship fund?

John C. Redett

Chief Financial Officer & Head-Corporate Strategy, The Carlyle Group Inc.

Yeah, Alex. Hey, it's John. Look, in terms of the 6%, the 6% FRE growth, I would describe this as a base case for us. This is a number we have a high degree of confidence around. But I think importantly, it reflects us aggressively [indiscernible] (00:16:16) in businesses where we see growth. Wealth, Credit, Solutions, and we're much more focused on delivering long-term growth and investing in the business will enable us to deliver long-term growth.

We are far more focused on the growth aspect of our business than delivering kind of short-term FRE. So, you should understand that 6% in the context of us – we are investing aggressively in businesses where we see growth. And what does that mean? If you look at the head count increase we had in wealth last year is pretty significant. It'll actually be north of that in 2025, we think head count will grow more than 50%. We're investing a lot of money in our asset-backed business, which we also did last year and our Solutions business.

We do see some upside to our 6% FRE. And I think there are a lot of drivers of that. But I'll just highlight a couple. Wealth growth accelerates faster than we anticipate. I do think capital market fees could be a positive surprise. And I think insurance flows – there are a lot of conversations going on in insurance, more conversations today than I've seen since I've been the CFO. So, I do expect to see some insurance flows. That is a net positive. And I do think credit growth could surprise us on the positive.

So, I think there are some upsides. In terms of credit specifically, we're continuing to see good, very strong growth in our asset-backed business, as Harvey alluded to in his prepared remarks. This is a massive, massive market.

You see stats all over the place. But let's just say it's \$20-plus-trillion. So, I do think you'll see some growth in asset-backed.

We raised a significantly larger third credit opportunistic fund. It's up materially from the predecessor. And I do think our CLO business will continue to see some headwinds in the front part of 2025. But I do think 2025 could be a positive surprise. That team had an amazing 2024, incredibly active after a couple of years of relatively limited activity. And the other big driver within credit, Alex, is CTAC, which is our retail wealth product in credit. So, feel very good about the trajectory of our credit business.

Operator: Thank you. One moment for our next question. And this is from the line of Steven Chubak with Wolfe Research. Please proceed.

Brendan O'Brien

Analyst, Wolfe Research LLC

Q

Good morning. This is Brendan O'Brien filling in for Steven. I guess, I just want to talk on the buybacks. You guys are obviously really aggressive in repurchasing shares this year. But when you announced the authorization, Harvey, you indicated that you would expect repurchases to accelerate alongside realization activity. And so, given your more optimistic outlook for realizations, it'd be helpful to get an update as to how you're thinking about capital return and whether you would still expect to accelerate the buyback and how you're thinking about the balance versus investing in some of the growth opportunities, challenges discussed and returning capital to shareholders.

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

A

Yeah. So, last year, we did – we announced a \$1.4 billion share repurchase program. In 2024, we repurchased roughly 12 million shares, so call it \$550 million. So, we have \$850 million left on the authorization. We still view a stock buyback as a very attractive form of returning capital to our shareholders. You should assume we will be active in 2025. I think it's also important to note, for the first time in Carlyle's public history, which is roughly 12 years, the last two years, we've actually shrank our share count year-over-year, which I think is a real positive. But we will continue to evaluate capital allocation on the spectrum. And how do I think about capital allocation? I can buy back stock, I can invest in our businesses for growth and we can do M&A.

I like returning capital to shareholders via the buyback. We will continue to do that, but we are also balancing that with aggressively investing in the business to deliver long-term growth. But you should assume we still view our stock price as attractive and we will be repurchasing stock.

Brendan O'Brien

Analyst, Wolfe Research LLC

Q

Great. Thank you for taking my question.

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

A

Thanks.

Operator: Thank you. Our next question is from Patrick Davitt with Autonomous Research. Please proceed.

Patrick Davitt

Analyst, Autonomous Research US LP

Q

Hey. Good morning, everyone. The negative mark in fee-paying assets under management was, kind of, outsized relative to the reported positive 3% mark. So, is that a reflection of a negative Fortitude mark? And if so, is there a potential for you to move off of a mark-to-market fee base there like some others have? Thank you.

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

A

Yeah. So, I'll look at fee-earning AUM and let's talk more about the fourth quarter versus the year. The fourth quarter, look, you had – you clearly had some realizations, which decreased that number, but realizations are good in our business in the sense we're giving capital back to our LPs. Our LPs like to see capital return. So, you did see some realization activity, certainly much more elevated relative to last year.

But the fourth quarter, it had some noise. And when I say noise, I mean really kind of non-economic impact. And what would that be? We had a \$6 billion mark-to-market in credit market activity, which is really the result of the movement in the 10-Year at Fortitude, that really has no economic impact to the firm. So, I would view that as noise.

And we also had \$3 billion of excess movement – or FX movement in the quarter. So, that's roughly \$9 billion of really no financial impact to the firm. That's a lot of noise in the quarter. That would have had you up a bit. Realization activity has brought you down. But I think you should also focus in on we have \$23 billion of pending fee-earning AUM. That's up 50% compared to the prior year. That will turn on throughout the year. And that's roughly \$200 million of annual run rate revenue. But again, a lot of noise in the fourth quarter fee-earning AUM.

Operator: Thank you. One moment for our next question. And it's from the line of Brian Bedell with Deutsche Bank. Please proceed.

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

Q

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

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

A

Good morning, Brian.

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

Q

Good morning. Maybe just to talk about maybe G&A expense a little bit and maybe if you can just comment a little bit on the increase in the fourth quarter. And then thinking about the investment for 2025 and some of the businesses, maybe if you can talk about maybe the two or three biggest areas, I think you sighted retail and the asset-backed business as well. But if you can comment on how you're thinking initially about G&A expenses, during the year. And are you still investing in the capital markets platform or do you see the incremental margins there? The investment is mostly being complete and the incremental margins therefore being much higher in the cap markets.

John C. Redett*Chief Financial Officer & Head-Corporate Strategy, The Carlyle Group Inc.*

A

Yeah. Hey. It's John. And thanks for the question. I'll start with the G&A question. Look, I'd say overall, we're focused on running the firm efficiently, and I think it shows. G&A expense in 2022 was up 2%, G&A expense in 2024 was up 4%. So, I think those are pretty good numbers in terms of running the firm efficiently. We expected fourth quarter G&A expense to be elevated. There's some seasonality in that elevation of G&A expense in the fourth quarter.

If you go back and look at our G&A numbers the last three or four years, the fourth quarter is always a little bit elevated relative to the previous three quarters. But we also had – we had some one-off items in the fourth quarter this year. We had some fundraising expenses in the fourth quarter that were related to some direct lending money we raised and our Japan buyout fundraise, which was super successful. And those are – I would not describe those as recurring.

And we had some unfavorable FX impact, which that kind of moves up and down over time. So, I don't look at the fourth quarter, and I don't draw any kind of operating trend conclusions from the elevated fourth quarter level. I think we've done a good job of kind of controlling G&A expense into the 2% to 4%.

In terms of kind of looking forward, in terms of the FRE guidance we provided, I do see Q1 being more similar to Q4 this year. And then I think throughout the year, you'll see an acceleration in that FRE growth.

The other part of your question then is where are we investing the money? And I alluded to a little bit of it in my prepared remarks. We are clearly investing in wealth, and that's largely head count. That head count will be up 50%, but at least in 2025, we're investing in credit. We see very strong growth in credit. We expect that to directory to continue. You look at our Solutions business, it grew organically 40-plus-percent this year. That's going to require some investment, which is really great to see.

And in Japan, our Japan buyout had tremendous success raising money and we need to invest some more money there. So, I would say – I would describe the way we're thinking about aggressively investing is we're investing in businesses where we see growth. In businesses, quite frankly, where growth is less evident in the near term, we're not making investments.

Operator: Thank you. One moment for our next question. And it comes from the line of Brian McKenna with Citizens JMP, please proceed.

Brian McKenna*Analyst, Citizens JMP Securities LLC*

Q

Yeah. Thanks. Good morning, everyone. So, I had a question on the BDC merger. Can you remind us what the incremental fees are to CG post-merger and when those will turn on? And then that vehicle will have north of \$2 billion of assets. So, how should we think about growth of the combined BDC as well as the broader direct lending platform moving forward?

John C. Redett*Chief Financial Officer & Head-Corporate Strategy, The Carlyle Group Inc.*

A

Yeah. So, we haven't disclosed the impact. It will be a positive impact to management fees and FRE. I wouldn't describe it as a material impact to our credit business, but it's a positive. It's good to see. That BDC merger will close late in Q1, early Q2. Everything's on track in terms of the BDC.

Look, in terms of direct lending, we actually had pretty good growth in 2024. That's an area where I actually didn't touch on in terms of where we're investing, but we are investing in our direct lending business. Performance has been really strong, and we are investing in that business as well. But look, if you...

Brian McKenna

Analyst, Citizens JMP Securities LLC

Got it.

John C. Redett

Chief Financial Officer & Head-Corporate Strategy, The Carlyle Group Inc.

...look at our direct lending business relative to some of our peers, we don't have quite the scale our peers do. So, I really view that as upside. There's no reason why with a brand like Carlyle, our direct lending business is not significantly larger than it is today. And we're making investments in that area of credit to make it a more scaled business.

Brian McKenna

Analyst, Citizens JMP Securities LLC

Got it. Thanks, John.

Operator: Thank you. Our next question comes from the line of Glenn Schorr with Evercore ISI. Please proceed.

Glenn Schorr

Analyst, Evercore ISI

Hi. Two quickies, follow-ups...

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

Hi, Glenn.

Glenn Schorr

Analyst, Evercore ISI

...to your earlier comment. Hello there. In asset-backed line, I'm just curious if you have dedicated strategies being formed yet or is this efforts within your insurance SMEs and credit – overall credit business? And then on investment solutions, I think your performance has been great. I'm just curious how you see the evolution and growth in perpetual products in that area and how that might impact growth and returns in the Solutions business going forward. Thanks.

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

Hey, Glenn. On asset-backed, obviously the asset-backed market, which we highlighted is a large addressable market and it's a market that's in evolution, which is the convergence of the demand for capital from end users and, obviously, a lot of what's happening across the globe in terms of insurance capital coming in. So, it kind of really hits a sweet spot for us in terms of growth. There's a dedicated fund being raised, but of course, we've built this off of our affiliate partnership with Fortitude. So, we've been doing this for a number of years. And so, as John mentioned, we also invested heavily in the team last year and we'll continue to grow.

In terms of the Solutions business, one of our fastest areas of growth, both institutionally and across wealth, and you'll see us during the course of the year continue to expand partnerships and some of those are significant partnerships. But we can't speak to them specifically today, but that's our expectation. So, again, a lot of happening in that space and the performance and the trend and the breadth is pretty impressive.

Operator: One moment for our next question. And it's from the line of Ben Budish with Barclays. Please proceed.

Benjamin Budish

Analyst, Barclays Capital, Inc.

Q

Hi. Good morning. John, I was wondering if you could talk...

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

A

Hi, Ben.

Benjamin Budish

Analyst, Barclays Capital, Inc.

Q

Good morning. John, I was wondering if you could talk a little bit more about your comp ratio expectations for the year. You said on the way to 35% or less. Just curious, what are the other key factors that determine the timing? I imagine some of this is related to realizations, but what's sort of embedded in your expectations for the 6% FRE guide?

John C. Redett

Chief Financial Officer & Head-Corporate Strategy, The Carlyle Group Inc.

A

Yeah. So, there is, obviously a large component of that, Ben, is realizations in net realized performance revenues. And look, we had a really strong 2024 in terms of realizations. And I do think as some of these funds, where we're seeing realizations, hit carry, you're going to see an acceleration for us in terms of net realized performance revenues. So, that will be a positive.

Look, we gave a 30% to 35% range in February of 2023. I knew it would take us a couple years to get to that range. We got to a number last year better than I anticipated, 36%. I think 35% is eminently doable, but we'll get there naturally. I need – I do need net realized performance revenues, and we will rely on that versus thinking about like cutting expenses. We're much more focused on growth. But we'll grow into that number, and we'll benefit from net realized performance revenues.

Benjamin Budish

Analyst, Barclays Capital, Inc.

Q

Got it. Thank you.

John C. Redett

Chief Financial Officer & Head-Corporate Strategy, The Carlyle Group Inc.

A

Yeah.

Operator: Thank you. One moment. Our next question is from Dan Fannon with Jefferies. Please proceed.

Daniel T. Fannon*Analyst, Jefferies LLC*

Thanks. Good morning. So, a couple of questions on...

Q

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

Good morning.

A

Daniel T. Fannon*Analyst, Jefferies LLC*

...Global Credit. Curious as to why the management fees declined sequentially in the fourth quarter, then obviously a very large transaction fee. You talked about investing in that business and scaling, so can you talk about the sustainability and outlook for transaction fees in that segment within Global Credit?

Q

John C. Redett*Chief Financial Officer & Head-Corporate Strategy, The Carlyle Group Inc.*

Yeah. So, yeah, we actually just put the capital market transaction fees in the Credit business. It's really spread – the fees are generated across the platform, so three years ago, that was a largely private equity-related earnings stream. Today, it's far more diversified. It's across credit and it's across infrastructure, and it's across corporate private equity. But we report that segment largely in Credit. So, think of it more as something that we generate across the platform.

A

But in terms of trajectory of Credit, we feel very good. We have – a lot of the businesses, every business in Credit is growing, with the exception of the CLO business. In the CLO business, we had a little bit of market headwinds as a result of 2023 – 2022 and 2023, where you just had no activity, and we made up for that. This year, we had a tremendous level of activity. But management fees in that business were down an immaterial amount, but the rest of Credit is growing and we feel exceptionally good about the trajectory of Credit looking forward.

Operator: One moment for our next question, please. And it comes from the line of Bill Katz with TD Cowen. Please proceed.

Bill Katz*Analyst, TD Cowen*

Okay. Thank you very much. John, sorry, sorry to go back on this, but I'm just trying to unpack your comments about the fee-paying AUM dynamics in the quarter. You mentioned this should have no economic impact, but I'm just trying to understand that since it's a fee-paying AUM discussion. Can you sort of walk me through again why the \$6 billion decline in fee-paying AUM will not have an economic impact looking ahead? Thank you.

Q

John C. Redett*Chief Financial Officer & Head-Corporate Strategy, The Carlyle Group Inc.*

Yeah. So, it will have a very minor economic impact in a sense. The way the agreement with Fortitude works is we get paid on the level of assets. And there's an – this resulted in an immaterial decline in those assets, but the impact to 2025 is literally a couple million dollars. So, it's largely, in my book, it's immaterial.

A

Bill Katz*Analyst, TD Cowen*

Okay. So, it's more of the fee rate associated with those assets at play.

John C. Redett*Chief Financial Officer & Head-Corporate Strategy, The Carlyle Group Inc.*

The fee rate is not impacted by the market activity.

Bill Katz*Analyst, TD Cowen*

Right. Understood. Okay. Thank you.

Operator: Thank you. Our next question is from Ken Worthington with JPMorgan. Please proceed.

Kenneth B. Worthington*Analyst, JPMorgan Securities LLC*

Hi. Good morning. You have \$500 million of net accrued carry in CP VII. The fund is still hovering around 8% IRR. Given the investments in the ground in some of the recent, I'll call it, successful partial realizations, how confident are you that VII can remain above the hurdle rate and collect that accrued carry? And then, along the same lines, CAP V and CETP V IRRs fell a bit during the quarter. Can you talk about sort of marks and exits and how those weighed on this quarter's results for those funds?

John C. Redett*Chief Financial Officer & Head-Corporate Strategy, The Carlyle Group Inc.*

Yeah. Hey, Ken. It's John. Look, I feel very good about the progress we're making in our US private equity business. Harvey referenced the appreciation in our two most recent buyout funds of 15%, 20%. I think it was a great year. The value creation in that business was \$5 billion. So, we're moving in the right direction. Specifically on CP VII, I would say we're very pleased with the performance in CP VII. It's improved dramatically over the last 12 months and looking forward, we feel very good that that trajectory will continue. Carry is just not as simple as just overall performance level within the fund. It's also a function of how much money we've returned to LPs, but we are confident that that fund will hit carry.

Kenneth B. Worthington*Analyst, JPMorgan Securities LLC*

And then CAP and CETP V?

John C. Redett*Chief Financial Officer & Head-Corporate Strategy, The Carlyle Group Inc.*

Yeah. I mean, look CAP is a fantastic business. We had really good appreciation in that franchise. Most of the movement down in terms of performance was largely attributable to our public equities we hold and there's some volatility in public equities period all over the globe, but there's been more pronounced volatility in public equities in China and that really drove a lot of the movement down.

Kenneth B. Worthington*Analyst, JPMorgan Securities LLC*

Okay. Great. Thanks very much.

Operator: Our next question comes from the line of Michael Cyprys with Morgan Stanley. Please proceed.

Michael J. Cyprys

Analyst, Morgan Stanley & Co. LLC

Hey, good morning, thanks for taking the question. Just wanted to ask about Global Private Equity. I was hoping you could talk a little bit about how you expect the pace and magnitude of deployment and realization activity to evolve here in 2025 in the context of at times volatile markets, higher 10-year Treasury yields over the last six months, some uncertainty around tariffs. How you expect these and other factors to play into getting deals done? And how you see that cadence of activity playing out in terms of the first half versus second half of the year? Thank you.

John C. Redett

Chief Financial Officer & Head-Corporate Strategy, The Carlyle Group Inc.

Yeah. I would say we still are positive leaning in terms of activity. I think when you look at M&A volumes, last year, they were up kind of 20%. IPO volumes were up 50%, 60%. You saw us capitalize on the IPO markets opening with the StandardAero, which was a very successful IPO; Rigaku in Japan. So, I think that's a positive. Those markets are opening up.

Look, base rates are up. They're up relative to three years ago, no doubt. But spreads remain tight. Your all-in financing cost, quite frankly, is still very attractive. Debt markets are pretty much wide open. So, I think that's another positive. And I think the other real positive is strategic buyers have become active again. And that is another positive catalyst. So, when you look at what you need to have a conducive market to buy and sell assets, it's largely in place with what we're seeing. So, we're very optimistic that 2025 will be a busy year on the realization front.

Michael J. Cyprys

Analyst, Morgan Stanley & Co. LLC

Great. Thank you.

Operator: Our next question is from the line of Kyle Voigt with KBW. Please proceed.

Kyle Voigt

Analyst, Keefe, Bruyette & Woods, Inc.

Hi. Good morning. Maybe just another follow-up on GPE. You mentioned some continued decline in management fees there, and so you raise your next US buyout fund. Just wondering if you could help us understand when you expect to begin fundraising. When we could expect a potential activation given the pace of deployment you're seeing in CP VIII? I'm assuming it's 2026 but if you could maybe narrow that down at all? Then, how should we think about the size of CP IX relative to CP VIII at \$14.8 billion, particularly given the private equity fundraising backdrop?

John C. Redett

Chief Financial Officer & Head-Corporate Strategy, The Carlyle Group Inc.

Yeah. So, as I said in my remarks, GPE, Global Private Equity, was down roughly 7% in 2024. And I also said we expect the rate of that decline to be meaningfully lower in 2025 than it was in 2024. So, I think that's a positive.

We anticipate launching the most recent US buyout fund towards the back end of 2025, this year. And I can't really comment on the size, but we should be in the market in 2025, late 2025. And you will see a fee activation at some point in 2026, which will be the catalyst to see our corporate private equity business return to a more positive trajectory.

Operator: One moment for our...

Kyle Voigt

Analyst, Keefe, Bruyette & Woods, Inc.

Thank you.

Operator: ...next question. It comes from the line of Michael Brown with Wells Fargo. Please proceed.

Michael C. Brown

Analyst, Wells Fargo Securities LLC

Okay. Great. Good morning.

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

Good morning.

Michael C. Brown

Analyst, Wells Fargo Securities LLC

So, wanted to just unpack the targets a little bit more. So, the fundraising target, John, you shared some upbeat comments on credit and also Fortitude. So, I just want to clarify, does the \$40 billion or I guess roughly kind of flat year-over-year, does that assume any contribution from potential blocks that could come from Fortitude or would that be kind of in the upside bucket that you referred to?

And then just on the management fees for – within your FRE guidance, you talked about the positive tailwinds for transaction fees included in there for [ph] FR/PR (00:41:45). So, just in total, how should we think about that management fee growth potential relative to the 6% FRE growth?

John C. Redett

Chief Financial Officer & Head-Corporate Strategy, The Carlyle Group Inc.

Yeah. So, in terms of the Fortitude part of your question, that is not in our FRE 6% guidance. I would view any type of inflows into Fortitude to be additive to that growth rate we provided. So, again, it's not in our base case.

Look, in terms of management fee growth, again, I would unpack it via looking at the three businesses. We have very strong management fee growth looking forward in Solutions. Like, it's not going to remain at the 45% level in perpetuity. That was obviously a blowout year. But we do expect strong growth going forward.

We had very good growth in Credit. We expect that to continue. Again, the only area where we're really seeing any headwinds is within our corporate private equity business. And, again, that was down 7% in 2024. We think that decline will be significantly less in 2025, and we do see a path to that resume in a positive trajectory based on some fundraising in our most recent – in our US buyout fund, which we'll launch this year.

Operator: Thank you.

Michael C. Brown

Analyst, Wells Fargo Securities LLC

Okay. Thank you for taking my question.

Operator: And our final question comes from the line of Patrick Davitt with Autonomous Research. Please proceed.

Patrick Davitt

Analyst, Autonomous Research US LP

Thanks for the follow-up. Hello? Yeah. Can you hear me?

Harvey Mitchell Schwartz

Chief Executive Officer & Director, The Carlyle Group Inc.

Yes.

John C. Redett

Chief Financial Officer & Head-Corporate Strategy, The Carlyle Group Inc.

Yes.

Patrick Davitt

Analyst, Autonomous Research US LP

Just one more quick follow-up on that, through the lens of your kind of broader realization commentary. I assume the 6% FRE growth is partially informed by a view that there will be a meaningful pick-up in realizations in 2025. Could you give any more color around how you're thinking about that side of the FRE growth equation? Thank you.

John C. Redett

Chief Financial Officer & Head-Corporate Strategy, The Carlyle Group Inc.

Yeah, I would not describe our forecast in our 6% FRE growth as a base case as assuming there's a substantial increase in realization activity. We do think realization activity levels will increase relative to 2024, but I would not describe our assumption in terms of how we thought about the 6% FRE growth to be a substantial pick-up in realizations.

Patrick Davitt

Analyst, Autonomous Research US LP

Thank you.

Operator: Thank you. And with that, I will turn the call back to Dan Harris for final comments.

Daniel Harris

Head-Public Investor Relations, The Carlyle Group Inc.

Yes. Thank you for your time and interesting call today. If you have any follow-up questions, please reach out to Investor Relations and we look forward to speaking with you again next quarter.

Operator: And this concludes today's conference call. Thank you all for participating and you may now disconnect.

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