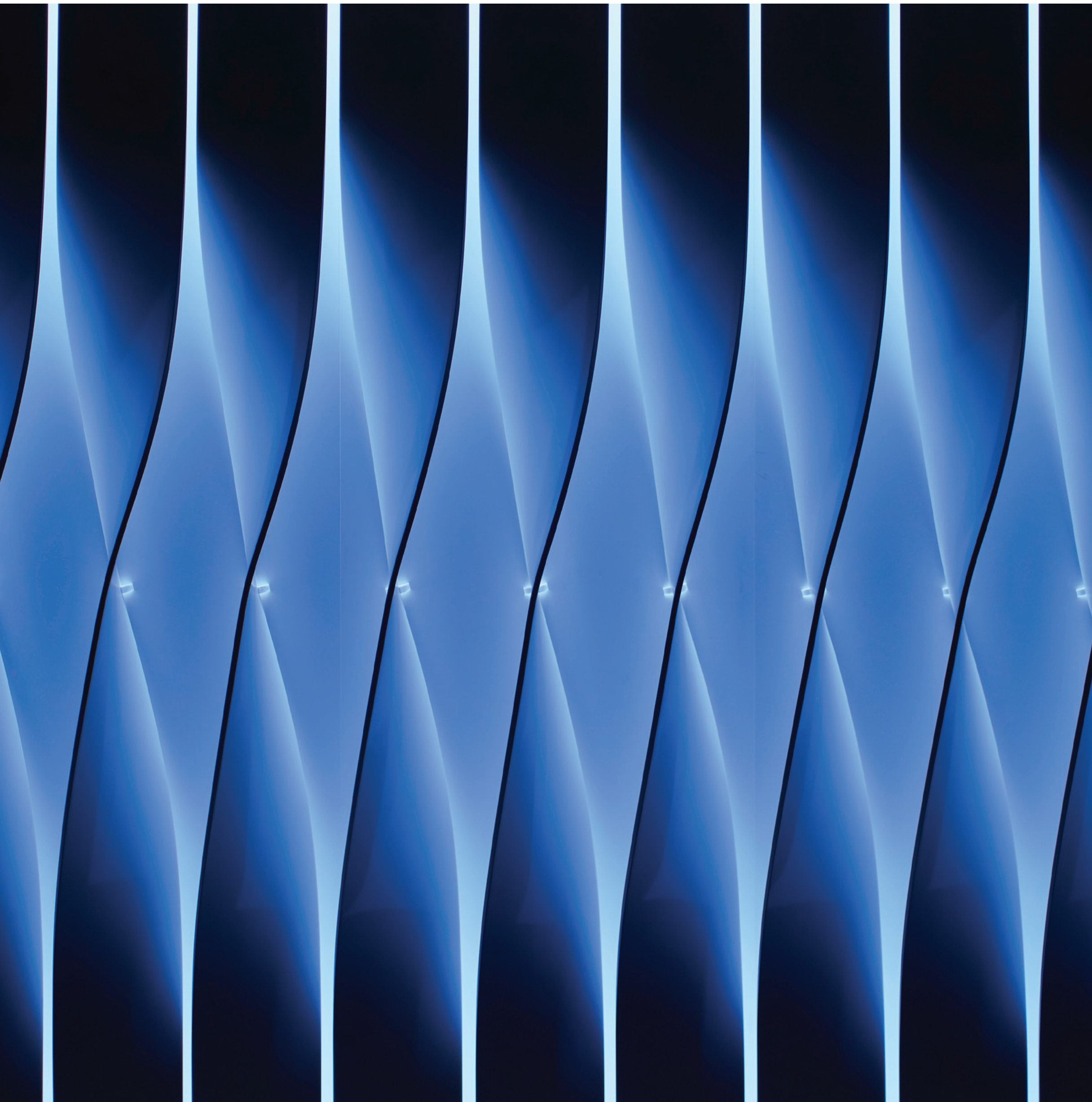
CARLYLE | GLOBAL WEALTH

# Access the Power of Private Equity



LOADING

# Private Equity

**THE TERM "PRIVATE EQUITY"** refers to investments made directly into private companies that are not publicly traded on stock exchanges. These investments allow the investor to take full or partial ownership of the company. Private equity can also be used to take a public company private, where funds are used to "buy out" existing shareholders of publicly listed shares. Typically private equity firms invest across a wide range of industries, geographies, and companies.

Private equity funds raise capital from investors, which is then invested into portfolio companies. In traditional closed-end private equity funds, the private equity fund acts as the **general partner (GP)**, while the investors are considered **limited partners (LPs)**. Both the GP and LPs hold ownership stakes in the portfolio company. However, the general partners (fund managers) play an active role in guiding the company's strategy, operations, and growth, while limited partners take a more passive role, primarily providing capital.

The core objective of private equity investing is to actively shape the operations, strategy, and financial health of the company. Through hands-on management, private equity firms aim to create value by streamlining operations, reducing inefficiencies, and implementing strategic growth initiatives. Over time, once the portfolio company improves, private equity investors look to exit the investment for a profit, often to other financial buyers or strategic acquirers. In some cases, companies may be large enough to consider an initial public offering (IPO) though this is less common in smaller and mid-size companies.

## POTENTIAL PORTFOLIO BENEFITS[1]

**Larger Investment Pool**
Over the last two decades the number of public companies has declined, while the number of private equity owned companies has expanded exponentially. In the US today, there are more than twice the number of private companies than public companies.[2]

**Access to Small and Mid-Size Companies**
That help drive the real economy.

**Diversification**
Private equity returns are typically less correlated with public equity returns.

**Potential for Higher Returns**
Historically, private equity has outperformed investments in public equities with less volatility.[3]

*1. There is no assurance that any portfolio construction objectives can be achieved or that any such portfolio will be profitable. Diversification does not eliminate the risk of loss.*
*2. Source: Pitchbook. Accessed 3/9/2024. For illustrative purposes only. There is no assurance that any trends shown will continue.*
*3. Source: Pitchbook LCD. Accessed 4/9/2024. For illustrative purposes only. There is no assurance that any trends shown will continue.*

## At-A-Glance: Comparing Private Equity vs. Public Equity

| *Private Equity* | | *Public Equity* |
|---|---|---|
| Generally less sensitive to market fluctuation | **MARKET CORRELATION** | Typically, sensitive to market fluctuation |
| GPs and large LP investors typically actively contribute to company value creation plans, including selection of company management | **CONTROL & ACTIVE MANAGEMENT** | Generally passive approach outside of activist investors |
| Less liquid | **LIQUIDITY** | More liquid |
| - Capital appreciation<br>- Ad-hoc, discretionary distributions upon portfolio company exits | **RETURNS** | - Capital appreciation<br>- Dividends where applicable |

## Private Equity Solutions

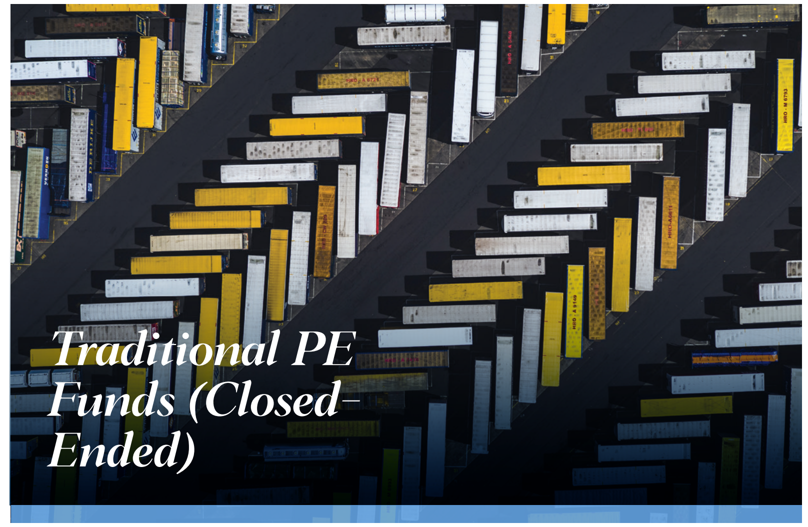
Private equity firms employ a variety of strategic approaches to managing and enhancing their portfolios: Secondaries, Co-Investments and Primaries. Through investments in private companies and strong alliances with reputable global GPs, private equity firms offer fund structures that seek attractive returns at potentially lower volatility than the public markets.

Each of these strategies offer different risk and return profiles with the potential to contribute different sources of return at different times.

| *Investment Strategy* | *Definition* | *Anticipated Return Timing* |
|---|---|---|
| **SECONDARIES** | Involve the buying and selling of pre-existing private equity fund interests or portfolios, often from other investors seeking liquidity | **Short to Medium-Term**<br>- Generally discounted purchase prices and embedded value<br>- Potential for early exits and quicker return of capital |
| **CO-INVESTMENTS** | Provide investors with the opportunity to invest directly in portfolio companies alongside lead private equity sponsors | **Medium to Long-Term**<br>- High return potential as companies scale and grow |
| **PRIMARIES** | Involve investments in newly formed private equity funds | **Medium to Long-Term**<br>- Primary investments in access constrained middle market funds<br>- Potential for immediate returns when investments are made in funded portfolios |

## How to Access Private Equity

There are multiple ways to access private equity, depending on an investor's goals, liquidity needs, and investable assets. Consider these common access points. >>




### OVERVIEW

- The investor makes a dollar commitment to a fund, which is then called over the 3–5-year investment period as the GP makes investments, requiring ongoing investor attention to fund capital calls
- The investor receives distributions over time, requiring re-investment into new opportunities

### LIQUIDITY

- Generally illiquid (~10-12 year time horizon)
- Liquidity generally not available sooner, outside of selling on the secondary market
- As the GP exits investments, proceeds are returned to investors

### AVAILABILITY

- Generally only available to institutional investors, family offices, and UHNW individuals. Minimum commitment size of $1M in many cases
- Requires significant cash management capabilities

### TAX

- K-1 reporting


### OVERVIEW

- The investor subscribes to a fund and receives shares based on the Net Asset Value (NAV) of the fund at the subscription date
- The entire commitment is made up front and there are no further capital calls
- The GP uses the capital to make investments on an ongoing basis and re-invests proceeds into new deals

### LIQUIDITY

- Semi-liquid (periodic)
- Investors can typically redeem their shares and generate liquidity during quarterly or monthly redemption periods, depending on the individual structure of the fund

### AVAILABILITY

- Smaller minimum commitment size (frequently as low as $25,000)
- Does not require cash management capabilities

### TAX

- 1099 or Simple K-1 reporting

## Is Due Diligence More Important in Private Markets?

Yes, due diligence is crucial when investing in private markets. Unlike public markets, where transparency is generally higher, private investments require thorough research into the company's financial health, market conditions, and deal structure to help mitigate risk. Accessing private markets through an experienced investment firm is essential to managing risk.

## Charge Forward with Carlyle

At Carlyle, we provide creative solutions and scale to investors, resulting in differentiated opportunities for investors to capture value across the private equity spectrum. Once we invest in a company, we put our full resources behind it, leveraging the resources of the Carlyle network to accelerate business objectives.

| AlpInvest | Global Private Equity |
| --- | --- |
| $80BN+ *In assets under management* | $169BN *In assets under management* |
| 100+ *Global investment professionals* | 425+ *Global investment professionals* |
| 400+ *Active investment vehicles* | 280+ *Active portfolio companies* |

*For illustrative purposes only. As of 09/30/2024 unless otherwise noted.*

To learn more about private equity and other private market opportunities, visit Carlyle ConnectED. Here, you'll find additional resources and expert insights to help you advance on your investment journey.

**Reach out to your financial representative for more information on private equity investing at Carlyle.**

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**Speculative Investment.** Carlyle cannot provide any assurance that it will be able to choose, make or realize any particular investment, asset, or portfolio on behalf of a Fund. There can be no assurance that investments made by a Fund will be able to generate returns or that the returns will be commensurate with the risks of investing in the type of transactions described herein. The activity of identifying, completing and realizing upon attractive investments is highly competitive and involves a high degree of uncertainty. A Fund must compete for investments with other private market investors having similar investment objectives. The portfolio companies in which a Fund may invest (directly or indirectly) are speculative investments and will be subject to significant business and financial risks.

**Highly Illiquid and Difficult to Value.** A Fund is intended for long-term investment by investors that can accept the risks associated with making highly speculative, primarily illiquid investments in privately negotiated transactions. There is no organized secondary market for investors' interests in a Fund nor is there an organized market for which to sell a Fund's underlying investments, and none is expected to develop. Withdrawal and transfer of interests in a Fund are subject to various restrictions, and similar restrictions will apply in respect of the Fund's underlying investments. Further, the valuation of a Fund's investments will be difficult, may be based on imperfect information and is subject to inherent uncertainties, and the resulting values may differ from values that would have been determined had a ready market existed for such investments, from values placed on such investments by other investors and from prices at which such investments may ultimately be sold.

**Investors in a Fund will bear multiple layers of fees and expenses.** In general, a Fund's investors will bear the fees, expenses and carried interest of the Fund and will indirectly bear any fees, expenses and carried interest (if any) of the Fund's investments. Such amounts are expected to be material. This will result in greater expense to a Fund's investors than if such fees, expenses and carried interest were not charged by both a Fund and its underlying investments.

**Investors Must Fulfill Capital Drawdown Obligations.** Capital calls will be issued by a Fund from time to time. To satisfy such capital calls, investors may need to maintain a substantial portion of their capital commitment to the Fund in assets that can be readily converted to cash. An investor's obligation to satisfy capital calls will be unconditional and at its sole expense. Failure to satisfy a capital call to a Fund can result in adverse consequences in the discretion of the Fund's general partner, including complete forfeiture of the investor's interest in a Fund. If a limited partner of a Fund defaults on or is excused from its obligation to contribute capital to the Fund, other limited partners thereof may be required to make additional contributions to the Fund to replace such shortfall.

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**Complex Tax and Regulatory Risks.** A Fund and a Fund's investments may involve a complicated tax structures and there may be delays in distributing important tax information to investors. In addition, legal, tax and regulatory changes (including changing enforcement priorities, changing interpretations of legal and regulatory precedents or varying applications of laws and regulations to particular facts and circumstances) could occur during the term of a Fund that may adversely affect any of such Fund or its investors.