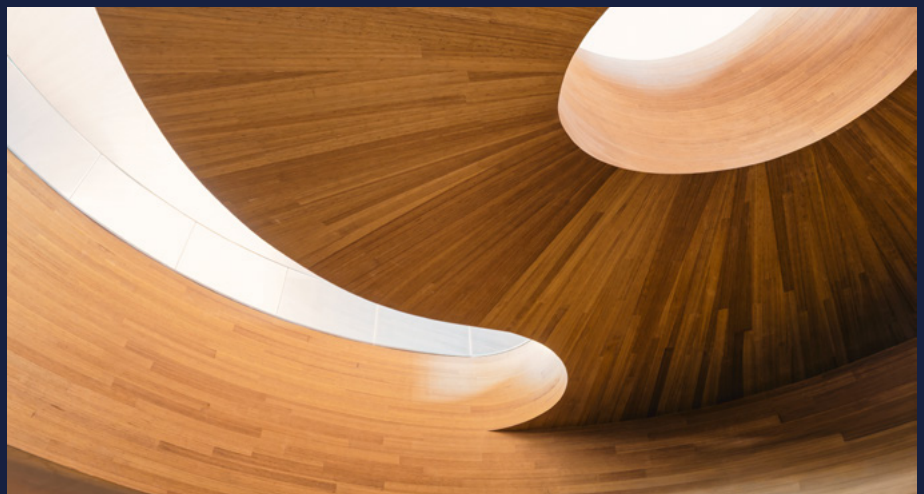


CARLYLE

GLOBAL WEALTH

Access the power of portfolio allocation



Portfolio allocation



We believe private market allocations can be a valuable part of an investor's total portfolio, and that evergreen structures, guided by investor objectives and liquidity needs, can offer streamlined access.

Key takeaways

01 Build the allocation around portfolio goals, not around the product

- Allocations should be determined by what the portfolio is trying to achieve: income, capital preservation, diversification, long-term growth, and/or consistency.
- A useful starting point is the investor's current public market mix, especially the balance between equity-like and fixed income-like exposures.

02 Consider liquidity and time horizon

- Evergreen vehicles are designed to offer more flexibility than traditional private funds but should be considered long-term investments aimed at enhancing portfolios over multi-year time horizons.
- Private market allocations should be determined after establishing a "liquidity budget," helping to ensure the availability of capital for near-term needs, such as major purchases, living expenses, or unexpected cash needs.

03 Consider which implementation strategy may work best for the investor

- Investors can access private markets through broad multi-strategy or multi-manager vehicles, or through more focused single-manager and niche strategies.
- The trade-off is control versus complexity: focused strategies allow portfolio managers to take larger or more selective positions, which may lead to outperformance relative to broader or more diversified approaches, but they can also introduce greater variability and require more active monitoring and rebalancing by the portfolio manager.

Private markets in practice: A framework for allocation

As evergreen private market strategies become more diverse and accessible, investors today have the opportunity to include a wider array of assets than ever before in their portfolio allocations. These strategies offer the potential for increased diversification, exposure to return drivers that were previously difficult to access, and the ability to tap into market segments that were previously limited to institutional investors — potentially complementing and enhancing traditional portfolio exposures. However, in order to incorporate these strategies thoughtfully, they should be evaluated within the context of the broader portfolio and its long-term objectives.

The goal of portfolio allocation is to maximize potential portfolio results in the context of an investor's preferences and circumstances, which are often summarized as risk/return targets, but extend across a broader set of considerations, including income generation, capital preservation, liquidity, time horizon, and consistency. In addition to these financial considerations, investors may also be concerned with operational complexity related to manager selection, fund diversification, tax reporting, and transparency. All of these factors can contribute to allocation decisions and may vary meaningfully across individual investors.

In our view, allocations to evergreen private market strategies can help investors shape their portfolios to better achieve their goals. First, however, it is important to understand both the investment characteristics of these strategies and how they can be implemented in practice.

While evergreen structures make private markets more accessible to individual investors through features like liquidity (on a limited basis), immediate investment, and simplified reporting, the underlying investments are still illiquid assets that require extended time horizons to create and realize value.

WHERE TO BEGIN:

Main considerations

Portfolio objectives

Is the portfolio intended to generate current income and provide for living expenses, or build wealth for future retirement? Is it more important to limit losses during periods of market selloffs or maximize long-term growth?

Evergreen private market strategies can help enhance yield generation, capital appreciation, and/or provide diversification from traditional public market return drivers.

Identifying desired outcomes helps shape the balance across strategies within a private market allocation.

Liquidity & time horizon

Is capital flowing into the portfolio, or flowing out? Are there major purchases on the horizon, or a potential need to dip into savings for unexpected expenses?

Evergreen vehicles are best suited for long-term investments to allow time for value creation and realization. Liquidity features are designed to help in quickly building an allocation and rebalancing portfolios to target, but may not allow for a full exit of a position in short order.

Investment portfolio liquidity needs and time horizon can influence the total size of an allocation to evergreen private market strategies within a portfolio.

Implementation preferences and resources

Is it preferable to utilize a turnkey solution to minimize portfolio complexity, or will individual strategies be selected to create more tailored exposures? What is the comfort level with niche vs. core strategies, and the balance between potential returns from market exposure vs. manager skill?

Evergreen vehicles offer a variety of implementations, from diversified multi-manager, multi-strategy portfolios to strategy-focused single-manager-oriented funds.

More-focused strategies offer more control over geographic, industry, and manager exposure, but may have greater variability in returns and can require more active management.

Sizing a portfolio allocation

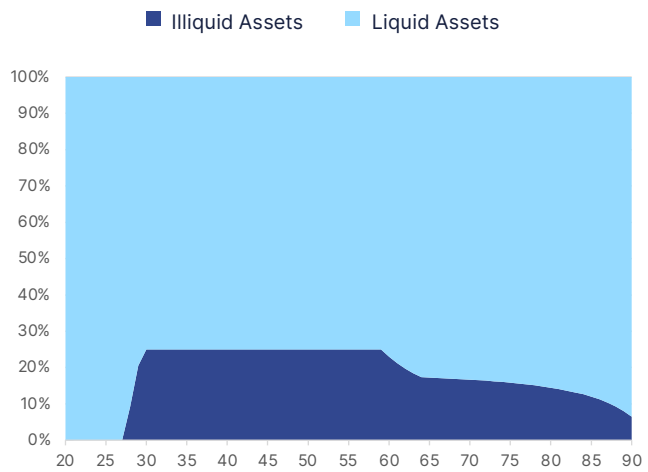
Evergreen strategies are designed to provide investors with greater liquidity than traditional private market fund structures, which typically lock up invested capital for five to ten years or more. However, evergreen strategies are generally less liquid than public stocks and bonds and should be treated as long-term investments. Redemptions often need to be planned for in advance, and notice periods of 60 to 90 days are not uncommon. These liquidity features can help support portfolio rebalancing and maintain consistent allocations as assets rise or fall. However, the need to plan a few months in advance can make it difficult for an investor to execute short-term tactical shifts during market dislocations, when liquidity may be even more limited, and may reduce flexibility if capital needs to be withdrawn from the portfolio unexpectedly.

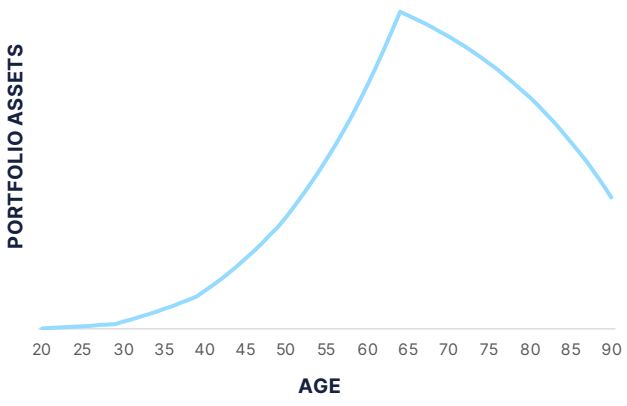
Accordingly, allocations to evergreen private market strategies should be sized with potential near-term liquidity needs in mind. Capital earmarked for significant planned purchases, such as homes or college expenses, might be better left in public market investments or, if the purchase is several years in the future, partially allocated to private market strategies with the exposure gradually reduced as the purchase approaches.

Liquidity needs will vary meaningfully from one portfolio to the next, will change over time, and may not only move in one direction. Figure 1 illustrates how a hypothetical investor's tolerance for illiquidity might start quite low as they initially build a modest portfolio and plan for the future, increase to a higher level as they accumulate assets in excess of known and estimated unexpected expenses, then gradually decrease as they enter retirement and draw down on the portfolio to pay living expenses. For portfolios with significant assets relative to potential expenses, liquidity might not be the binding constraint on the asset allocation and optimization may rely more on risk, return, and concentration limits considerations to set asset levels for evergreen strategies.

FIG.01

Illustrative liquidity profile





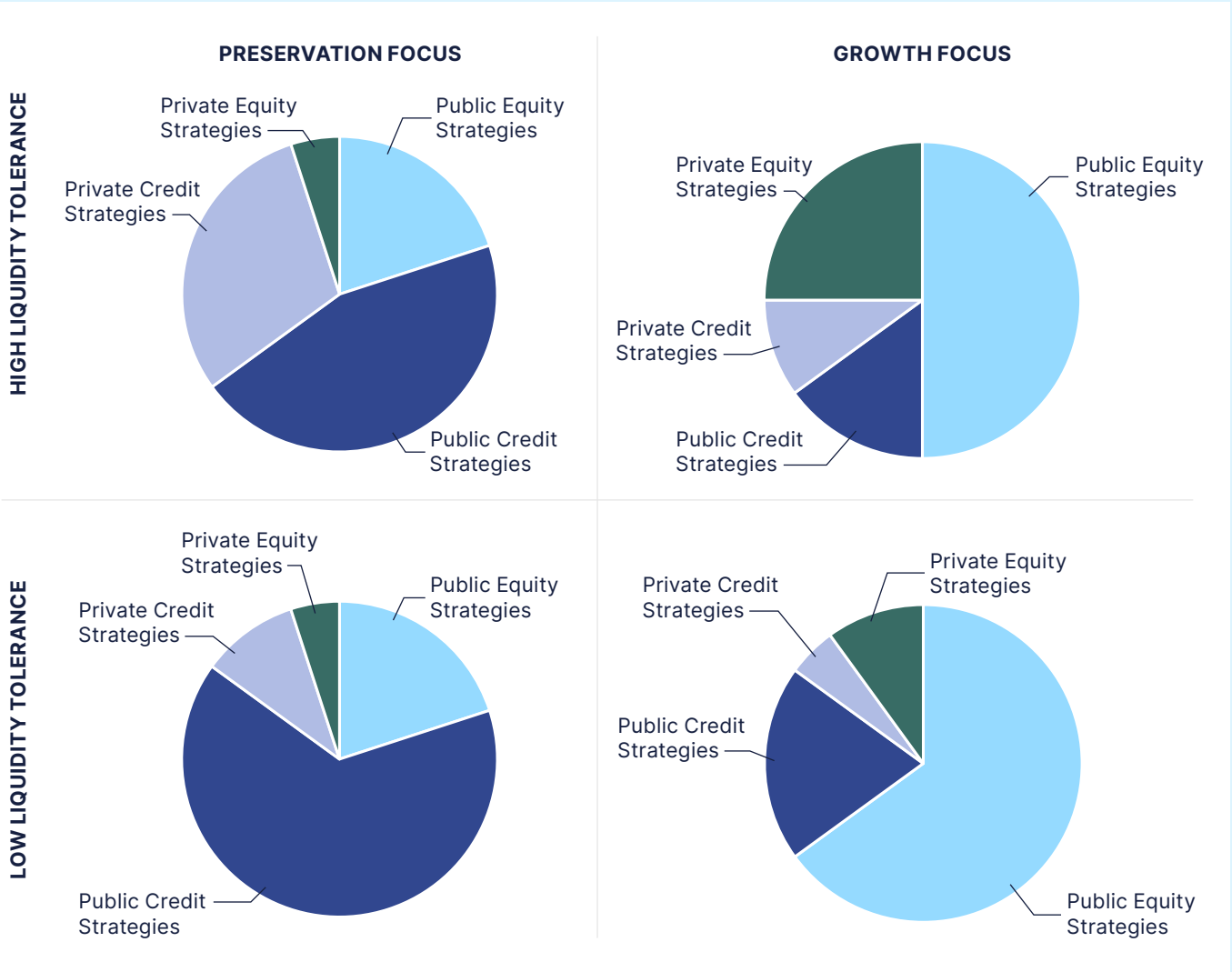
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Allocating across strategies

Once a liquidity budget has been established to ensure the availability of capital to meet near-term cash needs and desired short-term portfolio flexibility, strategy allocations can be developed to align with the overall goals of the portfolio. In deciding the ratios between private equity and private credit, a practical starting point is often to consider how the current public markets portfolio is allocated between equity and fixed income. While private markets can offer potential benefits in the form of diversification and access to additional sources of return, many of the risk and return drivers can be tied to broader market forces such as equity market exposure, corporate credit risk, and economic growth.

A full analysis should not just seek to optimize a private markets allocation, but to re-optimize the total portfolio with the inclusion of private market strategies. These allocations may also need to evolve over time, shifting from a more growth-oriented, equity-heavy portfolio toward one more focused on capital preservation.

Importantly, strategy allocations aren't typically "either-or" decisions. Just as most liquid portfolios incorporate both fixed income and equity allocations, combining public market strategies with private market ones can help create more efficient portfolios that achieve greater levels of return per unit of risk than portfolios only using one or the other.



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Building a portfolio

	Preservation focus	Growth focus
PROFILE	Limited risk of significant capital loss Likely focus on income generation	Long-term capital appreciation Higher tolerance for interim capital losses
FOCUS STRATEGIES	Senior Private Credit Core Real Assets Private Equity	Private Equity Opportunistic Private Credit & Hybrid Capital
STRATEGY CHARACTERISTICS	Historically lower risk of capital loss More stable value over time Income-oriented returns	Equity exposure provides meaningful long-term growth opportunity Opportunistic credit incorporating equity components and growth potential

The portfolio characteristics presented are summary in nature, provided for illustrative purposes only, and do not intend to capture all possible portfolio characteristics, strategies, or objectives. They do not constitute investment advice and should not be relied upon as an indication of actual or future performance. This information does not take into account the specific needs, investment objectives, or time horizon of any individual investor. Diversification does not protect against loss.

The portfolios illustrated above can be constructed with varying levels of emphasis on value creation through manager selection and investor preference. More diversified portfolios, including funds that invest with multiple managers focused on different strategies or combine investments in varied industries and geographies, will tend to track market benchmarks more closely with incremental value generated through selecting quality managers. More concentrated portfolios focusing on one or a few sector-specific single-manager funds can offer the potential for greater outperformance, but with a greater risk of underperformance as well. These focused portfolios can allow investors to express specific thematic views on the market but typically require increased monitoring and active rebalancing to help ensure the portfolio aligns with the opportunity set. As a result, this approach may be more appropriate as a smaller portfolio allocation or as a satellite strategy built around a core of diversified exposures.

Diversification may come from either allocating to multiple narrowly-focused funds or by investing in one or a few diversified multi-strategy funds. Allocating to multiple concentrated funds can provide greater control over portfolio exposures, allowing investors to select specific industries and/or geographies to focus on, but it can also add portfolio complexity. Diversified funds are designed to simplify implementation by providing broad exposure within a single vehicle, while shifting more of the portfolio construction and market view decisions to the manager.

Investors should also consider the impact of the marginal investment on the total portfolio, both in terms of position size and risk level. Credit investments across public and private markets tend to be less volatile than equities, and private credit portfolios of senior loans tend to be more diversified than single-strategy private equity funds, so investors focused on diversification may see a greater impact by adding an incremental private equity fund rather than another private credit fund. To build a well-diversified portfolio, additional funds should focus on areas of the market that are not already well represented by existing exposures within the private market allocation.

Connect with Carlyle

With deep private markets expertise and a commitment to innovation, Carlyle is positioned to deliver evergreen solutions designed for today's investors. Let's discover new opportunities—together.

Reach out to our financial representatives for more information on private markets investing at Carlyle.

To learn more about portfolio allocation and other private market opportunities, visit Carlyle ConnectED.

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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 Competitive Market. The activity of identifying, completing and realizing upon attractive investments is highly competitive and involves a high degree of uncertainty. A Fund will be competing for investments with other private equity investors having similar investment objectives. It is possible that competition for appropriate investment opportunities may increase, thus reducing the number of investment opportunities available to a Fund and adversely affecting the terms upon which investments can be made.

Highly Illiquid and Difficult to Value. An investment in 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 traditional Fund nor is there an organized market for which to sell a traditional Fund's underlying investments, and none is expected to develop. Withdrawal and transfer of interests in a traditional Fund are subject to various restrictions, and similar restrictions will apply in respect of such Fund's underlying investments. Further,

the valuation of any 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 may 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 could indirectly bear any fees, expenses and carried interest (if any) of the Fund's investments. This is especially common in fund-of-fund structures. Such amounts could be material and could 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.

Credit Risk. One of the fundamental risks associated with a credit Fund's investments is credit risk, which is the risk that an issuer will be unable to make principal and interest payments on its outstanding debt obligations when due. A Fund may invest in loans, either through primary issuances or in secondary transactions, including potentially on a synthetic basis. The value of a Fund's loans may be detrimentally affected to the extent a borrower defaults on its obligations. There can be no assurance that the value assigned by a Fund's general partner to collateralize an underlying loan can be realized upon liquidation, nor can there be any assurance that any such collateral will retain its value. A portfolio may include unsecured loans. Unsecured loans are subject to the same investment risks generally applicable to loans described above but are subject to additional risk that the assets and cash flow of the related obligor may be insufficient to repay the scheduled payments to the lender after giving effect to any secured obligations of the obligor. A Fund's distressed investments (e.g., investments in defaulted, out-of-favor or distressed bank loans and debt and equity securities) are inherently speculative and are subject to a high degree of risk. A Fund's investments are expected to include investments in issuers whose capital structures have significant leverage (including substantial leverage senior to the Fund's investments), a considerable portion of which may be at floating interest rates. The leveraged capital structure of such issuers will increase their exposure to adverse economic factors such as rising interest rates, downturns in the economy or further deteriorations in the financial condition of the issuer or its industry.

Portfolio Companies Risks. The portfolio companies in which a Fund invests, either directly or indirectly through an Underlying Fund, may involve a high degree of business and financial risk. Portfolio companies may be in early stages of development, may have operating losses or significant variations in operating results and may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence. Portfolio companies may also include companies that are experiencing or are expected to experience financial difficulties, which may never be overcome. In addition, they may have weak financial conditions and may require substantial additional capital to support their operations, to finance expansion or to maintain their competitive positions.

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.

No assurance can be given that a Fund's investment program will be successful. Accordingly, a Fund should be considered a speculative investment that entails substantial risks, and a prospective investor should invest in a Fund only if they can sustain a complete loss of their investment.