THE CARLYLE GROUP

GLOBAL ALTERNATIVE ASSET MANAGEMENT

Understanding Carlyle's Carry Funds

April 2012

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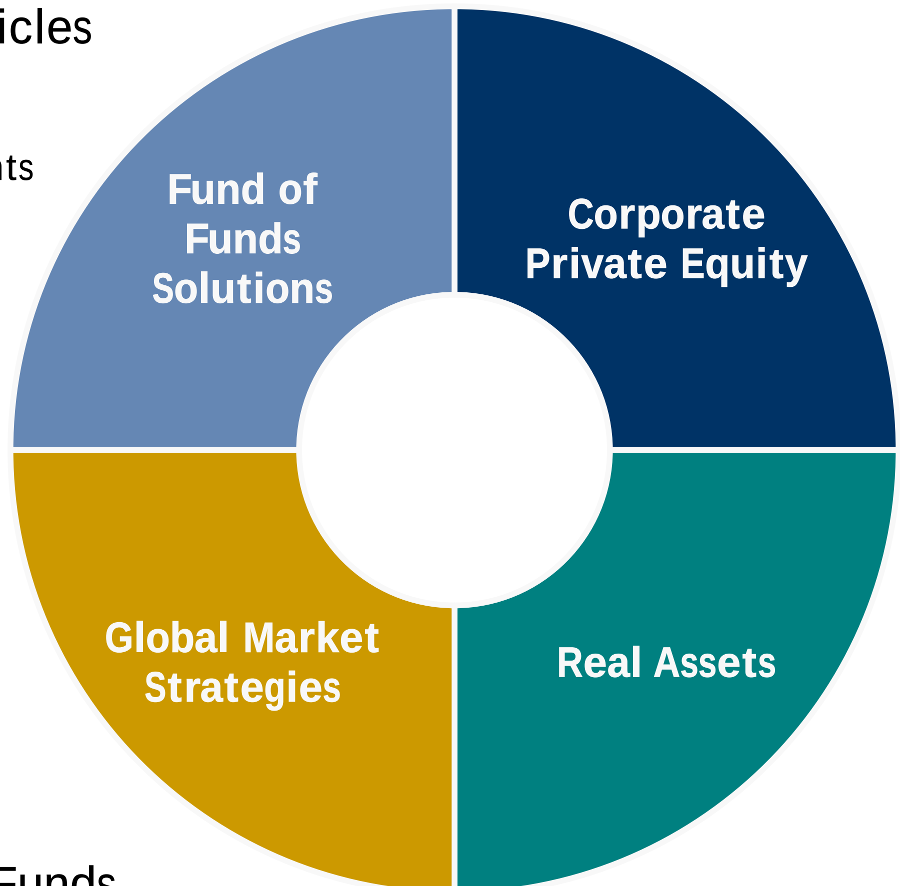
Carlyle's Four Segments

- Fund of Funds Vehicles
  - Fund Investments
  - Co-investments
  - Secondary Investments

- Carry Funds
  - Buyout
  - Growth Capital



- Carry Funds
  - Distressed
  - Mezzanine
  - Energy Mezzanine
- Hedge Funds
- Structured Credit Funds

- Carry Funds
  - Real Estate
  - Infrastructure
  - Energy & Renewable Resources

As of December 31, 2011.

What is a Carry Fund?

Our carry funds are closed-end investment funds that we advise where we have the opportunity to receive a portion of the profits earned by the funds (a "performance fee" or "carried interest") in the event that specified returns are achieved.

- The carry funds generally acquire debt or equity stakes in businesses, properties or distressed investments that are often privately held, illiquid, and have no readily available market value
- Such investments are generally made during the first 4-6 years of the fund's life (the "Investment Period")
- The investments in business or properties are typically held for 3-7 years, on average, resulting in the fund existing for 10-12 years
- Carlyle will typically seek to raise a successor fund, with the same investment mandate, towards the end of the Investment Period so that Carlyle can continue to make investments

What is a Carry Fund?

Investment Structure

- Our carry funds are generally structured as partnerships, with Carlyle being the General Partner ("GP") and other third-party investors being the Limited Partners ("LPs")
- LPs have certain limited voting rights with respect to the fund, but the GP is responsible for the day-to-day operation of the fund
- The GP is responsible for making the investment decisions of the fund
- LPs subscribe to the fund for a certain commitment amount, which is "called," or drawn, over time as the fund makes investments, subject to provisions of the partnership agreement. Once the funds are drawn down, the GP uses the funds to complete the investment
- LPs are <u>generally not permitted to redeem their interests at any time</u>
- LPs receive their capital and share of investment returns as the investments made by the fund are exited (or "realized") or as proceeds are otherwise received

What is a Carry Fund?

Revenue Streams

- Performance Fees
  - Typically 20% of the gains if certain hurdles are met
- Management Fees
  - Fixed for the duration of the Investment Period
- Transaction and Portfolio Advisory Fees
- Investment Returns from capital invested by Carlyle

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Carry Fund Lifecycle

There are generally three "phases" in a carry fund's lifecycle.

Carry Fund Lifecycle

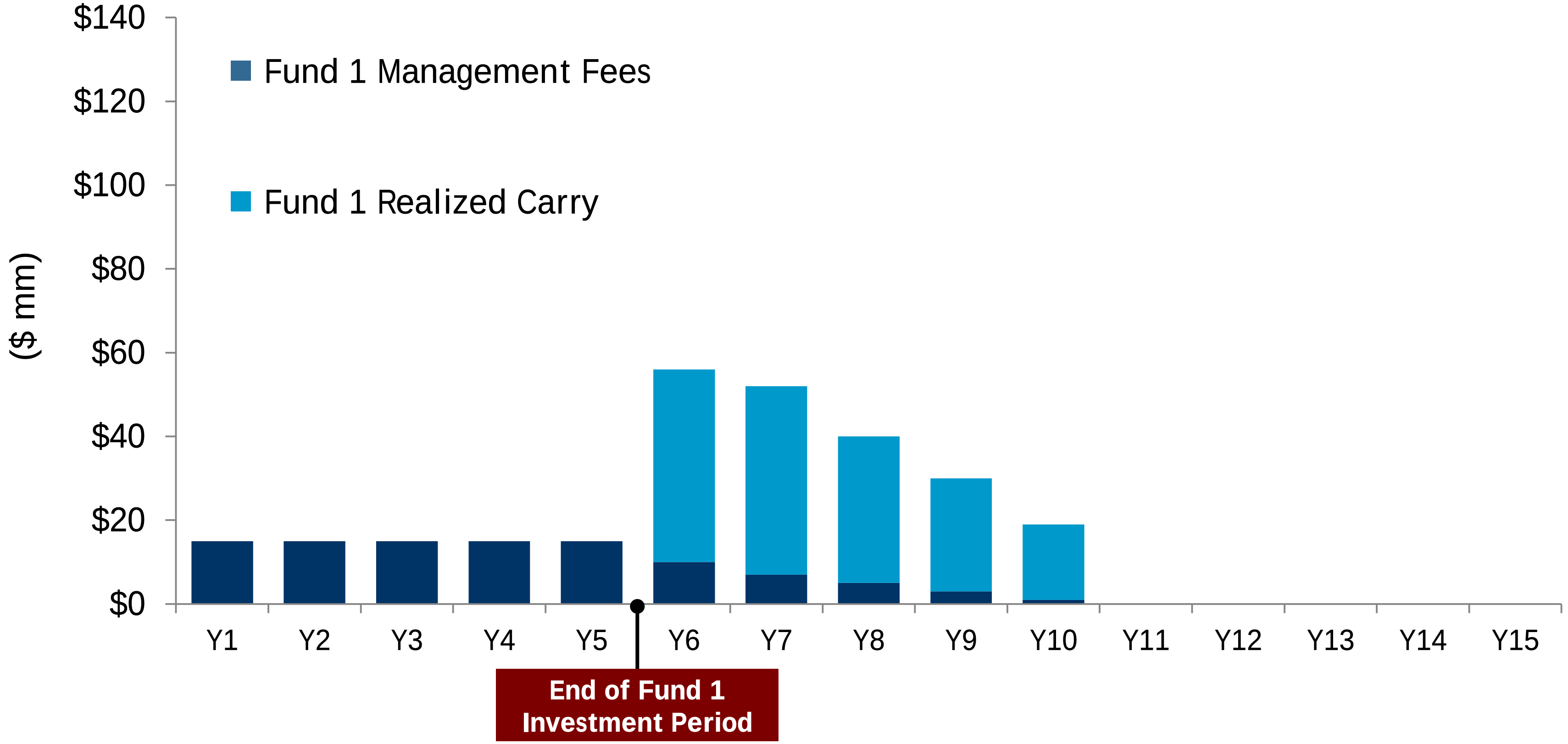
- Fundraising
  - Economic & legal terms of the fund are established
  - The fund has a series of closings, potentially including "dry" closings in the case of a successor fund
- Investment Period
  - Investment teams work to invest the fund's capital and create value in portfolio investments. Unrealized Performance Fees may accrue as portfolio investments appreciate
- Harvesting Period
  - Investment teams work to position investments for exit, create distributions for Limited Partners and generate Realized Performance Fees, subject to the fund's "waterfall" calculation

Carry Fund Lifecycle

- Begin Successor Fund Lifecycle
  - Once a fund is nearing the end of its Investment Period, fundraising will typically begin for the successor fund
  - Distributions from the predecessor fund can help to “feed” new commitments to the successor fund
  - Management Fees from the successor fund help to offset the “step-down” in fees from the predecessor fund
  - Result: Management Fees typically remain steady across the “fund family”

Hypothetical Fund Family Revenue Lifecycle
Management Fees and Realized Performance Fees

Assumptions:	Fund Size	Management Fee	MOIC
Fund 1	$1.0 bil	1.50%/1.00%[1]	2.0x



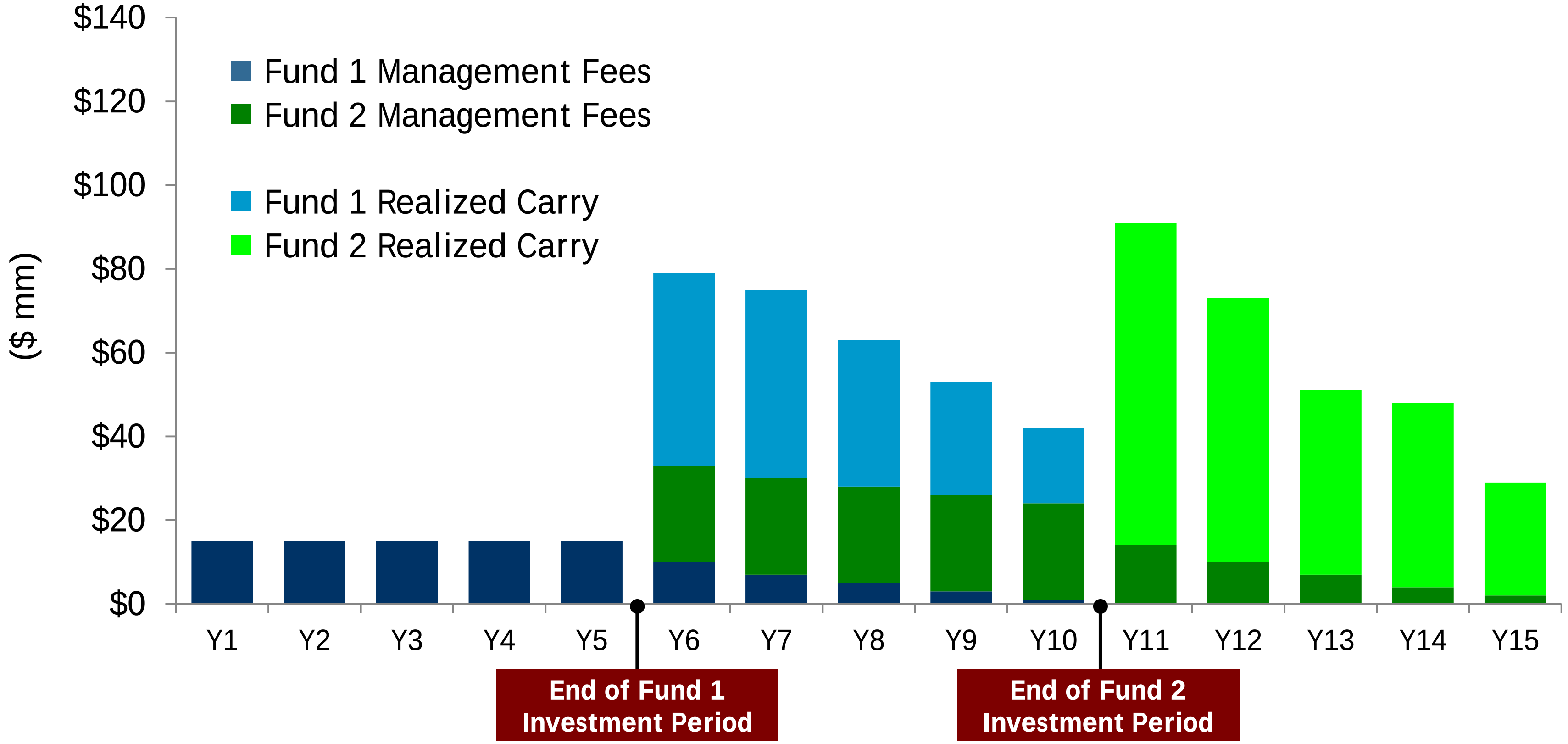
1. 1.50% (Investing Period), 1.0% (Harvesting Period)

Note: The hypothetical assumptions of fund size, management fee and MOIC are presented solely for illustrative purposes and do not constitute a forecast and do not represent the experiences of any fund or investor.

Hypothetical Fund Family Revenue Lifecycle

Management Fees and Realized Performance Fees

Assumptions:	Fund Size	Management Fee	MOIC
Fund 1	$1.0 bil	1.50%/1.00%[1]	2.0x
Fund 2	$1.5 bil	1.50%/1.00%[1]	2.0x



1. 1.50% (Investing Period), 1.0% (Harvesting Period)

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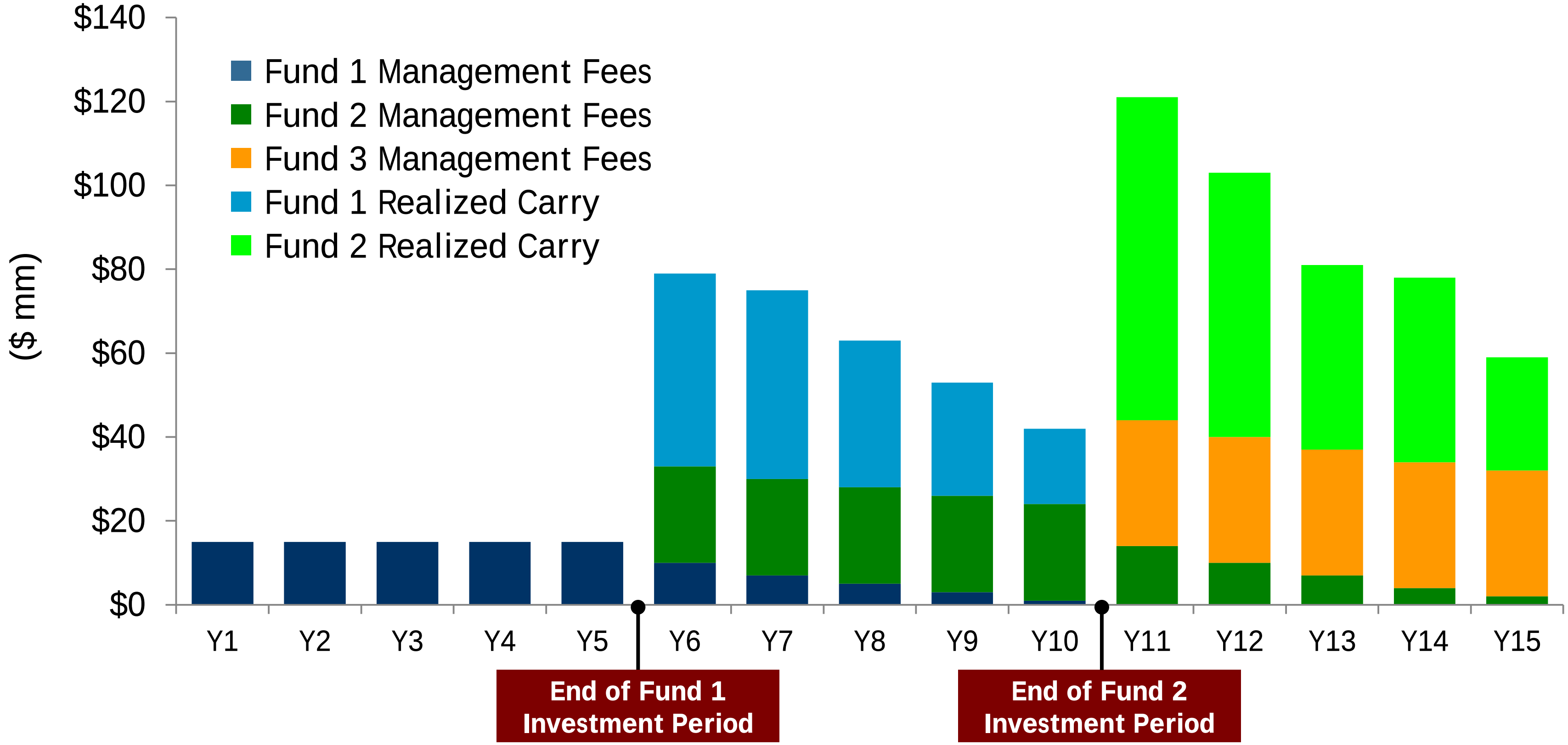
Hypothetical Fund Family Revenue Lifecycle

Management Fees and Realized Performance Fees

Assumptions:	Fund Size	Management Fee	MOIC
Fund 1	$1.0 bil	1.50%/1.00%[1]	2.0x
Fund 2	$1.5 bil	1.50%/1.00%[1]	2.0x
Fund 3	$2.0 bil	1.50%/1.00%[1]	2.0x



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Performance Fees: The "Waterfall" Calculation

Assumptions: $100 mil investment
2.0x gross return
$10 mil of fees and expenses incurred
8% Preferred Return
Average investment holding period of ~ 4.5 years

$200,000,000 proceeds

		LP		GP
Step 1	Return Cost	$100,000,000		
Step 2	Return Fees	$10,000,000		
Step 3	Preferred Return to LPs	$40,000,000		
	Subtotal: Net Gains Distributed	**$40,000,000**		
Step 4	"Catchup" GP to 20%			$10,000,000
	Subtotal: Net Gains Distributed	**$40,000,000 (80%)**		**$10,000,000 (20%)**
Step 5	Residual Gain to Distribute 80/20	$32,000,000	$40,000,000	$8,000,000
Total Distribution		**$182,000,000**		**$18,000,000**
Return of Cost & Fees		$110,000,000		—
Net Gains Distributed		$72,000,000		$18,000,000

Note: The assumptions above are presented solely for illustrative purposes and do not constitute a forecast and do not represent the experiences of any fund or investor.