
THE CARLYLE GROUP

GLOBAL ALTERNATIVE ASSET MANAGEMENT

Update to the Definition of Fee Related Earnings

January 2018

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The information contained in this presentation should be considered in connection with the information contained in our periodic filings with the SEC, which are accessible on the SEC's website at www.sec.gov and through the investor relations section of the Partnership's website at ir.carlyle.com.

This presentation includes certain Non-GAAP financial measures, including Economic Income (EI), Fee Related Earnings (FRE), and Distributable Earnings (DE). These Non-GAAP financial measures should be considered only as supplemental to, and not as superior to, financial measures prepared in accordance with GAAP. Please refer to our public filings for more details on the definition of these Non-GAAP terms.

Please note that Economic Income is the Non-GAAP financial measure that was formerly defined as "Economic Net Income." There was no change to the computation of this measure.

Overview

- ❑ We have updated our definition of Fee Related Earnings (“FRE”) to exclude the effects of net interest (defined as the difference between interest income and interest expense in our segment results) in order to more closely conform to industry practice.
- ❑ FRE is a non-GAAP financial measure and is a component of Economic Income (“EI”) used to assess the ability of the business to cover direct base compensation and operating expenses from total fee revenues. FRE differs from income (loss) before provision for income taxes computed in accordance with U.S. GAAP in that it adjusts for the items included in the calculation of EI and also adjusts EI to exclude net performance fees, investment income from investments in Carlyle funds, equity-based compensation, net interest, and certain general, administrative and other expenses when the timing of any future payment is uncertain.
- ❑ The updated definition of FRE has no impact on our financial results calculated in accordance with U.S. GAAP or other non-GAAP measures including EI and Distributable Earnings. The following pages update the previously reported total segment data to reflect the change to FRE (in accordance with the updated definition described herein). All other non-GAAP financial information is presented as previously reported.
- ❑ Also included in this presentation is a reconciliation of the non-GAAP financial measures to the most comparable U.S. GAAP financial measure, which has also been updated solely to reflect the change to FRE.

Total Segment Information (Unaudited)

The following tables set forth information in the format used by management when making resource deployment decisions and in assessing the performance of our segments. The information below is the aggregate results of our four segments.

Total Segment Revenues	Three Months Ended				Year Ended	Three Months Ended			Year-to-Date
	Mar 31, 2016	Jun 30, 2016	Sep 30, 2016	Dec 31, 2016	Dec 31, 2016	Mar 31, 2017	Jun 30, 2017	Sep 30, 2017	Sep 30, 2017
	(Dollars in millions)								
Fund level fee revenue									
Fund management fees	\$ 279.9	\$ 279.7	\$ 260.4	\$ 265.8	\$ 1,085.8	\$ 255.6	\$ 257.2	\$ 278.4	\$ 791.2
Portfolio advisory fees, net	3.2	5.8	3.8	3.8	16.6	4.0	4.9	4.1	13.0
Transaction fees, net	20.3	2.6	1.4	6.9	31.2	7.7	1.2	6.1	15.0
Total fee revenues	303.4	288.1	265.6	276.5	1,133.6	267.3	263.3	288.6	819.2
Performance fees									
Realized	132.0	406.3	380.9	296.6	1,215.8	83.0	352.7	411.0	846.7
Unrealized	16.0	(196.0)	(125.9)	(158.2)	(464.1)	631.7	206.6	(125.6)	712.7
Total performance fees	148.0	210.3	255.0	138.4	751.7	714.7	559.3	285.4	1,559.4
Investment income (loss)									
Realized	7.5	9.3	11.1	17.0	44.9	(5.4)	10.6	(53.4)	(48.2)
Unrealized	(13.9)	19.6	2.2	(2.5)	5.4	16.0	20.6	18.1	54.7
Total investment income (loss)	(6.4)	28.9	13.3	14.5	50.3	10.6	31.2	(35.3)	6.5
Interest income	3.0	2.5	2.5	2.2	10.2	3.4	2.4	5.4	11.2
Other income	3.1	2.7	3.1	3.9	12.8	5.2	2.8	3.4	11.4
Total Segment Revenues	\$ 451.1	\$ 532.5	\$ 539.5	\$ 435.5	1,958.6	\$ 1,001.2	\$ 859.0	\$ 547.5	2,407.7
	(Dollars in millions)								
Total Segment Expenses	\$ 362.6	\$ 374.2	\$ 486.0	\$ 429.9	1,652.7	\$ 601.1	\$ 558.9	\$ 344.8	1,504.8
Compensation and benefits									
Direct base compensation	\$ 121.8	\$ 108.5	\$ 107.1	\$ 99.7	\$ 437.1	\$ 108.3	\$ 103.4	\$ 132.5	\$ 344.2
Indirect base compensation	39.8	38.4	36.9	49.1	164.2	39.0	49.6	44.8	133.4
Equity-based compensation	31.4	30.9	32.9	24.4	119.6	30.1	36.7	30.4	97.2
Performance fee related									
Realized	61.9	173.0	194.6	161.0	590.5	47.7	170.6	194.1	412.4
Unrealized	10.8	(78.1)	(81.9)	(83.3)	(232.5)	272.9	89.3	(55.7)	306.5
Total compensation and benefits	265.7	272.7	289.6	250.9	1,078.9	498.0	449.6	346.1	1,293.7
General, administrative, and other indirect expenses	74.4	78.7	173.6	156.8	483.5	80.6	85.4	(26.5)	139.5
Depreciation and amortization expense	7.3	7.3	7.2	7.2	29.0	7.5	7.5	8.2	23.2
Interest expense	15.2	15.5	15.6	15.0	61.3	15.0	16.4	17.0	48.4
Total Segment Expenses	\$ 362.6	\$ 374.2	\$ 486.0	\$ 429.9	1,652.7	\$ 601.1	\$ 558.9	\$ 344.8	1,504.8
	(Dollars in millions)								
Total Segments	\$ 451.1	\$ 532.5	\$ 539.5	\$ 435.5	\$ 1,958.6	\$ 1,001.2	\$ 859.0	\$ 547.5	\$ 2,407.7
Total Segment Revenues	362.6	374.2	486.0	429.9	1,652.7	601.1	529.9	344.8	1,504.8
Economic Income	\$ 88.5	\$ 158.3	\$ 53.5	\$ 5.6	\$ 305.9	\$ 400.1	\$ 300.1	\$ 202.7	\$ 902.9
(-) Net Performance Fees	75.3	115.4	142.3	60.7	393.7	394.1	299.4	147.0	840.5
(-) Investment Income	(6.4)	28.9	13.3	14.5	50.3	10.6	31.2	(35.3)	6.5
(+) Equity-based compensation	31.4	30.9	32.9	24.4	119.6	30.1	36.7	30.4	97.2
(+) Net Interest	12.2	13.0	13.1	12.8	51.1	11.6	14.0	11.6	37.2
(+) Reserve for Litigation and Contingencies	-	-	100.0	(100.0)	-	-	-	(25.0)	(25.0)
(-) Fee Related Earnings	\$ 63.2	\$ 57.9	\$ 43.9	\$ (132.4)	\$ 32.6	\$ 37.1	\$ 20.2	\$ 108.0	\$ 165.3
(+) Realized Net Performance Fees	70.1	233.3	186.3	135.6	625.3	35.3	182.1	216.9	434.3
(+) Realized Investment Income	7.5	9.3	11.1	17.0	44.9	(5.4)	10.6	(53.4)	(48.2)
(+) Net Interest	(12.2)	(13.0)	(13.1)	(12.8)	(51.1)	(11.6)	(14.0)	(11.6)	(37.2)
(=) Distributable Earnings	\$ 128.6	\$ 287.5	\$ 228.2	\$ 7.4	\$ 651.7	\$ 55.4	\$ 198.9	\$ 259.9	\$ 514.2

Reconciliation of GAAP to Non-GAAP Financial Information (Unaudited)

The following table is a reconciliation of Income Before Provision for Income Taxes to Economic Income, Fee Related Earnings, and Distributable Earnings.

	Three Months Ended				Year Ended	Three Months Ended			Year-to- Date
	Mar 31, 2016	Jun 30, 2016	Sep 30, 2016	Dec 31, 2016	Dec 31, 2016	Mar 31, 2017	Jun 30, 2017	Sep 30, 2017	Sep 30, 2017
	(Dollars in millions)								
Income before provision for income taxes	\$ 15.3	\$ 67.8	\$ (49.7)	\$ 11.9	\$ 45.3	\$ 327.7	\$ 243.7	\$ 165.9	\$ 737.3
Adjustments:									
Equity-based compensation issued in conjunction with the initial public offering, acquisitions and strategic investments	45.4	79.3	50.6	48.1	223.4	67.0	58.5	58.3	183.8
Acquisition related charges, including amortization of intangibles and impairment	17.7	21.6	27.7	27.2	94.2	8.8	9.2	7.2	25.2
Other non-operating (income) expense	3.8	0.7	(3.7)	(12.0)	(11.2)	-	0.1	-	0.1
Tax (expense) benefit associated with performance fees	(3.3)	(10.8)	(2.0)	1.0	(15.1)	(2.9)	(2.4)	(1.7)	(7.0)
Net (income) loss attributable to non-controlling interests in consolidated entities	2.3	(1.6)	29.1	(70.8)	(41.0)	(3.3)	(16.5)	(27.6)	(47.4)
Severance and other adjustments	7.3	1.3	1.5	0.2	10.3	2.8	7.5	0.6	10.9
Economic Income	<u>\$ 88.5</u>	<u>\$ 158.3</u>	<u>\$ 53.5</u>	<u>\$ 5.6</u>	<u>\$ 305.9</u>	<u>\$ 400.1</u>	<u>\$ 300.1</u>	<u>\$ 202.7</u>	<u>\$ 902.9</u>
Net performance fees	75.3	115.4	142.3	60.7	393.7	394.1	299.4	147.0	840.5
Investment (loss) income	(6.4)	28.9	13.3	14.5	50.3	10.6	31.2	(35.3)	6.5
Equity-based compensation	31.4	30.9	32.9	24.4	119.6	30.1	36.7	30.4	97.2
Net interest	12.2	13.0	13.1	12.8	51.1	11.6	14.0	11.6	37.2
Reserve for litigation and contingencies	-	-	100.0	(100.0)	-	-	-	(25.0)	(25.0)
Fee Related Earnings	<u>\$ 63.2</u>	<u>\$ 57.9</u>	<u>\$ 43.9</u>	<u>\$ (132.4)</u>	<u>\$ 32.6</u>	<u>\$ 37.1</u>	<u>\$ 20.2</u>	<u>\$ 108.0</u>	<u>\$ 165.3</u>
Realized performance fees, net of related compensation	70.1	233.3	186.3	135.6	625.3	35.3	182.1	216.9	434.3
Realized investment income (loss)	7.5	9.3	11.1	17.0	44.9	(5.4)	10.6	(53.4)	(48.2)
Net interest	(12.2)	(13.0)	(13.1)	(12.8)	(51.1)	(11.6)	(14.0)	(11.6)	(37.2)
Distributable Earnings	<u>\$ 128.6</u>	<u>\$ 287.5</u>	<u>\$ 228.2</u>	<u>\$ 7.4</u>	<u>\$ 651.7</u>	<u>\$ 55.4</u>	<u>\$ 198.9</u>	<u>\$ 259.9</u>	<u>\$ 514.2</u>