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The Carlyle Group LP (CG)

Bank of America Merrill Lynch Future of Financials Conference

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MANAGEMENT DISCUSSION SECTION

Michael Carrier

Analyst, Bank of America Merrill Lynch

It's my pleasure to introduce our next company, The Carlyle Group, which is a leading alternative asset manager. With us today from Carlyle is, Glenn Youngkin, President and Chief Operating Officer and soon to be Co-CEO starting in January. Glenn has pretty much done everything at the firm, including being the interim principal financial officer, global head of the Industrial Sector investment team, head of the UK buyout team, member of the U.S. team, among many other roles. Glenn was instrumental in taking Carlyle public, and has been working with the team to grow the business across all their segments.

Glenn, thanks for being here today. I'll turn it over to you and then we'll do some Q&A.

Glenn A. Youngkin

President and Chief Operating Officer, The Carlyle Group LP

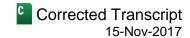
Perfect. So, thank you, Michael, and thanks everybody for being here. I've got 12, 14 slides that I'd love to go through, just to kind of set the table a little bit, and then, I'm sure Michael will cross-examine me with all of the tough questions.

So first, before I get started, when we started 2017, we were rather transparent with everybody that we expected 2017 to be a transition year at Carlyle; and the reason why we described it as a transition year was not to foreshadow our leadership transition, but in fact, we had three big objectives that we knew we needed to accomplish in 2017, and we're going to set the stage for 2018 and beyond.

First and foremost, we had exited our hedge fund and commodities business and we knew we had to do some final cleanup around those things in 2017. Second of all, we had a large family of very important funds that were moving through their investment cycle and into the performance fee stage, and that was an extraordinarily important milestone for us to hit; and of course, the third was a significant fundraising ambition. We had announced a \$100 billion fundraising program in 2017, it was going to be a very important series of funds being introduced in the market, particularly in our Corporate Private Equity business and therefore we knew in 2017 not only did we need to demonstrate that we were raising large amounts of capital, but of course, the fundraising expenses that come along with that were going to present themselves in a material sense in 2017.

So it was going to be a big transition year. When we look back on 2017, it has been a big transition year and in fact, we've accomplished these milestones faster than we anticipated, and we think at more attractive levels than

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we anticipated – and I'll walk you through why that is. So, that's why we stand here at the end of 2017 and feel awfully good about the year, and what's ahead of us in 2018 and beyond.

So, for those of you who do not know Carlyle well, we manage our business through four distinct segments: Corporate Private Equity, which is, of course, what we're probably most known for, which is about \$56 billion of our assets under management; Real Assets, again, Corporate Private Equity funds style funds, but focused on Real Estate, Infrastructure and Energy. It's about \$40 billion of our AUM. Global Market Strategies, which is our global credit business today, which is about \$32 billion of assets under management; and Investment Solutions, which is our Private Equity and our Real Estate Fund-to-Funds, Secondaries and Co-Investment business, and that business manages about \$47 billion of assets under management today for a total of just about \$175 billion of assets under management.

One of the key components of Carlyle is this multi-fund, multi-product construct and so, across our entire business, we don't have a single fund in Corporate Private Equity, we have 31 different funds working. So we have this absolute diversification of economic engines that enables us to generate management fees, enables us to generate performance fees in a very diversified way and that has led to a much more consistent cash flow stream for the firm over many years.

Now, the firm is very straightforward in how we think about doing things. We have to do four things very well. We must raise capital, we must invest it well, that capital must perform well, and then the point will come along where we sell those companies and realize our performance fees when they've appreciated in value and guess what, we go back and raise the capital again. And over the course of the last 12 months we've raised about \$22 billion into our performance, and into our private equity style funds. We've deployed just under \$21 billion across the platform – and I'll take you through kind of where that's gone.

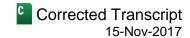
The performance continues to be very strong; our carry funds have appreciated 19% over the course of the last 12 months and then, of course, we continue in this environment to see attractive opportunities to exit or list or sell blocks of our portfolio, and we've realized \$26.5 billion of proceeds in the last 12 months. This model is self-reinforcing. The better you perform, the more money you can raise, the more money you can raise, the more capital you have to invest, et cetera.

So, the three key objectives that we have been managing against over the course of the last year have been to invest wisely and of course, what that really has meant is that we're driving appreciation in our big funds and we have our core group of largest funds have all moved into carry over the course of the 12 months – and I'll take you through what that has meant for us, raising \$100 billion, as I said, and then finally, we believe one of the great growth opportunities for us is to take what is a large credit business and turn it into one of the premier global credit platforms.

So let me just touch on those three things. First of all, from an investment standpoint, on the left hand side of the chart, you'll see that over the course of the last 12 months, as I said, our funds have appreciated about 19%; our Corporate Private Equity funds have been the leader of the pack with a 27% appreciation; our Real Assets funds, I mean this is Energy and Real Estate and Infrastructure appreciating at 18%; our Global Market Strategies are credit funds appreciating at 11% and our Investment Solutions funds appreciating at 14%.

On the right hand side of the slide is a very, very important milestone that we've hit, depicted in the slide. So first of all, as you know, as our funds appreciate, and they move it through their performance hurdles, we begin to accrue performance fees or carried interest; and over the course of the last 12 months, we've accrued \$900 million of performance fees. This is part of our revenue. Had we been standing here 12 months ago, that entire

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amount would have come from what is the gray bar of this chart, which represents really our older generation of funds. I call it our workhorse generation.

Those are our funds that have been fully invested, those are our funds that have seen a material amount of appreciation and therefore, we in fact, have what I would call a mature portfolio. The green bar represents our current generation of funds and that current generation of funds is now moving deeper into their investment life and are now starting to really perform and moving into the contribution phase where they're adding to our performance fees; and to have 60% of our net performance fees over the last 12 months come from this generation of funds is a very important milestone underpinning 2018 and beyond from a performance fee standpoint.

Let me shed a little more light on that. So the left hand side of this chart is a depiction of the workhorse generation of funds; it's not all of our funds by any means, it takes 12 really important ones. It's about \$35 billion of committed capital. We've invested virtually all of that capital and it's generally been marked at about a 2x - 1.9x and that has had a fair market value of roughly \$64 billion. The current generation of funds that we're investing now is nearly \$50 billion in capital – \$49 billion in capital; so 40% uplift in the amount of capital that are in these workhorse funds – the next generation of these workhorse funds and we're about 60% invested.

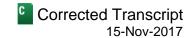
It's marked at 1.3x so it's a early young portfolio just starting its appreciation, but it is a much larger capital base that we're working with. What that translates to from a performance fee standpoint is again on the left hand side, those workhorse funds, they've generated \$2.7 billion of net performance fees. There's still roughly \$500 million of those net accrued performance fee sitting on our balance sheet, ready to be realized when we sell those companies away, and we would hope that they would continue to appreciate because there's still \$12 billion of fair market value in these companies.

On the right hand side, again, this next generation of funds, you'll see that we have just started that process of realizing capital; remember there's 40% more capital here, just under \$50 billion, and we've just gotten into the frontend of that performance fee curve. So, we've accrued \$709 million, we haven't realized any yet. And if that group of funds performs similarly to the last group of funds that it would have another \$2.8 billion of net performance fees to accrue. So, this is underpinning the 2018, 2019, 2020 ENI calculations for us, and we feel really good about this family of funds.

This is why when we look at our ENI and our Distributable Earnings, and on this chart you'll, see that on in the blue chart – in the blue bars, you'll see Economic Net Income every year. And in the green chart bars, you'll see Net Realized Performance Fees or DE. You'll see that our DE tends to be reasonably stable. And we're just starting a build phase for ENI, and that's as these big funds move into carry, continue to perform and all of a sudden begin to contribute considerably to the ENI number, which is why in 2017 year-to-date, we've had such a strong ENI performance, because we're at the frontend of this development.

Let me just move to how we're deploying the capital. Over the last 12 months, we have invested just under \$21 billion in capital around the world, in a period of time where the investment environment is as challenging as we've seen it, asset prices are high. Finding those unique investments that can continue to drive performance is challenging. When you have as big a footprint as we do with 650 investment professionals around the world, a very global footprint, we continue to find those unique investments. The other thing that's happened of course over the last five years has been our investment footprint has really grown.

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And so, today nearly half of our investment activity is in non-Corporate Private Equity activities and that has been the growth of our real estate, energy and infrastructure business, our growth in the Solutions business and now our growth in the credit business. This is a big footprint of activity every day.

Now, the remaining fair value of what's in the ground is our inventory that we in fact sell out of. And we – because of the big footprint that I just discussed and the investment pace, we are seeing the remaining fair value of capital in the ground grow. We've continued to have a robust exit rate and yet we continue to add to the overall fair market value of what's in the ground and you can see that we've – over the – over the in the third quarter posted at \$68 billion of fair market value in the ground in our carry funds. And yet, the AUM in carry, which is the percentage of capital that is – that is actually in funds generating carry is still only at 68%. Our peak was at 80% and so we really feel that there's room to run here in aggregating capital that is not just in carry, but translated into quality companies that we can then sell.

What have we been investing in, you can see that in Corporate Private Equity, over the latest 12 months, we've invested about \$10 billion, about half of that has been in our U.S. buyout business, about a quarter of it in other Corporate Private Equity funds, and about a quarter of it between Asia and Europe. One of the faster growing areas of activity for us has been Asia as that business has really grown quite a lot. Real Assets is about half real estate, half energy and a bit of infrastructure. The GMS business, which is our global credit business sometimes is under appreciated in how much capital there – they are deploying. In our metric, only those funds that are Private Equity style funds get reported, which is \$1.6 billion in the last 12 months, but there's been roughly another \$6 billion of capital that's been invested in various middle market lending originations and CLO deployment.

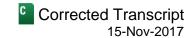
And then finally, our Solutions business has been running at about \$4 billion a year. Third element that I wanted to talk about was fundraising. So, when we you think about our revenue stream, we have had a very, very strong cycle into our core big funds today, which drives accrued performance fees and that will also underpin our distributions and realized performance fees over the foreseeable future. Fundraising will actually drive management fees certainty over a long period of time. So, we announced last year, a \$100 billion program over a four-year period, that we expected, we're in year two, we're almost at the tail end of year two. We've raised \$32 billion through the third quarter.

And what I would say is that we announced in our fourth quarter call that we expected an extremely strong fourth quarter. And let me help illuminate what that means. Through October, we had raised as much in the month of October, as we had raised during the entire third quarter, which was \$7 billion and what we are very comfortable setting expectations at is, we would expect the fourth quarter to be about 2.5 times the third quarter level, by the time we're done. What does that mean? If you look in the left hand side, of this chart, you'll see that fundraising to-date has really been focused towards real assets, global creditor GMS and our Investment Solutions business. When in fact the Corporate Private Equity business has been reasonably small, that's because our biggest funds haven't been in market.

And in the fourth quarter, we have now had a first close in our Asia buyout fund. And we would fully expect to have a first close underpinning that 2.5 times expectation relative to the third quarter in our U.S. buyout fund. The fund raising environment is as good as it's ever been and we continue as a firm, we think to do quite well in this environment because of the performance that I showed you earlier.

And then finally, just a few comments on our global credit business. We announced earlier last year that that building a world class global credit business we felt was the best growth opportunity that we saw in the firm. Global credit today is where private equity was from a development standpoint 10 years ago. We see lots of asset

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flows. We have a wonderful base to build on. We have \$32 billion of assets under management today. We've launched a number of complementary products in an opportunistic credit business. We have a secondary CLO business. We've launched a new BDC following the IPO of a very – a very successful IPO of our existing BDC and a number of managed accounts. So that capital raise that you saw of roughly \$12 billion over the course of the last 12 months is really one of the key drivers to this growth.

And then finally, one of the reasons why we think that we are positioned so well in this is, our performance across this portfolio has been incredibly strong. Investors are actually looking for trusted managers to build businesses with and as a result we find that Carlyle particularly, when it comes to taking on large amounts of capital is pretty well-positioned, because we have the capacity to do so. So, the firm today as I said has had a wonderful first nine months moving into Q4 with \$900 million plus of economic net income. It's \$2.47 cents per unit. We've distributed \$1.08 year-to-date in – in – in the cash distributions.

Our fund performance continues to be very strong. Our performance fee balance of \$1.5 billion is the underpinning to distributions on a go-forward basis. Our dry powder is very strong and one could say we have \$53 billion of dry powder why you're raising a \$100 billion more, and the reality is some of that dry powder sits in segments where we need it and other rest of the dry powder isn't where it needs to be. What I mean by that, our Corporate Private Equity business, which I -which I showed had not raised a lot of money because the funds haven't been in the market, has actually drawn down most of its dry powder and that's really where the big focus is going to be over the course of the next four, five quarters.

And then finally, our credit business as I said is growing well and we would expect for that to be a meaningful contributor to the firm over the coming years.

So, thank you. And that was just meant as a bit of table setting Michael and I know that we'll have a good discussion.

Michael Carrier

Analyst, Bank of America Merrill Lynch

All right. Thanks, Glenn. [ph] I'll start with a polling (00:18:58) question, I will put up there. It's around Carlyle. So, [ph] what would you (00:19:04) be more interested in investing in Carlyle stock. So one, rising fee related earnings and increasing contribution; two, increased visibility on the year Distributable Earnings or distribution consistency; three, significant build out of the GMS of the credit segment; and four, increased float and reduced tax complexity. So, we'll give you a few seconds to put in your vote, few seconds left. Okay, so 40% rising fee related earnings and an increasing contribution and in second place would be increased float and reduced tax complexity; so anything surprising there?

Glenn A. Youngkin
President and Chief Operating Officer, The Carlyle Group LP

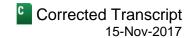
No, other than I wonder if people understand what you mean by reduced tax complexity.

Michael Carrier
Analyst, Bank of America Merrill Lynch

Yeah, we'll get into that.

Glenn A. Youngkin
President and Chief Operating Officer, The Carlyle Group LP

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I'm sure we'll get into that, yeah.

Michael Carrier

Analyst, Bank of America Merrill Lynch

Q

Yeah. I think on the rising fee-related earnings, I mean just given the fundraising cycle, like we'll start to see that. So maybe first, just on overall strategy, so when I think you mentioned 2017 being somewhat of a transition year, there were some of the legacy things that got put behind the firm; but fundraising is strong, performance has been strong, so when you look – and assuming normal markets, you look over the next one to two years, what will be driving a different set of results versus the past few years?

Glenn A. Youngkin

President and Chief Operating Officer, The Carlyle Group LP



Yeah. So when I highlighted the various components of our earnings and cash flow, what we fully expect to happen as a result of real milestones achieved in 2017 and moving into 2018 are the following: Assuming markets continue to generally behave, and we don't need them to be wonderful, we just need them to continue to behave, we would expect that ENI, and particularly accrued performance fees would continue to build. When you're at the frontend of a big family of funds that is now just getting into the performance fee territory that has a very solid ramp to it and those funds have been very well-deployed, and so that's number one. We would expect that ENI would continue to be strong, assuming markets continue to support that.

And then of course second of all, Michael, with the large fundraising that we are currently in the middle of, we will begin to see our management fee revenue increase. Now that will increase fundamentally as a result of these big closings and turning on those management fees. I think a very important construct to remember is, we will have our big first close on Asia buyout in the fourth quarter, which we announced, that we've had, and we expect to have a large first closing on our U.S. buyout fund in the fourth quarter. Just because we have a closing doesn't mean the management fees start yet. And so, the management fees will get turned on over the course of 2018 as soon as we finish investing their predecessor funds and we expect that to happen in 2018.

We do, of course, as you know, realize the fundraising expenses all at one-time. We don't spread them out over time. We go ahead and get those all behind us, so that the management fees are unencumbered by that expense on a go-forward basis. So over the course of 2018, you'll continue to see us raise money because we have a big fundraising agenda in 2018, but over the course of 2018, you'll see these management fees kick in.

Our Chief Financial Officer, Curt Buser, has been reasonably transparent to say that we would fully expect that we should be able to hit at least \$250 million of fee-related earnings on a run rate basis, once we get through this initial fundraising cycle. We don't expect that to happen at the beginning of the year; we expect the second half of the year to be much better than the first half of the year as we move into that \$60 million to \$70 million a quarter FRE cycle. So it's the combination of, we think, continued strong appreciation in the funds which would then drive additional accrued performance fees and the increase in fee-related earnings over the course of the year as these funds turn on and we begin to get the natural leverage in our business.

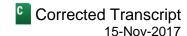
Michael Carrier

Analyst, Bank of America Merrill Lynch



Okay. And maybe just on the ENI, when we think about [indiscernible] (00:23:37), we can see the funds and it should be a pretty good outlook. How much of that is predicated, say, on the level of economic growth or the markets versus like operational? I mean, you said you don't need great markets, you just need them to behave, so.

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Glenn A. Youngkin President and Chief Operating Officer, The Carlyle Group LP	A
Yeah.	
Michael Carrier Analyst, Bank of America Merrill Lynch	Q
Because, obviously last 12 months has been pretty good, but	
Glenn A. Youngkin President and Chief Operating Officer, The Carlyle Group LP	A
It's been pretty good for the last six to seven years.	
Michael Carrier Analyst, Bank of America Merrill Lynch	Q
Yeah.	
Glenn A. Youngkin	A

So, just to give you a little bit of data, our portfolio companies through the summer, revenue would appreciate at about 10% and EBITDA had grown at about 10%; and that was against a backdrop of reasonable earnings growth, actually coming out of the S&P 500 – a little bit faster, but about the same, and so, we see just core, solid, economic activity supporting good financial results in our companies. We have a big portfolio. We have about 260 to 270 portfolio companies around the world. So, this is not four companies, this is a big cross-section of the global economy and we just continue to see strength there.

That, actually combined with the fact that we do believe is a result of a lot of the data that we glean from our portfolio companies, we actually see global economic strength. It's not runaway strength, it's not wildly inspiring – we used a word recently, uninspiring growth around the world, but the U.S. has solid fundamentals to continue its kind of 2% to 2.5% growth; we think Europe is growing a little faster, we think while India has slowed a bit, it's still the fastest-growing major big economy in the world; China has really got a solid 6% to 7% growth rate behind it and of course, we all know that it's the first time in at least 15 years that we've seen synchronized economic growth around the world.

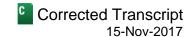
We don't see that being interrupted abruptly anytime soon. So that, you know, uninspiring, but steady growth, the performance of our general portfolio from an operating and financial standpoint, give us a fair amount of confidence that, absent some unforeseen events, which could happen, but we would hope to see our portfolio continue to perform well.

Michael Carrier

Analyst, Bank of America Merrill Lynch

Okay. Again [indiscernible] (00:26:00) to the slide on distributable earnings, just the consistency, you know, whereas ENI was more volatile, and it is a bit different. I mean, I think some firms in the sector, you do have more seasonality. It's hard to predict, it always is, and the realizations, but given the number of funds that you guys have and given that build up of the accrued carry, when we think about 2018-2019 and where we are, say in like a distribution cycle, is there any way you mean to try to gauge, you know, like how active it could be, you know, for the realizations?

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President and Chief Operating Officer, The Carlyle Group LP

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Yes, so I want to just make sure, I clarify one comment, you made.

Michael Carrier

Analyst, Bank of America Merrill Lynch

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Yeah.

Glenn A. Youngkin

President and Chief Operating Officer, The Carlyle Group LP

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Our distribution profile, so our distributable earnings has been steadier or a little bit less cyclical or fewer ups and downs than many folks in our industry because of, as I said, the way we were constructed. We still have a big portfolio, we still have lots of funds that are in carry. We systematically sell; so we don't rush to the door whenever we – at an abrupt moment. We just have systematically sold when companies have made their way through their value creation plan, and therefore, this flow of \$20 billion to \$25 billion to \$30 billion of exits every year has been reasonably consistent.

So, we don't see any reason why that kind of exit rate won't continue. We have good inventory. It will be interesting to see – as ENI goes up in these new funds, one of the things to make sure we're always clear about is just because we sell a company doesn't mean we're going to create cash carry and oftentimes, in some of our less mature funds that are early in their life, we'll sell things and we'll make the decision even though the fund is technically in carry, to actually not declare carry yet. A lot of that has to do with the basic inherent partnership we have with investors in our funds where we don't want to be in a position where we have charged a performance fee and then turn around two years later and have to get it back.

So we tend to be reasonably conservative in the way we start taking carry out of these funds. We tend to start low and we'll often times, when we have the ability to take 20% of the profits, we'll tend to take 10% or 15% and then we'll move to 20% to 25%. And on the back-end of a fund, we'll tend to take 25% or 30% of the gains as opposed to our statutory 20% because we have taken less early on. So be that mix as we move through the back-end of some of these workhorse funds where we're able to take larger carry amounts and so, you'll see kind of a higher yield on those exits, and if we're at the front end to some of these other funds, you'll of course maybe see zero or smaller amounts of carry take in at the beginning of those funds.

Michael Carrier

Analyst, Bank of America Merrill Lynch

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Okay. Maybe shifting over to taxes and tax reform; so there's a lot of different scenarios that can play out, but – and it's still early, we just wanted to touch on a few things. One is, when you look at some of the true proposals that are out there and some of the changes, there's an impact on the portfolio companies. I mean, generally it is probably positive. There's a potential impact on longer term what it means for investments, levered investments, and then there is also, like any changes from the company meaning Carlyle...

Glenn A. Youngkin

President and Chief Operating Officer, The Carlyle Group LP

Right.

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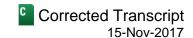
Michael Carrier Analyst, Bank of America Merrill Lynch	Q
specifically?	
Glenn A. Youngkin President and Chief Operating Officer, The Carlyle Group LP	A
Right.	
Michael Carrier Analyst, Bank of America Merrill Lynch	Q
So just, I know it's still early, but how are you guys looking at some of impacts?	f those aspects and how it potentially
Glenn A. Youngkin President and Chief Operating Officer, The Carlyle Group LP	A
Sure. So, given the fact that almost anything can happen at this point could end up with no tax	in time. And I think, when I say anything, we
Michael Carrier Analyst, Bank of America Merrill Lynch	Q
Yeah.	
Glenn A. Youngkin President and Chief Operating Officer, The Carlyle Group LP	A

...bill in a month's time or we can end up with a tax bill. I think it's also just important to recognize that we could end up without a tax bill just given the tenuous nature of the Senate today particularly. But if we look at the House bill which – which is coming out of ways and means and going to the House floor. Listen, it is – it is a business-friendly growth stimulating bill. I mean 20% tax rates and immediate expensing of CapEx. And therefore, when we look at our portfolio, there's no reason to expect when you have a portfolio the size ours is, that it would not be stimulating to our portfolio just like it should be stimulating to the whole U.S. economy.

And we view that as a positive that should drive growth. 20% tax rates are attractive. We should have more cash flow. We should be able to invest that cash flow in growth projects and expense those right away. So, in general, the construct of a pro-growth tax bill for U.S. business we see benefiting our portfolio. One of the questions that lot of people have asked is, if interest expense deductibility is curtailed in some degree, is that going to be devastating to your business and the short answer is, no. First and foremost, the way that it is currently constructed, the deductibility of interest just happens to have a threshold on it. It's about 30% of EBITDA is what the House bill says. And in a world where the Federal Reserve and the Comptroller of the Currency have been actively managing the kind of leverage that people put on portfolios, it really isn't that much of our company's interest expense that falls into that basket.

But most importantly, if you are a firm that relies on extraordinary leverage, in order to create value in your portfolio today, maybe that particular firm might provide a different answer. But in our world, we look at the – at the last multiple generations of our U.S. portfolio and 70% of the value creation is tied to EBITDA growth. And depending on the time, zero to 15% is generally tied to multiple appreciations, sometimes negative. And about 15% of it is tied to leverage, the – the benefit of leverage. And so, when we look at that equation if some portion of

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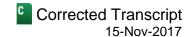


the interest expense associated with our portfolio goes from being deductible at 35% to not deductible at 20%. While it's something that if we have – we need to pay attention to, it really doesn't have any impact on the returns available to us because of the pro-growth nature of the overall tax policy.

So, again, we're a firm that focuses on how do we improve businesses, how do we take a good business and make it great. And leverage is a component, but it certainly is nowhere near the driver of what is creating value in our portfolio. And the threshold that is being used will catch some types of investing, but for Carlyle, it really isn't that big component for us.

Michael Carrier Analyst, Bank of America Merrill Lynch	Q
Okay. And then, last just on the corporate side.	
Glenn A. Youngkin President and Chief Operating Officer, The Carlyle Group LP	А
Yeah, it's hard – on the corporate side. There're still a lot of moving pieces.	
Michael Carrier Analyst, Bank of America Merrill Lynch	Q
Yeah.	
Glenn A. Youngkin President and Chief Operating Officer, The Carlyle Group LP	A
So, it's really generally not clear yet. I think, we, like all of our peers continue to watch this very closel overall corporate tax rate at 20% is interesting, but we really can't draw too many conclusions until we comes out of this whole thing. The House side and the Senate side are somewhat different right now whether we actually get a tax bill or don't get a tax bill, but I think once this gets settled, we'll have a creally study it.	e see what . And again,
Michael Carrier Analyst, Bank of America Merrill Lynch	Q
Right. Okay. And then maybe just on strategy and management. So, there were changes made with management promotions you and Kewsong, becoming co-CEOs. The firm it seems like today things like fairly well, right. I mean	
Glenn A. Youngkin President and Chief Operating Officer, The Carlyle Group LP	A
Thank you.	
Michael Carrier Analyst, Bank of America Merrill Lynch	Q
I mean from the fund raising to performance, I mean, like they were, and so when you – when you that taking on that role and over the next few years like what do you focus on, to add that like incremental drive either additional growth or improvement in the platform.	

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Glenn A. Youngkin

President and Chief Operating Officer, The Carlyle Group LP

A

Yeah. So I would say, almost I find myself almost humbly having to say, that when you work in some places as long as I have in Carlyle and you get a chance to step into the leadership role of being able to run it, it's incredibly humbling. David Rubenstein and Bill Conway and Dan D'Aniello have built a spectacular firm. I mean, it's just an extraordinary company. I had an investor the other day because, we had a very large investor conference in London with all of our European investors and one of our investors said, those are awfully big shoes to fill.

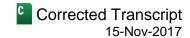
And I said, yeah, and the good thing is, I'm not going to try to step in them. Kewsong and I are going to have different shoes. Those shoes belong to those gentlemen and nobody is going to fill those shoes. We're just going to have different shoes. And one of the great things is Kew and I and if we ever met Kewsong Lee, he goes by Kew. Kew and I come from reasonably similar backgrounds. He spent a substantial amount of his career at Warburg Pincus doing, what I've done for substantial amount of my career. He joined us about four years ago. Kew has really spent the vast majority of his time paying attention to Corporate Private Equity, which was the world I grew up in and really changing our Global Market Strategies business into the credit platform that it is today. And over that time period, I've really began to swing my attention to our Real Assets business with energy, infrastructure, and real estate, and our Solutions business, which we think we can grow.

And so, over the course of the last few years, this strategy of let's drive our funds into carry and make sure we've got investment performance, let's raise \$100 billion, let's grow the credit business, has really been materially influenced by what we think that the future of the company should really focus on. So, we don't see any big changes from a material standpoint from strategy investing, fundraising, taking care of our investors.

With that said, one of the major emphases that you'll hear from us is going to be fee-related earnings. I mean it's clear this is a part of the – part of the firm that we can improve upon. We fully expect our board to make it one of our primary metrics, and therefore, we think it's an area that we can really focus on and improve.

Michael Carrier Analyst, Bank of America Merrill Lynch	Q
Okay. Anything on the polling, that was one of the areas that	
Glenn A. Youngkin President and Chief Operating Officer, The Carlyle Group LP	A
Not the first time that poll has been taken and those results have been shared with me, so.	
Michael Carrier Analyst, Bank of America Merrill Lynch	Q
Yeah. So, just on that, when I think about over the past maybe two, three years, the Private Equity driving like a lot of the earnings.	/ business was
Glenn A. Youngkin President and Chief Operating Officer, The Carlyle Group LP	A
Yeah.	
Michael Carrier Analyst. Bank of America Merrill Lynch	Q

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And, I mean, when you look at the outlook, whether it's the credit business, even the Real Assets, even the Solutions, like things are starting, some of those businesses it's still early on.

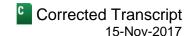
Glenn A. Youngkin President and Chief Operating Officer, The Carlyle Group LP	A
Yeah.	
Michael Carrier Analyst, Bank of America Merrill Lynch	Q
So, when you think about like scaling, those opportunities and even like this that potential	e key margin in those segments, where
Glenn A. Youngkin President and Chief Operating Officer, The Carlyle Group LP	A
Yeah.	
Michael Carrier Analyst, Bank of America Merrill Lynch	Q
[ph] I mean, I know, (00:37:58) Solutions part of it is depending on whether	ther it's a legacy fund or a new fund?
Glenn A. Youngkin President and Chief Operating Officer, The Carlyle Group LP	A
Yeah.	
Michael Carrier Analyst, Bank of America Merrill Lynch	Q
Yeah.	
Glenn A. Youngkin President and Chief Operating Officer, The Carlyle Group LP	A

Yeah. So, I wanted to just start with the three big areas that we see the most growth. And, oh, by the way when I say that, our Corporate Private Equity business is going to grow. I mean the fund raising environment today is strong. We have a tremendous track record and as a result, we do expect to add incremental growth, fund site – fund family over fund family in our Corporate Private Equity business. And you can see that with the kinds of results that we're going to look to post this quarter from a fund raising standpoint.

The – of course, the credit business is getting an enormous amount of our attention. We think that business is not only extraordinarily well-positioned from a performance standpoint. We have some of the strongest track record across our funds. We have an extremely low default rate in the businesses that we manage. We've learned how to really bring to bear a private equity mindset to helping companies improve on the credit side even as a credit holder.

And so the performance is great. We have just an extraordinary leadership team and strong people who, working in the business. Mark Jenkins who joined us about a year ago from Canadian Pension Plan who ran all of their credit business has really hit the ground running and you can see some of the fundraising numbers that he's been able to post. And so we would expect that the credit business will be one of the major growth engines. Now we're

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investing, to be clear, we're investing, we're adding talent, you see press releases from us reasonably frequently about wonderful people we've added to the team and that's going to allow us to broaden the spread of capabilities that we have in credit.

So we think 2018, while there will be increased management fees, one of the areas that we're going to invest from those increased management fees is to our overall credit capabilities. So in 2018, you'll see investment in the OpEx line in the credit business and we will continue to post everybody on the fundraising progress and you'll see a real knee in the curve over time, because that business leverages extraordinarily well.

The second big area of opportunity, we think, is in Infrastructure, Energy and Real Estate. It's a segment that we've had real growth in the Energy side of, we've really put a big initiative in Infrastructure and our track record in Real Estate is very good, but we think we have under-grown relative to the opportunity set. And so that's the second area where we'll put a lot of emphasis on. And then finally, as I said earlier, we're going to focus on feerelated earnings. It's just a good opportunity for us to grow the business. We think from an earnings standpoint, we've got good management fee growth and as a result, the combination of top-line growth plus a real focus on FRE, we think will translate well.

Michael Carrier

Analyst, Bank of America Merrill Lynch

Okay. Right, well, there's one more polling question that we'll throw up and then I'll open it up for questions. This is for the industry. So how do you think eventual tax reform will impact the alternative asset managers? So first is neutral, favorable to FRE, mixed for returns and negative for carry. Second is positive, positive for FRE and some conversions, mixed for returns and carry, and the third is negative lower returns and higher carry tax, but favorable for FRE. Give you a few seconds – one second left; and realize this is pretty simplified, but – so two, over 50% of you think it's positive, so positive for FRE and some conversions, but mix for carry returns. And then three, was in second place. Are you surprised by it or...

Glenn A. Youngkin

President and Chief Operating Officer, The Carlyle Group LP

No, I think we would say the same thing. I think our general expectation is that this an absolute pro-business tax package and it's therefore put together in order to drive the economy. We think the opportunity, given the size of our U.S. portfolio, to have a much more globally competitive tax profile, will allow us to not only see better growth in our portfolio, but our cash flow, and it will be great. Hope they get it done.

Michael Carrier

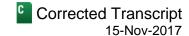
Analyst, Bank of America Merrill Lynch

Yeah. Any questions?

Thanks. Yeah, maybe a last one on, you know you guys are raising a lot of capital right now; a lot of it is new fund generations, funds where existing LPs have been in your past funds and they've done very well. I guess what's your sense for return expectations from LPs? Are they coming down at all, given the level of valuations, you know, broadly? Thank you.



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Glenn A. Youngkin

President and Chief Operating Officer, The Carlyle Group LP

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Yeah. Great question. So from a fund raising environment and – I kind of breezed through this because we all seem to know that it's a really good fundraising environment, but let me just put it into context, why that is. The LP community or the fund investor community today has now accumulated, over a 10 year, 15 year and 20-year period, a data set which makes it very, very, very clear that their private portfolio has outperformed their public portfolio by a considerable amount over an extended period of time. And that premium, which against average performers is anywhere depending on the indices that you're comparing in to 200-basis points – 250-basis points to 400-basis points of incremental return from taking a private portfolio versus a public one.

If you look at the private equity industry, and this translates into candidly private credit, private real estate and private energy, et cetera, what you see is also a much broader gradation of top performers versus lower performers. So that means if you are able to consistently pick top performers, not only do you get this premium versus public markets, but you get an extraordinary premium versus public markets. That has led to almost every investor category fundamentally increasing the allocations to private; private equity, private credit, private real estate, private energy, private infrastructure, which is why the fundraising environment is as attractive as it is today.

What people are looking for is the spread and they recognize that as overall returns go up and down, what they want is the spread and they recognize that back when public markets used to consistently – although this year they are, but consistently offer 10% returns and 12% returns, private equity was supposed to generate 20% to 25%. And in today's environment, they've recognized with an expectation, although the public markets have outperformed, a much lower single-digit – a high single-digit kind of returns, what they're expecting from their private portfolio has come down as well.

And so the short answer is yes. The long answer is, they still expect us to do well; and I haven't heard a single investor say we'll live with underperformance. So, so there is still a very, very high demand from the – from the investment community. And the last thing I would add to that is that they are seeing this premium in private credit today as well and that's why the – I said earlier the private credit market is where the private equity market was 10 years ago. There is now about a big body of data that shows that people's private credit portfolios have outperformed their public or liquid portfolios and so they want it. And so that's why the allocations are moving so heavily towards private credit providers like Carlyle.

Michael Carrier

Analyst, Bank of America Merrill Lynch

I think we had one more question.

How did you come up with the \$100 billion capital raising target and I mean why do you think you will be able to put that to work today?

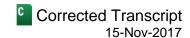
Glenn A. Youngkin

President and Chief Operating Officer, The Carlyle Group LP

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Yes. So we do a forward plan on all of our funds and scale those plans to what we think the market opportunity set is. We added it up over four years and we thought a \$100 billion was a really interesting number; in all candor,

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we wouldn't have put it out if we didn't think we could beat it. We do though have deployment capacity for each one of our funds that we feel most comfortable with and what we won't do is, in fact, take a substantial amount of capital above what we think we can deploy. And that deployment capacity is really based on historical deployment plus anything new we're doing within our teams.

And so, we do in fact, sit down for our Asia buyout business and look across China and India and Southeast Asia and Australia and – and Northern Asia, what do we think we can deploy, we think this is the right number, there's a target on every fund, our investors tend to cap us on what they'll allow us to take in order to, I guess, to protect us from ourselves and therefore, the amount of capital that we raise really does match the market opportunity in our view and it is very much tied to our historical deployment base.

So, in each in each of the circumstances, yes, there is an expected increase in fund size, but it is really tied to team size and the – and deployment activity over the last 12 months to 24 months.

There was one – just – but the market today is hard and I don't want anybody to not miss that point; and we have 650 people around the world literally searching for those unique opportunities that we think we can add value to and continue to generate these kinds of returns. They're not on every corner. We say no to a lot of things. I would say interestingly, the size of equity checks that we're writing today is a bit smaller and the number of deals that we're doing is a bit higher. We tend to see a lot of value in good companies that are medium-sized that we can have a meaningful amount of impact upon and finding them is hard. And so having a big team that's global with lots of capabilities behind it really does matter.

Michael Carrier Analyst, Bank of America Merrill Lynch	Q
Okay. Next one.	
	Q
[indiscernible] (00:48:53-00:49:11)	
	A

Yes. Yeah. I think, listen, the financing markets continue to be very cooperative, there is – there seems to be, every six to eight months, one of these moments, where for about two weeks, the high yield market tends to move a little bit. But in general, with the economy performing the way we see it performing, and the way we expect it to continue to perform, there's no reason to think that the financing – financing markets will change materially. The companies are performing and listen, the key – the key to being a great partner for lenders is to have the loans perform. And as you know, one of the great truisms is debt providers don't get any upside, they get their money back plus some interest. And so our job is to have performing portfolio companies that do exactly that. And so the economic backdrop, the continued amount of capital available in the markets, the robustness of the CLO market, we see – we see a continuation of that environment.

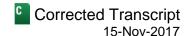
Michael Carrier

Analyst, Bank of America Merrill Lynch

Okay. We'll wrap it up there. Thanks, Glenn.



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Glenn A. Youngkin

President and Chief Operating Officer, The Carlyle Group LP

Great, thank you, Michael. I appreciate it.

Michael Carrier

Analyst, Bank of America Merrill Lynch

Yeah.

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