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CORPORATE PARTICIPANTS

Daniel Harris *Carlyle Group LP - IR*

David Rubenstein *Carlyle Group LP - Co-CEO*

Bill Conway *Carlyle Group LP - Co-CEO*

Curt Buser *Carlyle Group LP - CFO*

Curtis Buser *Carlyle Group LP - CFO*

CONFERENCE CALL PARTICIPANTS

Craig Siegenthaller *Credit Suisse - Analyst*

Michael Carrier *BofA Merrill Lynch - Analyst*

Ken Worthington *JPMorgan - Analyst*

Ann Dai *Keefe, Bruyette & Woods - Analyst*

William Katz *Citigroup - Analyst*

Michael Cyprys *Morgan Stanley - Analyst*

Brain Bedell *Deutsche Bank - Analyst*

Brennan Hawken *UBS - Analyst*

Michael Kim *Sandler O'Neill - Analyst*

Patrick Davitt *Autonomous - Analyst*

Ken Hill *Barclays Capital - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Carlyle Group second-quarter 2015 earnings call.

(Operator Instructions)

I would now like to introduce your first speaker for today, Daniel Harris. You have the floor, sir.

Daniel Harris - *Carlyle Group LP - IR*

Thank you, Andrew. Good morning and welcome to Carlyle's second-quarter 2015 earnings call. With me on the call are Co-Chief Executive Officers, Bill Conway and David Rubenstein; and our Chief Financial Officer, Curt Buser.

Earlier this morning, we issued a press release and detailed earnings presentation with our second quarter results, a copy of which is available on the Investor Relations portion of our website. Following our remarks we'll hold a question-and-answer session for analysts and institutional investors. To ensure participation by all of those on the call, please limit yourself to one question and return to the queue for any followups. Please contact Investor Relations following this call with any additional questions. This call is being webcast and a replay will be available on our website.

We will refer to certain non-GAAP financial measures during today's call. These measures should not be considered in isolation from or as a substitute for measures prepared in accordance with Generally Accepted Accounting Principles. We have provided reconciliations of these measures to GAAP in our earnings release.

Any forward-looking statements made today do not guarantee future performance and undue reliance should not be placed on them. These statements are based on current Management expectations and involve inherent risks and uncertainties, including those identified in the risk factor section of our annual report on Form 10-K that could cause actual results to differ materially from those indicated. Carlyle assumes no obligation to update any forward-looking statements at any time.

With that, let me turn it over to our Co-Chief Executive Officer, David Rubenstein.

David Rubenstein - *Carlyle Group LP - Co-CEO*

Thank you, Dan.

As we review the second quarter's results, I would like to highlight four key themes that will be apparent as we walk through Bill's, Curt's, and my comments this morning: first, we continue to generate an extraordinary amount of cash-based distributable earnings, and therefore we are able to pay out meaningful quarterly distributions to our unitholders. For the quarter, Carlyle generated $386 million in pre-tax distributable earnings, and post-tax distributable earnings per unit of $1.18, representing, for these metrics, 20% and 27% year-over-year growth respectively in the same period last year. Consistent with your our stated distribution policy, we are declaring an $0.89 per unit quarterly distribution payable on August 27. This strong and growing cash flow has been a hallmark of Carlyle since going public having grown our pre-tax distributable earnings from $689 million in 2012 to over $1 billion for the latest 12-month period. To put our distribution another way, over the trailing four quarters, our 75% payout target would have represented an almost 9% yield on yesterday's closing price.

The second theme is that our Corporate Private Equity business continues to produce outstanding results. Carry fund appreciation for the Corporate Private Equity segment was 5% for the quarter and 13% year-to-date. Fundraising and realizations remain very strong. Deployment in Corporate Private Equity was relatively slow but disciplined in its approach.

Third, because of our long track record, we have demand in excess of our hard cap on virtually every carry fund we have in the market. The result this quarter was $5.7 billion of gross new fund commitments and a net $4.7 billion in inflows for the quarter. And fourth, there's considerable momentum in parts of our Real Assets, Global Market Strategies, and Investment Solutions segments, namely US real estate and global energy in Real Assets, energy mezzanine distress debts structured credit and our business development companies in GMS, and secondaries and liquid alternatives in Investment Solutions.

With these four themes in mind, let me mention a few specifics before I hand things over to Bill and Curt. Our high level of distributable earnings was made possible by strong realized proceeds of $5.8 billion for the quarter, which drove $333 million of realized net performance fees during the second quarter of 2015. Over the past 12 months, we have realized proceeds of $20.5 billion, up 8.5% over the same period a year prior. Economic net income was $180 million and $0.55 per unit during the second quarter, driven by another quarter of solid appreciation.

Our carry fund portfolio appreciated 3% in the quarter, bringing the year-to-date appreciation to 9% across our carry funds. This level of continued appreciation positions us for attractive levels of future distributable earnings and unit holder distributions. The Corporate Private Equity portfolio led the way again in the second quarter, with US real estate also performing well. Our legacy energy funds, while a relatively small economic component of our Real Assets business, continues to be impacted by volatile energy markets.

We saw especially strong appreciation in our growth funds, which were up 11%, as well as in our financial services fund, our international energy fund, and our latest vintage US real estate fund. Four portfolio companies went public during the quarter, and the value of our public portfolio stood at $16.2 billion as of the end of the second quarter. Today, as a result of this performance, we have 16 of our significant funds in accrued carry, and 15 funds paid cash carry in the last 12 months. Carlyle Asia Partners III paid cash carry for the first time in the second quarter.

I would like to discuss for a moment our fundraising successes over the past couple of years and the resulting position that we will fortunately find ourselves in over the next few years in terms of our capacity to put money to work when the opportunities are right. Since January of 2013, we have had the best fundraising period in our firm's history, outside of the unique, if not anomalous, 2007-2008 period. Specifically, since the beginning of 2013, we have raised almost $55 billion in gross commitments to our carry funds, CLOs, and structured credit products, investment solution vehicles, hedge funds, and our BDCs. We have closed 11 new or follow-on carry funds. Many of our Corporate Private Equity, Real Assets, and GMS carry funds have been fully raised.

We have closed, or soon will close, all of our largest buyout funds, including the US, Asia, Europe, and Japan at levels which we think are right size to the investment environment. We have closed, or soon will close, our next-generation mid-market buyout fund, US real estate fund and NGP energy funds, at sizes which are 50% to 100% larger than their predecessor funds. We're only partway through raising our second energy mezzanine fund and we've already exceeded its predecessor fund by 50%.

In the last two years, we have expanded our investor base by 6%, and now count and extraordinarily large number of the major US pension funds and the largest sovereign wealth funds as our LPs. There are very few such funds, of those which invest in private equity or alternatives, who do not currently have a relationship with Carlyle; and we see real evidence that these relationships can grow further from their current levels.

We have raised, or are successfully raising, a number of new funds or product lines including our business development company, Asia credit, international energy, and US power; and we have a number of other funds ready to tee up for fundraising. In AlpInvest, our large private equity fund-of-funds, secondaries, and co-investment arm within Investment Solutions, continues to attract large commitments.

How have we actually managed to raise so much new equity for so many varied funds around the world? We think there are three factors. First, our track record has been strong and consistent for more than a decade. Second, institutional investors continue to invest significantly across our platform in multiple funds and multiple geographies. And third, we're benefiting from the flight to quality and to the best known brands among LPs. As a result, we have $62.8 billion of dry powder, more than at any other time in our history.

Can we continue to raise funds at a similarly healthy rate? Obviously, current unforeseen macroeconomic and other events beyond our control could arise. But short of those types of events, the three factors that I just described, when combined with a number of our new funds about to go into the market, as well as those already in the early stages of marketing, should enable us to continue to raise capital at a robust level for the foreseeable future. We're especially excited about the appeal some of our new funds already seem to have to investors interested in longer-term and also yield-performing funds.

In sum, by the metrics of greatest importance to us, generating and distributing cash to our investors and unitholders, the second quarter was very successful. During the quarter, through successful fundraising and thus platform growth, we have positioned ourselves for strong future earnings.

With that, let me turn it over to Bill Conway. Bill?

Bill Conway - *Carlyle Group LP - Co-CEO*

Thank you, David.

The question on everyone's mind is probably, why aren't you investing more money? We invested $1.6 billion in our carry funds in the second quarter, with slightly more than half of that amount outside the United States. So far this year, we've invested about $3.1 billion.

Let me put this investment pace into perspective. Over the past eight years, we have invested about $79 billion in our carry funds, averaging almost $10 billion per year, which is approximately what we invested in 2014. Our annual investments have ranged from a high of $14.5 billion in 2007 to a low of $5 billion in 2009.

There are several factors driving this year's cautious investment pace. Most importantly, we think prices in many asset classes are high. Our caution is further driven by uncertainties in Greece, fluctuations in the Chinese stock markets, continued high levels of leverage, and the significant movement in energy prices. Also, with corporations struggling to find growth, they have turned to M&A to meet revenue targets, while private equity activity has remained relatively muted. We believe current conditions will serve as catalysts for the next round of buying opportunities. And while we cannot predict when or how these opportunities will present themselves, the breadth of our platform and our dry powder positions us to take advantage when the time comes.

During the quarter, we closed two transactions of note. First, our US buyout in South American buyout funds invested in Rede D'Or, the largest hospital group in Brazil. And second, we closed our investment in AsiaSat, the Hong Kong-based satellite company where we bought GE Capital's interest. We also announced several smaller growth investments in Europe and China. We invested about $638 million in Real Assets. We continue to find attractive opportunities in the US real estate market, particularly multifamily housing, technology, and storage assets.

In the energy space, in both the United States and Europe, we're actively developing partnerships with platforms for investments, but are putting money to work slowly, given the uncertainty in energy markets. Most notably, our international energy fund committed an equity line to Magna Energy, an India-based upstream oil and gas company, as well as committed to fund Neptune Oil and Gas, a new oil and gas acquisition platform. In our GMS segment, we closed a public-to-private transaction in which our distressed debt carry fund, Carlyle Strategic Partners, invested in a UK-based collision repair business called Nationwide Accident Repair Services.

With respect to exits, we completed $3.2 billion in block sales in Nielsen, CommScope, Axalta, Xtep, Applus, and CoreSite at attractive multiples of our invested capital. We fully exited Higher Electronics in China, KCS in Switzerland, Metrologic in France, The Foundry in the UK, Claris in India, and Foresight Energy in the US. And we sold real estate assets for combined realized proceeds of over $450 million. In total, across all the segments, we realized $5.8 billion in proceeds in the quarter.

Turning to a few additional comments on our business segments: as mentioned, our Corporate Private Equity business continues to be strong. We have a number of companies in an exit process or preparing to go public, and we continue to generate performance fees across many funds. Of our 11 significant Corporate Private Equity funds that are active and have completed their investment period, nine are now in accrued carry and seven have paid cash carry in the last 12 months.

From a personnel perspective, in early April we named Peter Clare Deputy Chief Investment Officer for Corporate Private Equity, joining Kewsong Lee in that role. In Global Market Strategies, or GMS, we continue to be active in raising structured credit products, including pricing our first middle market CLO, pricing a US CLO, and closing our second commodities financing vehicle. Together these products raised approximately $1.3 billion. Our business development companies were active and now have more than $1 billion invested. Our energy mezzanine funds were up 3% and our distressed debt funds were roughly flattened in the quarter.

Unfortunately, our significant hedge funds were down about 4.3% in the quarter. In Real Assets, we had a good quarter from a distributable earnings and fundraising perspective. We produced $28 million in realized net performance fees, mainly due to the sales of real estate assets in the United States. We continue to invest about $200 million per quarter in the US real estate market. Due to the strong performance of this fund group, Carlyle Realty Partners III, V, and VI are now in carry.

Our international energy funds mid-stream investments are performing well, given the lower price of oil; and our power portfolio continues to strengthen, up 2% in the quarter. In investment solutions, while the segment is not currently generating significant distributable earnings, we remain confident in our pursuit of a scalable liquid alternative strategy and believe our AlpInvest secondary fund is well-positioned. In addition, we're building out the sales force and network distribution needed to strengthen this segment.

Overall, I would summarize our business units as follows: in CPE, we have a great business. Our challenge in this business is to continue our performance while finding an attractive place to put the money to work. On our other three segments -- GMS, Real Assets and Investment Solutions -- we have pockets of greatness, such as our CLO business, our broad based energy platform, US real estate, and AlpInvest secondaries. However, these three segments today generate only about 10% of our Companywide distributable earnings. We expect this to change by: in GMS, we have been paying fundraising costs for Energy Mezzanine II with no associated revenue as of yet; we expect to raise our fourth distress fund at a larger size than our third fun, and we expect to continue building on our credit business.

In real estate, we expect a continued strong earnings contribution from our US real estate business. We are working to put the negative legacy effects of our international real estate business behind us, and we are pursuing new real estate strategies. In energy, we expect the continued runoff of our legacy energy business, which has been producing negative performance fees over the past several quarters; and the ramp up of our new natural resources businesses, including NGP, power, and international energy to begin to generate more material earnings. With these developments, we expect that the percentage of earnings contribution from these three segments will increase significantly in the coming years.

Let me now turn it over to Curt Buser.

Curt Buser - *Carlyle Group LP - CFO*

Thank you, Bill.

Our business is continuing to produce higher cash earnings with distributable earnings up 20% over the second quarter of last year. This reflects another quarter of excellent realization activity. On an after tax basis, distributable earnings was $1.18 per unit, up 27% from $0.93 per unit a year ago. With this quarter's distribution of $0.89 per common unit, Carlyle has announced distributions $1.22 per unit for the first half of 2015.

Turning to fee-related earnings. Fee related earnings are $47 million, with $33 million below the second quarter of 2014, due largely to the $28 million decrease in transaction fees reflecting our slower investment pace this year. Catch-up management fees in the current quarter were $34 million, primarily from fund closings in our Europe and Japan buyout funds, our European growth technology fund, and our US real estate fund. Catch-up management fees were approximately $9 million higher than a year ago.

However, management fees from our hedge funds and investment solutions businesses are in total down about $19 million from Q2 of last year, due to net redemptions and foreign exchange. The net decrease in management and transaction fees was offset in part by lower compensation expense exclusive of equity compensation. Direct and indirect compensation expense is down $20 million from a year ago, reflecting lower bonus pools in certain parts of our business, foreign exchange, and the downward adjustments to compensation accruals made in the fourth quarter of 2014.

Despite the lower current quarter compensation expense, I would expect compensation exclusive of equity compensation to rise modestly over the course of the year. Because, as I have said before, I expect no more than nominal increases for the entire year over 2014 levels. The decrease in compensation expense was offset by higher general and administrative expenses in the quarter. The increase in general and administrative expense as compared to a year ago includes $6 million more in external fundraising expense, primarily in our GMS segment; and $6 million due to foreign exchange loss, professional fees and real estate costs.

Fee-earning assets under management of $130 billion was effectively unchanged in the current quarter even after significant distributions and outflows. Foreign exchange had a positive impact, accounting for a $1.6 billion increase in the quarter; but foreign exchange still accounts for $8.3 billion of the decrease in fee-earning assets under management over the last 12 months.

We have approximately $11.5 billion in new capital commitments which do not yet show up in fee-earning assets under management because we have not yet commenced management fees. If these fees were turned on today, it would equate to incremental annual management fees in excess of $100 million, all else equal. About two-thirds of this capital will turn on the fees between now and January 1, 2016, with the balance commencing largely as we deploy capital.

Because we expense fundraising costs upon each fund closing, we have incurred costs to raise this $11.5 billion, for which we're currently receiving no financial benefit. Of the $34 million in fundraising costs we have incurred in the first half of 2015, inclusive of internal and external costs, approximately $19 million was incurred for capital which we have not yet commenced management fees.

Now turning to our business segments. Corporate Private Equity had another impressive quarter, producing distributable earnings of $345 million, up from $262 million in 2014, reflecting $84 million in higher realized net performance fees than in the second quarter of 2014. Seven significant funds in Corporate Private Equity contributed to realized carry in the quarter. Fee-related earnings in CPE were $38 million, down only $7 million from $45 million a year ago, despite a $28 million decrease in transaction fees over the same period. Catch-up management fees were approximately $28 million in the current quarter, or about $10 million above a year ago.

The reduction in compensation expense further offset the effect of the lower transaction fees in the quarter. Economic net income for Corporate Private Equity was $178 million for the quarter, below the $208 million Corporate Private Equity recorded in the second quarter of 2014. In addition to the decline in fee-related earnings, net performance fees were down $20 million from a year ago, due primarily to 4% appreciation in the quarter in our large buyout funds versus 5% a year ago. 2015 equity grants also contributed to $5 million in higher equity compensation in the quarter as compared to a year ago.

Global Market Strategies had distributable earnings of $4 million in the quarter, down from $22 million in the second quarter of 2014. The decrease in distributable earnings primarily reflects a $19 million decline in fee related earnings as a result of lower management fees of $10 million from our hedge fund partnerships, and $9 million in higher fundraising expense associated with raising our second energy mezzanine fund, which has not yet commenced management fees. During 2016, we expect to complete fundraising for our second energy mezzanine fund, which will be substantially larger than our first fund. And we expect to be in the midst of raising our fourth distressed debt fund, which we also believe will be larger in size. These funds, together with continuing to grow our credit business through our BDC, and completing the launch of our Asia structure credit fund, will enable this portion of GMS to show meaningful growth in 2016.

Economic net income for GMS was breakeven in the quarter, down from $44 million a year ago. Net performance fees of $6 million reflect 2% appreciation in the segment's carry funds as compared to 12% a year ago. And our significant hedge funds largely remain below their high water marks, and therefore are not contributing any meaningful accrued performance fees in 2015 as they did in the first half of 2014.

Turning to Real Assets, fee related earnings increased to $12 million in the second quarter from $9 million a year ago, due to lower compensation expense reflecting expense management in our international real estate teams. Catch-up management fees were $6 million in the quarter from raising our seventh US real estate fund, generally in line with catch-up management fees of $7 million a year ago when we were raising our international energy fund. Realized net performance fees increased to $28 million in the quarter as compared to $9 million a year ago. US real estate funds III and VI contributed $24 million, and the legacy energy funds through a single asset fund, contributed the remaining $4 million. Economic net income for Real Assets was $1 million in the quarter, down from $23 million a year ago.

Net performance fees were negative $7 million in the current quarter, down from $33 million a year ago. The negative performance fees in the current quarter reflect a $21 million increase in net accrued clawback from our legacy energy funds, offset by net performance fees of $14 million in our US real estate business, for which our sixth US real estate fund appreciated 9% in the current quarter. Our natural resource platform, consisting of NGP, power, and international energy netted a breakeven net performance fees for the quarter.

Investment Solutions was effectively breakeven for the quarter for fee-related earnings, distributable earnings, and economic net income. Management fees decreased $9 million in the quarter from a year ago, due to the impact of foreign exchange and declining fee earning AUM. Our balance sheet remains strong with cash of $1.2 billion, a net accrue carry of $1.6 billion, and total outstanding debt of only $1.1 billion.

With that, let me turn it back to David for some closing comments.

David Rubenstein - *Carlyle Group LP - Co-CEO*

In sum, for the quarter, Carlyle delivered well for its investors and unitholders, returning $5.8 billion to our fund investors and $0.89 per unit to our unitholders. We're pleased that our fundraising during the quarter and our high level of dry powder places us in a strong position to take advantage of attractively priced assets and companies when they come available anywhere in the world.

And now, we are pleased to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question is from Craig Siegenthaller from Credit Suisse. Your line is open.

Craig Siegenthaller - *Credit Suisse - Analyst*

Thanks. Good morning.

David Rubenstein - *Carlyle Group LP - Co-CEO*

Good morning.

Craig Siegenthaller - *Credit Suisse - Analyst*

First, just starting on NGP11. The fund has invested less than 5% of its available capital and it's a 2014 vintage fund. But my question is, given how much cheaper public equities are across the energy sector, what's really holding the fund back on the investing side and do we really need to see mass defaults across the industry to really accelerate M&A here?

Bill Conway - *Carlyle Group LP - Co-CEO*

This is Bill. I would say, this is a good time to be careful when it comes to investing in energy. We have the team in NGP. Remember, they have the first nine funds all went to carry. So they know what they're doing. They've been doing it for a long time when energy markets are up and down. I think they're just being appropriately cautious. I don't know that it's necessarily a function of seeing defaults in the markets that will lead to a more aggressive investment pace. Frankly, it's a good time to be cautious everywhere.

Craig Siegenthaller - *Credit Suisse - Analyst*

Helpful. And then, just a followup. I received the details on European Partners IV, the close today, and I saw that it was about EUR670 million more than the June 30 balance. I see there's a few investments made across France, Italy, Spain. Were these transactions included in the EUR319 million of capital invested that you had in the press release or will the invested capital balance isn't much higher given that you've made a few more investments here in July.

Bill Conway - *Carlyle Group LP - Co-CEO*

The amount that's been invested is between EUR300 and EUR400 million total so far by Carlyle Europe Partners IV. So the EUR319 million must be all the investments. I don't think any were done in the last couple of months.

Craig Siegenthaller - *Credit Suisse - Analyst*

Great, thanks for taking my questions.

Operator

Thank you. Our next question comes from the line of Michael Carrier from Bank of America. Your line is open.

Michael Carrier - *BofA Merrill Lynch - Analyst*

Thanks, guys. Curt, I think this is probably for you. You mentioned some of the cost on the fundraising side that may be elevated, the expense level in the first half of the year. And then you indicated some of the funds that had been raised where the fees will kick in sometime between now and the beginning of 2016. I think you quantified the expenses. I just wanted to get some color on the fee side?

And then, just on that G&A line in this quarter, I know you said there are a couple of items in there. I just wanted to know, maybe what's a fairly good run rate? I understand that there's a lot of things that can pop up in there, but just given that it was elevated.

Curtis Buser - *Carlyle Group LP - CFO*

Sure. Thanks, Mike, for your question. First key thing to think about are fundraising costs. They're one of the items that can toggle any given quarter. You need to think about our business really over a longer period of time. As I said in my prior remarks, we had about $18 million, $19 million of fundraising costs in the first half of the year for which no fees have turned on. That relates to the $11.5 billion of capital that's pending to turn on. When that turns on, that would equate to roughly $100 million of additional fees, all else being equal, if it were turned on today.

The big piece of that to think about is in the GMS segment with respect to the energy mezzanine second fund. It's already raised $2 billion of that $11.5 billion. $9 million of external fundraising costs in the current quarter were incurred for which no benefit was received in the GMS segment.

To the second part of your question, really in terms of total costs. One of the things that everyone should recognize is in the current quarter our G&A expenses were roughly $94 million, up from Q1 and up from Q2 of last year. If you look at the LPM numbers, they would indicate essentially an $80 million run rate in G&A.

The things that trip that higher run rate this quarter, which may or may not occur in the future, but I would think they are more unique, are the higher level of fundraising costs. In the current quarter, compared to last year's $6 million more of external fundraising costs, $13 million more compared to Q1 of this year.

There were also a whole number of, I'll just say, one-off small items both in terms of professional fees, some of our lease costs, some foreign exchange contract amounts that we had gains on last quarter that reversed this quarter, a little bit higher T&Es compared to the first quarter. So a number of small one-off basis items that just caused this quarter to be somewhat higher. But again, if you look at the run rate, I focused back to the roughly $80 million run rate in G&A. Hopefully that helps.

Michael Carrier - *BofA Merrill Lynch - Analyst*

That's helpful. Maybe just as a followup. Bill, the distribution or the realization activity in the quarter was obviously very strong. And then on the deployment side, you mentioned trying to be somewhat cautious or making sure you're making investments that are going to generate good returns. I just wanted to get a sense on -- because those are two offsetting types of comments or outlooks. So when we think about the distribution that Carlyle is able to generate, and when you think about the portfolio that you have right now and where the performance is and what can be exited.

I just wanted to get some sense, and I know it's difficult because it's environment based, but just wanted to get some sense of what you think are realizations that are more on the easy side? Meaning you don't have to have a lot to occur to exit some of these investments versus things that could take maybe a little bit longer? And if we get more volatility in the markets, that could delay things. I know it's difficult, but I just wanted to try to get a sense because of how strong the distribution was this quarter.

Bill Conway - *Carlyle Group LP - Co-CEO*

Okay. A couple of things I would like to think about. Of course, this is all related, investment pace and exits and everything else in the markets. It's clearly an easier time to sell than it is to buy. We've been doing this a long time. We've got a pretty good record of doing it. I would say that it's a little concerning to me that the amount of invested capital in the ground that's working is actually down a little bit over the last year or so. I think it's down from like $62 billion to $60 billion or something in that range. In some ways it's a de minimus fall, but really, that's the kind of thing that rarely happens at Carlyle.

Why does that happen? The one reason it happens is we sell $20 billion worth of assets. That just is -- that's coming right off the top and appreciation and new investments have a tough time offsetting that much investment. Second thing that's happening is it's hard to put money to work right now. Now, I'll tell you, if I were to talk to my 750 investment professionals, they tell me it's always hard to put money to work, that there's always a problem in Greece or Italy or Brazil or China or Russia or some other place on the planet or some industry segment or whatever. And so, they're working hard to find things. I would say that maybe things are a little better and a little more active than we've been, but it's still a very, very tough environment.

When I looked forward at the exit page, which we asked about, if we look at, let's say, the quarter we just finished. The total distributions were I think $5.8 billion and of that, we had blocked rates and sales that were on the order of $3 billion or $3.5 billion. So call it 60% of our distributions comes from blocked rates. Carlyle has a track record of -- we have a lot of companies that are public. One year, I think we took 15 companies public. I think in the first quarter of this year we took 5 companies public. We have a big public portfolio. It's now about $16 billion at quarter end.

And many of those companies were really good stocks, strong companies, companies like Booz Allen and CommScope and Exalta and Freescale and some others. I don't think I would necessarily call it easy exits in some of those names, but I would say that $16 billion of public securities is relatively easy. As I've said before, people complain a lot about the SEC and how difficult it is to do things with the SEC, but on the other hand, if you've got an established issue or blocked rates can be done in an hour. We've gotten pretty good at that.

Going forward, obviously, I can't predict the pace of what those sales are going to be, given what's going on with the market conditions, the volatility, not just the United States but around the world. We're ready to sell when we think the value is fair and we can get our money out. In terms of the investment pace side, what I would tell you there is that I referenced it in my remarks that in 2007, we invested $14 billion and in 2009 we invested $5 billion. Well, the internal rate of return on the 2009 investments was 10 points higher than it was on the 2007 investments. So the sheer size in the amount you invest is not determined necessarily, the best thing you do. By the way, it was still very attractive for the 2007. It was just a lot better for the 2009 investments.

Michael Carrier - *BofA Merrill Lynch - Analyst*

Okay. Thanks a lot for the color.

Operator

Thank you.

(Operator Instructions)

Our next question comes from Ken Worthington from JPMorgan. You're line is open.

Ken Worthington - *JPMorgan - Analyst*

Hi, good morning. Just on the hedge funds, the AUM declined this quarter and seemed poised to decline further in coming quarters. First, as you see it, what are the issues? Obviously there's been some performance problems but is there maybe a greater issue with regard to either oversight or ownership structure or even management selection at purpose. Two, is there something that you as managers need to or maybe are able to address here? Three, how do you return the hedge fund specific operation back to growth? Thanks.

Bill Conway - *Carlyle Group LP - Co-CEO*

Sure, Ken. It's Bill again. I think it's been a volatile and a tough environment generally for investing. Sometimes I look at the picks and I wonder how it can be so low based upon all the volatility I see in the market. I don't think there's any kind of systemic problem with regard to our oversight or the job of the people running the hedge funds are doing, or governance or anything like that.

Obviously, the hedge funds, particularly Claren Road, they've had a tough time in the first half of this year. But they do have a long track record of strong risk adjusted returns, very proven team that's been the job, same people that were there when we initially acquired 55% of the business. We're working closely with them to sustain and restore the confidence that their investors have had with them for more than a decade. Hopefully that we and they will be able to do that. But I don't see it as a systemic problem or anything like that, Ken.

Ken Worthington - *JPMorgan - Analyst*

Growth? Growth going forward, do you buy it? Do you fundraise for it? How do you grow that business?

Bill Conway - *Carlyle Group LP - Co-CEO*

Well, the best and the most -- the best way to grow it is to have the hedge fund perform. Hedge funds perform, they can grow themselves. People want to be in their funds. A hedge fund like Claren Road that's had some redemptions, a year ago, they were turning money away. I think they turned away $1 billion a year ago because they just didn't feel that they had the market conditions or the right opportunities to put that money to work. And so, these things can turn pretty quickly in terms of what may happen. But the thing that will cause them to turn is performance. You perform, people are happy, they give you more money. You don't perform, the opposite happens.

Ken Worthington - *JPMorgan - Analyst*

Okay. Great. Thank you.

Operator

Our next question is from the line of Robert Lee from KBW. Your line is open.

Ann Dai - *Keefe, Bruyette & Woods - Analyst*

Hi, good morning. This is Ann Dai, calling in for Rob. So I have a quick question around solutions. It just feels like asset growth has been relatively muted in the segment and it's just a bit tough to get visibility into everything that's happening across different businesses there. So would you be able to give us a sense of general business trends in the segment, including some of those new businesses you mentioned in the release and briefly earlier on the call? And then, how do you see margins progressing as you scale those various businesses? And, in addition, can you provide any guidance around when we might be able to see AlpInvest become a more meaningful contributor to DE?

Curtis Buser - *Carlyle Group LP - CFO*

Sure. So this is Curt. Let me start and then Bill can maybe add some color. If you look at the Investment Solutions business, especially over the last 12 months for its fee earning AUM, you will see a decline in fee earning AUM from about $39 billion to $30 billion. Just shy of $6 billion of that was foreign exchange. If you keep in mind, in the AlpInvest side of that business, they're euro denominated funds. And so, as the euro has moved, it's been an adverse effect on essentially fee earning AUM in that cycle and you will see the same thing kind of coming through in management fees in that segment.

The other thing that's going on is we're investing in growing out our liquid alt strategy. So there's new people coming online and so while you might say, well, shouldn't we be seeing a comparable decrease in compensation expense in that business? We did due to foreign exchange. So as in AlpInvest, as revenue came down, so did comp, but it was offset by making investments in the liquid alt strategy which we are invested to growing.

The other piece that we're very excited about is really the secondaries business within that segment and we think that that too, can be a growth arm for it. However, you have to keep in mind the back setting of the AlpInvest which had a lot of historical capital especially in the funds of funds space, and some of that has actually come down and burned off and so that's masking the growth that we're otherwise expecting and seeing in the secondaries business. Hopefully that helps.

Bill Conway - *Carlyle Group LP - Co-CEO*

And I wouldn't have anything to add to that.

Curtis Buser - *Carlyle Group LP - CFO*

The only other thing I would say on it is, you think about our total business, the relative fee rates on the solutions business tends to be lower than in the other piece. While we like them all, this one from an AUM perspective doesn't generate the same relative amount of management fees.

Ann Dai - *Keefe, Bruyette & Woods - Analyst*

Thank you.

Operator

Thank you. Our next question comes from the line of William Katz from Citigroup. Your line is open.

William Katz - *Citigroup - Analyst*

Thanks very much for taking the question this morning. Just maybe a high level picture. David, you mentioned that you just continue to see very good asset gathering. You're also sitting on a fair amount of dry powder. And Bill, you also mentioned the challenges here. So it's easier to sell than it is to buy. How are LPs thinking about that dynamic? At what point do they start to shut off the switch of giving us so much assets just in light of what there be some potential worries about their return on the invested capital? Or is even that a conversation at this point?

David Rubenstein - *Carlyle Group LP - Co-CEO*

Right now the LPs generally have been getting a lot of money back from GPs in the last year or so and they have to do something with it. And they generally think putting it in cash is not a good thing compared to committing it to a private equity organization that has a long track record. So we're seeing much more money coming into the market than anytime since really 2007, 2008 period of time.

Obviously they know we can't put the money to work right away. But remember, they're going into funds that have five-year investment periods, so they recognize that it might take some time to get the money invested. I haven't really detected in my meetings with investors, a big concern about it. There biggest concern is now is will we take their money because our funds have been oversubscribed. And the biggest problem I've been dealing with in the last couple of weeks is trying to deal with investors to getting into the funds who I'm having a hard time getting in because there's too much money coming into the fund.

Right now, they're not that worried about investing it. They have a view generally that we'll figure out when it's a good time to invest and when it's not a great time to invest. I don't think they're that worried about it honestly. Maybe that could change in six months or a year or something. But right now, I think our entire fundraising group would not say that investors are worried about that particular problem that you allude to which is that we're not getting the money invested quite as quickly as they might have preferred.

Bill Conway - *Carlyle Group LP - Co-CEO*

David, let me just add to that. I think I've seen a statistic that somewhere in excess of 90% of the money that has ever been committed to us in our funds, we get invested over the life of the fund for our investors. There could be good times and better times to invest the money, but if we wouldn't raise the fund that was, let's say, EUR10 billion for Europe, if we thought that wasn't the right amount that we could invest over the investment period. Maybe we could raise that much money, but this is not about the management fees and getting bigger and bigger funds just to have the funds. We got to be pretty confident we can put the money to work. We are.

David Rubenstein - *Carlyle Group LP - Co-CEO*

I think that number's at 96% of the money we've raised in the last ten years has been successfully deployed. So people generally think we'll get it deployed. I recognize your concern, but right now, it hadn't been picked up by any of our investors. It's not something that we see yet in the marketplace.

William Katz - *Citigroup - Analyst*

Thank you for taking my question.

Operator

Thank you. Our next question comes from the line of Michael Cyprys from Morgan Stanley. Your line is open.

Michael Cyprys - *Morgan Stanley - Analyst*

Good morning. Thanks for taking the question. Just on real estate, you mentioned that you're pursuing some new real estate strategies. I believe Core Plus is probably one of them. Could you talk a little bit more about these new real estate strategies? How you're building them out? Are you bringing in or looking to bring in new talent and how much are you looking to raise in terms LP capital?

David Rubenstein - *Carlyle Group LP - Co-CEO*

Okay. Let me address that initially. Our US real estate fund principle one has been a so called opportunistic fund. And that one is targeting to raise and we'll shortly close on if it hasn't. We're near to closing about $4 billion which was the cap on that, that $4 billion. That's been our core real estate product. We've had opportunistic funds in Europe and in Asia. They have not been as big or as successful as the one in the US.

In Europe, we're restructuring our team. We've hired somebody new in Europe to head that team up. He had previously been at Carl Aisle. He's come back to us. And under Adam Metz, who we recruited to oversee our international real estate, that person, Peter Stahl, is working and we're working on raising -- building a team and raising some capital for individual deals. In Asia, we have a team in place and we're going to look at whether we can strengthen that.

We do think real estate is important for us. Core Plus is a slightly different business. Let me address what that is for those who may not be familiar. Opportunistic is designed to get high net teen rates of return. Core Plus is designed to get somewhere between 9% and 11% rates of return. That has turned out to be a very interesting part of the business and I think other firms are now who are in the opportunistic business are also going into the Core Plus business.

I don't want to say what we're going to do in that business, but I'd just say it's an attractive business. I would say ultimately what we want to do is have real estate be a very important part of the firm. It has been in the past and we want it to be an important part in the future.

Generally, what we find is that through times of distress around the world, people like to put some money in real estate. So for a variety of reasons, we think it's going to be a great growth business for a long time. We're very pleased with where we are positioned now in the US and we want to make sure we can do as well in Europe and Asia as we've done in the US.

Bill Conway - *Carlyle Group LP - Co-CEO*

The other thing I would say is in terms of the team and supplementing the team, while we may add some people to the team, our US opportunistic real estate team is about 100 people. So it's a big team. We talk about opportunistic and Core Plus like they are men are from Mars and women are from Venus, just totally different. There isn't that big of a gap.

A lot of the skill sets, the people out in the markets, the asset management people that we have in the real estate business, they can support, if you will, to some greater or lesser extent both the opportunistic side of the business and the Core Plus side of the business. The leader of the Core Plus business that we're trying to build is an insider, been with Carlyle, I think, Dan, about 20 years?

Daniel Harris - *Carlyle Group LP - IR*

That's right.

Bill Conway - *Carlyle Group LP - Co-CEO*

And so we -- and I've got a lot of confidence in him, working with Rob Stuckey, who's run US real estate for more than a decade and I think for about 15 years done a fabulous job. So we have high hopes for that business.

Michael Cyprys - *Morgan Stanley - Analyst*

Great, thank you.

Operator

Thank you. Our next question comes from the line of Brian Bedell from Deutsche Bank. Your line is open.

Brain Bedell - *Deutsche Bank - Analyst*

Hi, good morning folks. Maybe Curtis, if you could just run through the additional incremental fee revenue from the $11.5 billion of carry of fund through. If I'm doing the math on that right, I'm getting about an 87 basis point realization rate which seemed a little low. So, maybe if you could go through the mix between the segments of that $11.5 billion? And as, I think, David, you were talking about the fundraising efforts and what you have in the pipeline right now, how that would increase that $11.5 billion over the near term?

Curtis Buser - *Carlyle Group LP - CFO*

So your math is good. The piece that you're missing in the equation is really the step down from the predecessor fund. So the $100 million on the $11.5 billion, as I make that estimate, I'm looking at really the predecessor funds for each of those and their respective step down that occurs. If I didn't take that into account, I think that it would be misleading. So that's really the difference.

Brain Bedell - *Deutsche Bank - Analyst*

And then on the fundraising pipeline coming in?

David Rubenstein - *Carlyle Group LP - Co-CEO*

The areas that we are likely to be pursuing in the future, and I have to be careful or the lawyers are going to tell me I can say this or can say that. But essentially, areas that we think are attractive, I will put it that way, are distressed debt where we have a very successful business for a long time. We would say Core Plus real estate seems to be an attractive business as well. Growth and energy -- growth investments in the corporate growth investments in Asia, growth company kinds of investments are an area where we've been in for quite some time.

We do think that infrastructure is a very attractive area. We are already in that area and we also think it has a lot of appeal as well. We are also attracted as well to energy and we still have some energy funds in the market. Principally, our energy mezzanine fund but that's going quite well. We have our annual Investor Conference in September; while we like that at conference which will have about 900 to 1,000 people there, we'd like to make sure everybody knows how their existing funds are doing. We do tend to present some new ideas to investors there and I suspect we'll have some ready in those areas that I kind of alluded to just now.

If anything, our fundraisers are probably busier than ever because we have got a lot of funds in the market and virtually all of them seem to be doing quite well. Structured credit is also an area that we're quite interested in, particularly in Asia. Secondaries, as mentioned is also an area that we're going to be quite active in as well. So we don't lack for a lot of funds to sell right now. I think the question is, can we take all the money that we think our investors can deploy?

Brain Bedell - *Deutsche Bank - Analyst*

And I'm sorry, Curt. On the $11.5 billion, how much of that is in the Private Equity segment?

Curtis Buser - *Carlyle Group LP - CFO*

It's primarily in Private Equity Energy. So, the big piece of it is NGP where, part also of your math would be in the fact that we just take roughly half of the fees. So that also goes into the math and then you have energy meadows which will be in our GMS segment. We have C-op which will be in Corporate Private Equity and then you have a handful of other funds. But those are the big components.

Brain Bedell - *Deutsche Bank - Analyst*

Okay.

Bill Conway - *Carlyle Group LP - Co-CEO*

I should mention one other area that we are attracted to, which is longer-term investing. Generally we think and as we've said in some of our filings, we think that sometimes some investors would like us to hold onto investors for a much longer period of time for a steady current yield and longer-term holds than the typical private equity. That's an area that's quite attractive to us as well.

Brain Bedell - *Deutsche Bank - Analyst*

Great. Thanks for all the color.

Operator

Thank you. Our next question comes from the line of Brennan Hawken from UBS. Your line is open.

Brennan Hawken - *UBS - Analyst*

Good morning. Most of my questions have been asked and answered. I would be interested to hear an update on the Carlyle indicators. There's a lot of debate about economic growth particularly in Europe and Asia. I would be curious what you're seeing on that front?

Bill Conway - *Carlyle Group LP - Co-CEO*

Okay, just last night I was reviewing the July indicators that we're getting ready to send out in the next couple of days or so. I would say with regard to the United States, they show continued growth in the 2 to 2.5% range. It isn't 2.5% everywhere, but it's 2% to 2.5% on average. Particularly strong parts would be residential construction. Particular weak parts would be energy related capital spending, which is down about 20% and that's a big number on a big number. But on balance, United States continues to do pretty well. We've got some pretty sensitive data that has proven to be very highly correlated for a long period of time.

In Brazil, we think it's a little weaker than what the public numbers have stated and that's a company that's struggling a bit right now. In Europe, we see Europe stabilized at about a 1.5% growth rate, which is actually a little bit surprisingly strong to me and my partners here at Carlyle. In China, China has -- I think we have been a little less optimist in in terms of their reporting 7% growth rates. We think it's somewhat less than that. It may be a function of our indicators with there's or timing differences but we think it's a little weaker than that. Still, the envy of the world in terms of its growth rate. My personal opinion is they spend a little too much time working on the stock market and not enough time working on the general economy, but they don't ask me my opinion on that.

But I would say, remember the United States is today, the growth economy of the world and other people are looking to America. I would say that generally, it looks to me like it's in pretty good shape. Still not seeing a dramatic improvement caused by the fall in energy prices. Everybody talked about the fact that is saved US consumers $200 billion. Well, I don't know exactly what they're doing with it, but they -- no very strong growth there in consumer spending that we're seeing. But generally pretty good results are the indicators. David?

David Rubenstein - *Carlyle Group LP - Co-CEO*

For those who may not be familiar with what we're referring to, economic indicators. We have several hundred companies that we own on behalf of investors or have significant stakes in. So our chief economists, Jason Thomas and others in the firm, gather the data from our companies and then correlate it with macro economic factors and generally, can come up with a pretty good view on where the economy's going.

We often are asked by our investors to give some insights into the economy and we often use this data as appropriate. Sometimes economic policymakers ask us for our insights as well and we share that when it's appropriate. It's been something we've found to be a very useful device and I think it's a pretty good indicator for us about where economies are going. So we do tend to look at it quite carefully.

Brennan Hawken - *UBS - Analyst*

Just on the 2.5% in the US, thanks for that, is that a number that you all are seeing strengthening or is that fairly stable? What's with the expectation around that?

Bill Conway - *Carlyle Group LP - Co-CEO*

It's been stable for, I would say, the last 9 to 12 months. It's changed a little bit. For example, manufacturing seems to be a little weaker, particularly those energy related. CapEx has been down. Consumer durables are a little less than the 2.5%. Retail sales data in the public were down slightly in June. I think they were down about 0.6% net of inflation. We're actually seeing a little stronger than that. So it varies across the various parts of the market. Once again, residential construction, very strong.

Brennan Hawken - *UBS - Analyst*

Great. Thanks for the color.

Operator

Thank you. Our next question comes from the line of Michael Kim from Sandler O'Neill. Your line is open.

Michael Kim - *Sandler O'Neill - Analyst*

Okay. Good morning. Maybe just from a P&L perspective, one of the dynamics a couple of your peers have been talking about, is a potential step up in earnings as they transition from first time funds to subsequent vintages without the need for a lot of incremental costs. I know your model's a bit different, but it does seem like a fair amount of capital raising is coming from next vintage funds. Just trying to get a sense of the potential dynamic there beyond sort of the upfront fundraising costs that you highlighted earlier?

David Rubenstein - *Carlyle Group LP - Co-CEO*

Sometimes what we're trying to do is not just go back to our existing investors, but to develop new channels that hopefully over many years will come in many different funds, just not the one that we might be focused on in that particular time. We do use organizations that provide so called feeder funds. They are ones that do cost a fair amount of money to use, but they give us individual investors who are quite significant, addition to what we might get from sovereign wealth funds or public pension funds. So a lot of the costs deal with some of the feeder funds and we do think that's a good channel to use.

We have not been going to non-accredited investors. That's not been what we have been doing generally. These are credited investors that are rounded up by organizations like those on the phone now as part of their business. And sometimes that costs a little bit more than regular fundraising would cost. As you suggest, we have a different model. We raise a lot of different funds. Some of them are second or third generation and maybe they're a little bit more cheaper -- a little cheaper to raise, but on the other hand, they tend to be much bigger in size. Costs are higher than sometimes the first fund might be. Curt?

Curtis Buser - *Carlyle Group LP - CFO*

David, as you pointed out in your remarks before, we're raising our next generation mid-market fund, US real estate, NGP funds at a much larger size as 50% to 100% larger than where we were before including energy mezzanine. We're optimistic with respect to our debt distress funds. All of that will translate into higher profitability. As we pointed out, especially once we get the fundraising costs behind us.

David Rubenstein - *Carlyle Group LP - Co-CEO*

If we were paying money to get people into funds that we couldn't really raise, it would be one problem, but these funds are oversubscribed. We're just trying do diversify our investor base a bit which I think maybe in times when it's harder to raise money, it will come in good stead. But right now we're really laying the groundwork for many years in the future.

Curtis Buser - *Carlyle Group LP - CFO*

Got it. That's helpful. Thanks for taking my question.

Operator

Thank you. Our next question comes from the line of Patrick Davitt from Autonomous. Your line is open.

Patrick Davitt - *Autonomous - Analyst*

Good morning, guys.

David Rubenstein - *Carlyle Group LP - Co-CEO*

Good morning.

Patrick Davitt - *Autonomous - Analyst*

There's obviously been increasing focus on China for obvious reasons. Could you give us the market value of your inground capital there or some idea of how exposed you are there? It doesn't look like you have many large publics, but I suspect there's some privates.

Curtis Buser - *Carlyle Group LP - CFO*

In our release we provide data by the funds back in the Corporate Private Equity Segment page as you will see by fund, the committee capital, cumulative invested capital and then you also, where we show essentially remaining fair value by funds and then whether or not they're percent invested in carry. So we can go through and it spells out Asia Partners III, for example with $2 billion of remaining fair value in the ground at a 1.4 times walk. And you can just go through there and you'll see the Asia funds, a good portion of that, not all, but a good portion of that is within China and the rest of Asia.

Patrick Davitt - *Autonomous - Analyst*

Do you have a broad guideline, 75%?

David Rubenstein - *Carlyle Group LP - Co-CEO*

50% if you would like an estimate.

Curtis Buser - *Carlyle Group LP - CFO*

Okay. Cool. Thank you.

Operator

Thank you. Our next question comes from the line of Ken Hill from Barclays. Your line is open.

Ken Hill - *Barclays Capital - Analyst*

Hey. Good morning, everyone.

David Rubenstein - *Carlyle Group LP - Co-CEO*

Good morning, Ken.

Ken Hill - *Barclays Capital - Analyst*

I just wanted to quickly touch on you guys did the $7 million common unit offering at the beginning of June. It seemed to make a lot of sense just given where this load is but I think the stock is close to -- it's off close to 15%, 16% since then and clearly not looking to draw any corollary there but it's probably fair to say it wasn't as well received by the market as you might have hoped. If we look forward still float is one of those areas where you have some room to come up relative to peers. Are you guys thinking about using any additional means to increase your float over time?

David Rubenstein - *Carlyle Group LP - Co-CEO*

There's nothing to announce right now on that, but obviously we recognize that we have a lower float than many of our peers. And I think a bigger float is generally a good thing, generally. But we have no plans right now to announce anything or anything that we can talk about on this phone call. Generally, we wanted to give our internal people some liquidity. Because most of the people in the firm, what you do with their liquidity is they put it into our funds and a lot of them wanted to invest in some of the funds. Right now, I think we're happy with where we are.

Ken Hill - *Barclays Capital - Analyst*

Okay. Thanks very much.

Operator

(Operator Instructions)

That's all the questions that we have in the queue at this time. So I would like to turn the call back over to speakers for closing remarks.

Daniel Harris - *Carlyle Group LP - IR*

Thanks, Andrew and thanks everyone for joining us on the call today. If you have any followups, feel free to give investor relations a call. Otherwise, we look forward to talking to you next quarter. Thank you.

Operator

Ladies and gentlemen, thank you again for your participation in today's conference. This now concludes the program and you may all disconnect your telephone lines. Everyone have a great day.
