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The Carlyle Group LP (CG)

Q1 2017 Earnings Call

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CORPORATE PARTICIPANTS

Daniel F. Harris
Managing Director & Head-Public Investor Relations, The Carlyle Group LP

David M. Rubenstein
Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP

William E. Conway, Jr.
Co-Founder, Co-Chief Executive Officer and Managing Director & Chief Investment Officer, The Carlyle Group LP

Curtis L. Buser
Chief Financial Officer & Director, The Carlyle Group LP

OTHER PARTICIPANTS

Michael J. Cyprys
Analyst, Morgan Stanley & Co. LLC

Patrick Davitt
Analyst, Autonomous Research US LP

Craig Siegenthaler
Analyst, Credit Suisse Securities (USA) LLC

Michael Needham
Analyst, Bank of America Merrill Lynch

Ben Herbert
Analyst, Citigroup Global Markets, Inc.

Chris Kotowski
Analyst, Oppenheimer & Co., Inc.

Robert Lee
Analyst, Keefe, Bruyette & Woods, Inc.

Kaimon Chung
Analyst, Evercore Group LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen and welcome to The Carlyle Group First Quarter 2017 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session and instructions will be given at that time. [Operator Instructions]

I would now like to turn the conference over to Daniel Harris, Head of Investor Relations. You may begin.

Daniel F. Harris

Managing Director & Head-Public Investor Relations, The Carlyle Group LP

Thank you, Nicole. Good morning and welcome to Carlyle's first quarter 2017 earnings call. With me on the call today are our Co-Chief Executive Officers, David Rubenstein and Bill Conway; and our Chief Financial Officer, Curt Buser. Earlier this morning, we issued a press release and detailed earnings presentation with our first quarter results, a copy of which is available on our Investor Relations website. Following our remarks, we will hold a question-and-answer session for analysts and institutional investors. To ensure participation by all those on the call, please limit yourself to one question and one follow-up and return to the queue for 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

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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 Factors 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 David for his remarks.

David M. Rubenstein

Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP

Thank you, Dan. Thank you for joining our first quarter 2017 earnings call. We want to highlight three key messages on today's call. First, we produced our second strongest value creation quarter since our public offering five years ago, as measured in economic net income, thereby enhancing our ability to deliver future distributable earnings. Second, because of our strong investment performance as well as the favorable fundraising environment, our fundraising efforts are accelerating and we are increasingly confident that we can raise our targeted $100 billion in new capital from 2016 through the end of 2019. And third, our investment activity remains robust and because of the edge we are creating on transactions, we expect to be able to continue to deploy capital into attractive new investments despite high asset prices and heavy competition.

Let me now put some additional context around these messages. First, we delivered solid across the board fund appreciation resulting in an exceptionally good quarter for ENI, specifically we produced $400 million of ENI during the first quarter of 2017 or $1.09 per unit after tax eclipsing the ENI levels for each of the full years of 2015 and 2016. The strength in economic net income also drove a substantial increase in our net accrued carry balance from less than $1.1 billion last quarter to more than $1.4 billion today for an almost 35% sequential increase in accrued carry.

For the first quarter of 2017, we generated $55 million in distributable earnings or $0.13 per unit and declared a distribution of $0.10 per units to unitholders. Our first quarter carry generating exits were lighter than in recent quarters partially due to timing. As we said last quarter, realized carry this year will likely be lumpier on a quarterly basis due in part to smaller percentage of our carry fund portfolio being in liquid public securities.

That said, we already have almost $4 billion of exit schedule to close over the next few quarters. Bill will talk in more detail about the performance of our individual funds, but almost all of our funds are performing very well. Our overall carry fund portfolio appreciated 6% in the first quarter and we created value in our funds across sectors, regions and throughout the capital structure. This strong performance combined with a very favorable environment gives us great confidence in our fundraising goals.

Let me now provide more color on the fundraising environment and then turn to our fundraising results and plans. Today's fundraising environment is one of the strongest I have seen in my 30 years in private equity. Investors continue to struggle to achieve attractive rates of return in traditional asset classes and as a result in general, they're clearly increasing their allocations to alternative asset classes, a segment of the market that has historically substantially outperformed public equities.

In particular, we continue to see growing interest from sovereign wealth funds and from family offices among others. Institutional investors are consolidating their number of GP relationships and one result of this consolidation is that institutional investors are entrusting their money disproportionately to those firms with strong track records and the ability to deploy significant amounts of capital around the world.

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For the quarter, we raised $3 billion of new capital including almost $1 billion in real assets and $1.4 billion in investment solutions. Perhaps more importantly based on the funds that we have in the market, we expect to see an acceleration of fundraising for the remainder of 2017 and the next two years. In fact, we've already closed on more commitments in the first five weeks of the second quarter than we did in the entire first quarter of this year.

Based on the sequencing of fund closings, we expected our fundraising for the remainder for this year will be heavily weighted towards real assets, with corporate private equity picking up during the latter part of 2017 and then accelerating throughout 2018. In addition, we have several attractive credit and investment solutions opportunities in the market today, focusing on 2017 and real assets in particular. Our next vintage opportunistic U.S. real estate fund has commenced fundraising and demand is strong. We just had a very substantial first close for this fund and we expect the new fund to be materially larger than its $4.2 billion predecessor fund. Again, our ability to attract capital is based on the strong historic performance of the U.S. real estate team.

NGP has also begun fundraising for the next vintage U.S. focus energy fund, NGP Fund XII, which will have its first close in the next few quarters. Their first 11 funds have all preformed well. We are also raising capital for our new global infrastructure fund and Core Plus real estate funds. Real assets carry funds will likely comprise approximately one-third of our $100 billion fundraising target. In corporate private equity, many of our funds are quickly moving towards a launch for the next generation fund, specifically both Carlyle Partner VI and Carlyle Asia Partners IV are more than 70% committed or invested. Carlyle Europe Partners IV is more than 60% committed and invested. And our most recent financial services fund is more than 80% committed.

As a result, we expect to have many of our large buyout funds and our third financial services fund which has had very high levels of distributions the last year return to market later this year. We expect 2018 to be a significant year for closes in corporate private equity funds. We expect corporate private equity to comprise a bit more than one-third of our $100 billion fundraising target. On global credit, last quarter we highlighted that one of our strategic priorities was building a much more significant global credit platform. Already today we have a leading global CLO business, a high performing distressed investing business and a fully reloaded energy credit business. We have several other credit strategies in place or in fundraising, and yet we see substantial white space to raise and invest new credit strategies for our LPs. We expect global credit to be approximately 20% of our fundraising target.

Moving on to investment solutions. Fund performance remains exceptional and its reputation and success with new investors continues to build. The net performance of its funds across the past year was excellent, 15% appreciation after posting an increase of 23% in 2015. On fundraising, the AlpInvest Secondaries program reached $6.5 billion in the first quarter and activity for AlpInvest new co-investment fund is off to a strong start thus far in the second quarter.

Our real estate solutions platform, metropolitan real estate is also raising a new secondary fund and has strong initial interest. Investment solutions will be about 15% of our $100 billion fundraising effort. For our fund investors, we believe our new fundraising efforts will provide attractive opportunities to deploy large amounts of capital and achieve premium returns to Carlyle. For unitholders, these new funds result in growing fee related earnings and fee earning AUM over time.

Bill?

William E. Conway, Jr.

Co-Founder, Co-Chief Executive Officer and Managing Director & Chief Investment Officer, The Carlyle Group LP

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Thank you, David. Last quarter, I concluded my remarks by highlighting that 2017 would be a transition year as we rebuild our carry accrued balance and focus on four priorities. Specifically, first we are continuing to invest wisely which is our most important job. We invested $4.4 billion in the first quarter and $17 billion over the past year. Our carry fund portfolio appreciated 6% in the quarter and 18% over the last 12 months. Second, we are progressing toward our goal of raising approximately $100 billion from 2016 to 2019 as David just mentioned. Third, we are building our credit business into a much more significant global platform. And finally, we are working to clean up some of the issues that have negatively impacted certain parts of our business.

Let me spend a few minutes on the economic and the investment environment then turn to our fund performance and some of the transactions in the quarter. Economically, we see evidence of a synchronized global recovery. Industrial order books look strong across virtually all of the economies we track including the United States. I would not read too much into the headline GDP figure of 0.7% growth reported last week. Outside of automobiles, where there is genuine weakness, we see no evidence of a slowdown in consumption which was the main driver of the weak first quarter estimate. More importantly, government data captured the same recovery in business spending that we have observed in our portfolio and have reported to our LPs over the last several months. It is clear to us that CapEx has rebounded after a difficult two years.

Overall, U.S. economy looks to us to be growing roughly a full percentage point faster than it was last year at about 2.4% versus 1.5% last year. Despite this rosy economic environment, the investment environment remains challenging, characterized by high prices and significant competition. During this period, we have focused on finding deals where Carlyle has an edge and if we do, we'll aggressively pursue those transactions.

Depending upon the transaction, our edge might include deep industry expertise in our core investment sectors, our ability to pursue a complex corporate carve out or having the management team for a particular business challenge. When we have that edge, we are more comfortable buying those assets in a high price environment. Without this edge, we generally will not pursue an investment. Our carry fund portfolio appreciation during the quarter was broad and deep. Corporate private equity was up 9%, GMS up 7%, Real Assets up 5%, and Investment Solutions up 3%.

The appreciation in CPE carry funds reflects Carlyle portfolio EBITDA growth of approximately 8.5% during 2016. Both our Asian and European CPE portfolios showed double-digit EBITDA growth over the past year.

Specifically, within our funds, in U.S. buyout, Carlyle Partners V appreciated 21% in the quarter, largely driven by strong valuations for assets involved in a potential exit process. While our current vintage U.S. buyout fund Carlyle Partners VI appreciated 7% in the quarter on strength across the portfolio.

Last week, we announced the recapitalization of PPD, the contract research organization that we've owned since 2011 in Carlyle Partners V, and where investors in that fund will make almost four times their money.

In Asia buyout, our latest fund, Carlyle Asia Partners IV appreciated 25% in the quarter on the back of strong appreciation in India-based PNB Housing and other investments. We've long felt that we have the best investment teams in China and Japan, and recently our business with India has become much more substantial.

PNB Housing is now our third largest public position with a fair market value of over $1 billion. Carlyle Europe Partners IV was up 7% in the quarter, with a broad-based portfolio appreciation. Carlyle Europe Technology III was also up a similar amount, and Carlyle Japan Partners II and III were both up about 10%. In Natural Resources, NGP XI was up 16% in the quarter, and our international energy fund appreciated 6%. Both of these funds have been very active on new investments.

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And in Real Estate, our carry funds were up another 5% in the quarter, following appreciation of 19% in 2016. As David said earlier, this type of performance is driving solid early momentum in raising our next generation of opportunistic Real Estate funds.

I mentioned these numbers in detail, because they reflect what our limited partners expect of us, investment excellence. In terms of new investments completed in the quarter, we closed among others Adi Tech where we invested over $1 billion across several of our global buyout funds into a leading international specialty chemical company. Golden Goose Deluxe Brand, a leading footwear and fashion company in Europe and Asia. Arctic Glacier, a manufacturer of packaged ice for Canada and the U.S., and the fifth investment of our long-dated Private Equity Fund.

Delhivery Logistics, an Indian deal and Asia buyout, which provides technology, fulfillment and logistics solutions and several transactions in our real estate, energy and distressed funds. During the call last quarter, I noted that we had about $3 billion in announced new investments not yet closed across the platform.

In the first quarter, even though we invested $4.4 billion of new equity, we still have more than $3 billion in pending investments that are not yet closed. On the realized proceeds front, it was a relatively quiet quarter.

We realized proceeds for our fund investors of $3.5 billion in the quarter, and almost $29 billion over the last 12 months. We completed block sales in Focus Media and Bank of Butterfield and closed transactions for ITRS in Europe and Edelweiss Financial Services in India. We did several significant recapitalizations as well, taking advantage of strong debt market. Of the $3.5 billion in realized proceeds this quarter, just over 50% was from Investment Solutions, where realized proceeds do not yet generate for us significant carry.

Our Energy business has been particularly active investing over the past few months. Our International Energy business announced one large investment, the purchase of Shell's onshore producing business in Gabon in Central West Africa, where our teams have substantial experience preceding their time in Carlyle.

Our Energy Lending business supported Hilcorp with a $600 million preferred stock investment in connection with the purchase of Conoco San Juan Basin assets. Our Power business agreed to buy three more natural gas fired power plants. And NGP, recently raised a $550 million new SPK and continues to commit and invest capital from NGP XI. NGP has had a high level of exits as well, selling over $3 billion of assets just in the Permian Basin over the past year.

The high level of activity across our Energy business demonstrate the size and differentiated investment capability of our platform. In summary, as we look across the firm, given the environment we face, we believe that our teams are doing a great job of finding new investments, building value and taking advantage of exit opportunities. While this year remains an important transition year, our investment performance as evidenced by our ENI and the growth of improved carry convinces us that we are on the right track.

Let me now turn it over to our CFO, Curt Buser.

Curtis L. Buser

Chief Financial Officer & Director, The Carlyle Group LP

Thank you, Bill. Economic net income of $400 million this quarter was our highest since the fourth quarter of 2013. This growth in ENI was driven by strong appreciation and value creation across the portfolio, generating $394 million of net performance fees.

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Most impressively, about 65% or over $250 million of net performance fees in the quarter were generated by our current generation of funds that are continuing to invest. These are precisely the funds that will produce a substantial amount of our realized carry over the coming years as our current generation of funds complete their exits.

Assuming our portfolio continues to perform well, we expect ENI to continue to exceed distributable earnings and further build our net accrued carry balance in the near term, position us well for future cash earnings.

As said, I am mindful that one good quarter is not a trend, and ENI is inherently unpredictable due to the nature of mark to market accounting. ENI can also be volatile for funds that are moving through the carry waterfall into a full carry position. Fee-related earnings were $26 million for the first quarter, and $131 million over the last 12 months, excluding the impact of the commodities charge in the fourth quarter of 2016.

As I said last quarter, fee-related earnings and fee earning assets under management are expected to grow again in 2018 after raising new capital and activating the related fees. As you know, upon raising new capital, we expense the cost of fundraising up front, which has a short-term negative impact on results. But higher levels of fundraising lead to long-term growth in revenues and fee-related earnings.

As we've done in the past, we will continue to actively manage operating expenses, while also building scale and new products in several areas. Over last 12 months, direct and indirect base compensation expense declined 8% from the prior period, and equity-based compensation has remained relatively flat in the first quarter at $30 million.

During the balance of 2017, fee-related earnings will likely remain below last year's level due in large part to fundraising costs, but also due to further investment in growing our credit business. Both of these investments will pay dividends for Carlyle and unitholders in the medium to long term.

Now, let's turn to a review of our business segments. Corporate Private Equity produced distributable earnings of $35 million, down from $105 million in the first quarter of 2016 reflecting an approximately $40 million decline in realized net performance fess as compared to a year ago.

Fee related earnings in Corporate Private Equity were $10 million this quarter, down from $32 million in the first quarter of 2016, reflecting lower management fee and transaction fee revenue, while cash compensation was 7% lower year-on-year.

As we raise our new CPE funds and turn on fees, fee-related earnings in Corporate Private Equity will once again grow. Economic net income of $313 million exceeded the six prior quarters combined, and was substantially higher than distributable earnings, building our accrued carry balance in CPE.

During the first quarter, 16 different Corporate Private Equity carry funds and co-investment vehicles produced growth and accrued carry due to strong appreciation, while eight had decline largely from exits. Moving on to Real Assets. Economic net income in Real Assets was $59 million for the quarter, about the same as the $62 million generated a year ago.

Moreover, accrued carry in Real Assets has been growing sharply over the past five quarters as both U.S. real estate and Natural Resources has seen strong fund performance. Real Assets' net accrued carry stood at $341

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million at the end of the first quarter 2017, nearly four times the $92 million at year-end 2015, demonstrating our growing earnings power in this segment.

Real Assets produced distributable earnings of $4 million, with $5 million in fee-related earnings and $7 million in realized net performance fess, partially offset by an $8 million realized investment loss from our plan. Fundraising for Real Estate Fund VIII and NGP Fund XII is well underway, and growth in management fees should positively impact fee-related earnings in the segment by year-end.

Turning to Global Market Strategies, fee-related earnings, economic net income and distributable earnings in GMS were higher in the first quarter of 2017 than they were a year ago. Albeit, still at lower levels than we would like, and lower than we expect it would become over time.

Fee-related earnings moved back into positive territory as we turned on fees in our recently raised distressed fund. We will continue to invest heavily in building the credit business, and expect some upwards pressure on expenses.

Importantly, we saw positive performance in the quarter from many of our GMS funds, including our distressed funds and our BDC. In Investment Solutions, our financial results continue to improve from prior-year periods as our more focused approach on private closed-end fund investing has led to improved results and stronger fundraising. Fee-related earnings were $8 million in the quarter, compared to $3 million in the first quarter of 2016. And fee-related earnings of $23 million over the past year.

This earnings growth has been supported by strong fundraising for our recently-closed AlpInvest Secondaries program and the elimination of loss-making businesses early last year. The impact of raising new capital and continued investment in these teams will cause some short-term upward pressure on expenses. So we are actively managing the growth opportunities in this segment.

Summing up, as we said last quarter, 2017 is an important transition year in which we will build for the future. Results this quarter show good progress towards achieving our goals, and position the firm for growth in 2018 and thereafter.

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

David M. Rubenstein

Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP

Thank you, Curt. The first quarter was notable for a number of developments, including the exceptional growth in net accrued carry of more than $350 million, all of which positioned us well for the future.

We are confident in our ability to raise substantial funds over the next few years, and our investment performance has been excellent and unitholders should look forward to the positive impact that these fundraising efforts and strong investment performance will have on future earnings.

We're now ready to take your questions.

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QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from the line of Michael Cyprys of Morgan Stanley. Your line is now open.

Michael J. Cyprys
Analyst, Morgan Stanley & Co. LLC

Q

Great. Good morning. Thanks for taking the question.

William E. Conway, Jr.
Co-Founder, Co-Chief Executive Officer and Managing Director & Chief Investment Officer, The Carlyle Group LP

A

Good morning.

Michael J. Cyprys
Analyst, Morgan Stanley & Co. LLC

Q

Just wanted to circle back to credit, you mentioned white space for new credit strategies there, just can you elaborate a little bit more in terms of the types of strategies that can make sense for Carlyle here, you also mentioned you're investing heavily in the business. If you could just talk a little bit about how you're planning to do this, do acquisitions make sense or team hires, just any sort of color on how you're going to be building this out?

William E. Conway, Jr.
Co-Founder, Co-Chief Executive Officer and Managing Director & Chief Investment Officer, The Carlyle Group LP

A

I'd say – this is Bill Conway, in terms of the white space, that part of your question, some products of our credit business are very strong, for example, the CLO business, and the BDC is strong, and our distressed business is very strong, our Energy Lending business is strong.

But there are some places, where we have really no business or very little for example, real estate credit would be an area that might be of interest to us. Opportunistic credit, I think is an area that we'd try to build out as well. And there are others.

Now, in terms of how we build this out, I think that, we're open to acquisitions or organic growth. I think, generally we probably would favor organic growth, it enables people to be part of Carlyle, One Carlyle in our overall culture. I think, it can be cheaper to do sometimes, although it's not as fast to make that happen, so it's a balancing act. We're very pleased with the job that Mark Jenkins has done in leading that platform since he joined us from CPB (sic) [CPPIB] (26:38) and he's adding some talent as well.

He can't run these businesses alone, and he's adding some very good people to help him. And of course, as David said, raising the money to invest by the credit platform. Our accounting methods as we expense the cost of fundraising, at this time we raise the money, and then of course we'd hopefully get the benefit of investing that money for years to come. So those are some of the costs that we'll have to absorb as we build the business.

Michael J. Cyprys
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thanks. So just as a follow-up question, you mentioned that you're working to clean up some of the issues that had impacted your business, I guess, over the past year. Can you just elaborate a bit more in terms of what

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exactly you're doing at this point to clean up the issues, what sort of actions are you taking, is there any sort of restructuring or changes that we could see at Carlyle?

David M. Rubenstein
Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP

A

Well, first of all, I'd point you to disclosures we've made in our 10-K and previous reports that we've made to the SEC. And I think, some of the problems are pretty well known in our commodities business. We're still awaiting a decision on CCC, [ph] UR Plan (27:48) is an area where we've – for quite a while we've been thinking we're relatively close to the end of getting that cleaned up. So we continue to work all those issues. And I think we're making progress on all the fronts, but I'd point you to – for my protection and yours to the disclosures that we've made in our SEC filings.

Michael J. Cyprys
Analyst, Morgan Stanley & Co. LLC

Q

Okay, fair enough. Thanks for taking my questions.

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

Patrick Davitt
Analyst, Autonomous Research US LP

Q

Hey, good morning, guys. Thank you. You mentioned realizations as a driver – part driver of the marks, was that really just PPD or would you mark something up that hasn't been publicly announced? And within that, could you help segment how much of the mark was from things like PPD versus just kind of normal EBITDA appreciation? And also how much was catch up versus kind of normal 20% carry?

Curtis L. Buser
Chief Financial Officer & Director, The Carlyle Group LP

A

This is Curt, hey, thanks for your question. Really, I mean, what's impressive about this quarter was the broad nature of the appreciation. Keep in mind, our public portfolio was smaller than it's been in the past. So a lot of the appreciation really is on the private side. Net ow on the public side, we had benefits of like PNB in our Asia IV buyout fund, which appreciated significantly across, very good appreciation in that fund.

But you're also really across the portfolio, not just things like exits like PPD, as you point out this in the exit process. But other – sales opportunities that we have, so we get very good market data, but really, I appreciate what Bill said before, EBITDA is up across the portfolio. Wwe're seeing top line revenue growth, and so that's coming across really throughout everything.

And if you look at page 11 of the earnings release, you'll just see right there that in the quarter, Corporate Private Equity was at 9%, and that really drives a lot of the appreciation that you're seeing. Real Assets up 5% in total with 7% in Natural Resources.

So the Energy business is doing very well, and then, just as we said on the call, in our prepared remarks, 7% in Global Market Strategies, and then Investment Solutions which doesn't contribute that much at this point to carry, but will hopefully in the future, 3%.

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So really strong appreciation across the board, really being driven by performance. And again, I would say, just pointing out, one of the challenges that we have is that the public piece is a little smaller and so that's really not driving as much. It's really the private piece that's driving, not the public piece, and that's how we're kind of managing this. Hopefully that helps.

Patrick Davitt
Analyst, Autonomous Research US LP
Q

I guess, real quickly then on the catch up part, if you don't want to separate it, which funds are still kind of generating or getting through that 80/20 waterfall?

Curtis L. Buser
Chief Financial Officer & Director, The Carlyle Group LP
A

So one of the things I said in my prepared remarks were roughly $250 million of the $394 million of net performance fees in the current quarter were generated by our current generation of funds. So Carlyle Partners VI, Asia Buyout IV were two big contributors as well as a whole host of others.

But those are two big ones that really contributed significantly. They're now pretty much through their waterfall, but movement on valuations, especially with funds that continue to invest is when you make a new investment, that's coming in essentially at cost, and so that will put essentially downward pressure on valuation.

So there's still volatility, and that's why I made the points on the ENI to point out the volatility that's just fundamentally inherent in ENI. I do think, ENI is going to grow over time, but look, there's going to be quarters where it just backtrack, and so it won't be a linear growth, but it will growth.

Patrick Davitt
Analyst, Autonomous Research US LP
Q

Okay, cool. That's helpful.

Operator: Thank you. Our next question comes from the line of Craig Siegenthaler of Credit Suisse. Your line is now open.

Craig Siegenthaler
Analyst, Credit Suisse Securities (USA) LLC
Q

Thanks, guys. First, on fundraising, so with Real Assets likely the big driver in 2017; and 2018 looking like a really big Private Equity year. Can you remind us, how the next vintage of your Real Asset and Private Equity Funds that you're going to be marking over the next will generate management fees, so sort of the timing on how that will work, and also any commentary in terms of the net fee increase would be helpful as we think about the loss of fees in older vintage funds?

Curtis L. Buser
Chief Financial Officer & Director, The Carlyle Group LP
A

Sure. So this is Curt, I'll start and then Dave, he can probably provide you some more color on the fundraising itself. So from an earnings perspective, this year, two big funds as we mentioned, Carlyle Real Estate Fund VIII and NGP Fund XII, we expect both of those funds to do well from a fundraising perspective.

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They should turn on fees somewhere at the end of this year, beginning of next year. That will have a big influence in terms of driving up revenues, and then therefore, fee-related earnings as we approach beginning of 2018. That gives us a bit of uplift. You're also going to have some of the big Corporate Private Equity funds also in the market, and as we've said, that will have a big impact really on 2018, and will drive further growth.

Now, when you think about kind of forward numbers, I hate going to forward guidance and forward numbers, but given your question, I think, the right thing to do is to go back into our past and think about what we've done before. So if you go back to 2014, and that was really the end of our last big fundraising cycle, we generated about $250 million of fee-related earnings in 2014. I think, that's a number that we can hit again, and I think, that's the right way to kind of think about what you're going to start to see.

And as I said before, you're going to see the recovery in fee-related earnings and Real Assets. And then in 2018, you're going to see CPE being raised, and so that will really have a benefit at the end of 2018 and into 2019. But again, in the short-term, you're going to see these fundraising costs, and so 2017 is going to be a transition year as we kind of complete the fundraising for the stuff we have going on this year. Hopefully that gives you the color you're looking for?

David M. Rubenstein A
Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP

Let me add two points. First, we obviously have a lot of funds that are going to be in the market this year and next year, and we had tried and thought we could sequence them, because we didn't want to have too many funds in front of investors at once, but the truth is, there's so much demand for our funds that we have not found that to be a problem, and we have many investors who are saying, well, I want to be in all of your buyout funds, don't give me just one or two to talk about, I'm willing to go into your U.S. fund, your Asia fund, your Europe fund, your Japan fund.

And so, this is something that's different than what we've seen before. There's just incredible demand across the entire spectrum of investors for private equity products from firms like ours. So I think we can raise it, and I also think it will be in pretty good sizes, I suspect, we will hit the cap in every one of the funds that we have in the market.

Another point I'd like to make, and the second point is that the fees related to these funds. I don't want to say that there's no fee pressure ever, and that no investor would like – would be upset with a lower fee. But the truth is that, investors are really focused less on the fees at this point than getting access to the funds, getting the full allocation they want into a fund, and getting the co-investment kind of opportunities that they want, and that's what you're really discussing more of with investors, co-investment, can they get into the fund, can they get the full amount of the fund, and when do they have to participate in the fund, and when will the closings be?

So there may be some points that may change, but right now, the fees that we want to charge, and I suspect our peers, are really pretty much being accepted by investors in part because they realize even the net fee, a net return that they're getting if the fees is very, very attractive.

Craig Siegenthaler Q
Analyst, Credit Suisse Securities (USA) LLC

Thanks. And then, just as my follow-up, I wanted to come back to C corp conversion, I want to see if you have any updated thoughts on what it would take for you guys to convert from tax reform, and also if you do convert, I know there's a few different models you can use. Do you have a preference as sort of more of a controlled C corp

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where there's not the full kind of corporate governance you get with a standard C corp, but you may be prevented from getting in the indexes with that version?

William E. Conway, Jr.
Co-Founder, Co-Chief Executive Officer and Managing Director & Chief Investment Officer, The Carlyle Group LP

A

Look, we continue to look very carefully at really everything that the government is doing, and looking at them from a tax reform perspective. And there's clearly – it's some combined tax reform approach that would make sense for us to convert. Now, the problem is telling you exactly kind of what the right model or mosaic of components that's going to grow that, really need to kind of wait to kind of see what really actually gets put in place, so that we can evaluate all the right components.

But clearly, at some point, you're going to see – if tax, the tax rates drop far enough, it would be attractive. Also, as you look at our sector in total, we're all similarly structured. The challenges or the opportunities that we all face are similar, especially as it relates to tax structure and the like.

And so, I think if you see a change, we'll probably all look at it similar in terms of kind of making a movement. And so, it's really hard to predict exact timing and exact rates and exact components, but we'll wait and watch and monitor.

Curtis L. Buser
Chief Financial Officer & Director, The Carlyle Group LP

A

Let me just add to that if I could, that the President's proposal is still too vague to really know exactly what the details will be, because he's proposed one page so far, at least that was what was proposed a week or so ago. The tax bill that ultimately will pass and I suspect some tax bill will pass will probably be 1000 pages or so as opposed to these comprehensive tax bills are.

So until you see the details, it's really too early to know what the impact will be, but the fact that your question is being asked and other people ask it, shows that there's enormous interest in the stocks of our companies, and there'd be even more interest if there was a conversion, I suspect, and we'll just have to wait and see whether the corporate tax rate is low enough, and whether the other factors are consistent with our making a conversion. It's just, I suspect, it's six months or nine months away before you can really know.

Craig Siegenthaler
Analyst, Credit Suisse Securities (USA) LLC

Q

Thanks you.

Operator: Thank you. Our next question comes from the line of Mike Carrier with Bank of America Merrill Lynch. Your line is now open.

Michael Needham
Analyst, Bank of America Merrill Lynch

Q

Hi. Good morning. This is Mike Needham in for Mike Carrier. First, just another one on returns. Certainly, a strong quarter for your fund returns. I understand the returns can be impacted by a couple of things getting marked up, and the quarters are volatile, but if I look at CP V up 21% on the quarter; CAP IV up 25%, that'd be a good full-year return? So, I guess, are you seeing fundamental improvements across the private equity holdings, like revenue or EBITDA growth that's driving more long-term fund appreciation or is it going to be more idiosyncratic?

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William E. Conway, Jr.
Co-Founder, Co-Chief Executive Officer and Managing Director & Chief Investment Officer, The Carlyle Group LP
A

Mike, this is Bill. I think that, we are seeing improvements in both the economy and in the performance of our portfolio companies. If you think about the growth and the valuations in the current quarter, remember, you always have to separate the valuation from the exit and the like, and what's going to finally happen on an exit, and when you're going to earn the carry and how much carry you're going to take, and lots of other variables going on. I'd say that, CP V was notable, it has a couple of large private companies in there, one is PPD, there are others, that those companies have marked up as well.

Curt pointed out that our public portfolio is actually down, probably $5 billion or so from its peak, and that obviously was more volatile, but more visible in terms of the changes in valuation. We have very, very robust valuation process that we go through. And so, to go up 21%, I would say that, that was probably for one quarter, that's a big move for a fund the size of CP V, and it was driven by a couple of big portfolio companies moving up aggressively, I'd say.

In terms of idiosyncratic, I don't think that's quite right. When I went through in my prepared remarks, I talked about Japan II, Japan III, Europe Technology, Europe Buyout IV, CP V and CP VI. I think, it's been pretty broad across the entire CPE portfolio, as well as it has been across the Real Assets portfolio.

Now, of course, the other side of it is, you find an attractive asset, you think you've reached a price that you find is satisfactory, you sell it. What happens is, well, your assets under management go down, you no longer earn management fees on that. You can take a carry, you have to work to replace that. You're going to raise a new fund, you're going to have the expenses of the new fund to do that. And then you have to find someplace to put the money to work. And that isn't very easy to do today. I mean, asset prices are very high. And so, while I think they're going to stay high, you got to be pretty careful.

Michael Needham
Analyst, Bank of America Merrill Lynch
Q

Okay. That makes sense. Thank you. And then, just as a follow-up, I think, you gave the $4 billion pending realization pipeline, I don't know if maybe you guys could quantify that in terms of DE impact?

William E. Conway, Jr.
Co-Founder, Co-Chief Executive Officer and Managing Director & Chief Investment Officer, The Carlyle Group LP
A

Really hard to quantify in terms of DE impact. And part of that is also kind of timing of outcomes through – remember as that – you have to always look back through in terms of which funds and where they're in their carry situation. But generally, it will be positive in terms of carry – from a carry realization standpoint, but we have to go through the analysis at the time of exit, because what we do is, we look at the rest of the portfolio, and make sure that we're not kind of front-ending carry realization, right. We want to manage against the potential for future clawbacks, so we go through a careful process of assessing exactly where that portfolio is. So we don't like to do that actual analysis in advance, because facts change.

David M. Rubenstein
Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP
A

Bill, let me add a couple of other things. When we say we have an accrued carry balance net of $1.4 billion roughly, that in some sense is carry that the limited partners owe the general partner of the firm. But we've chosen, at this point in time, not to take that accrued carry, because either way, we think that other things can happen, we hate to be in the clawback position, so we're very cautious on that.

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Secondly, we don't actually really take carry on a deal. It's fine to say well, we sold PPD, and you're paying this, and you've generated that, and giving 20% of it and everybody will smile and run away happy. But it doesn't really work like that. You take carry on a fund. And a lot of other things are going on in a fund, new investments, other deals going up and down. So it's more complicated than just taking 20% or some different number on particular event.

I should also say, in the interest of disclosure that the PPD carry is likely to be realized over a couple of different quarters. The way the recapitalization of that transaction is structured, it looks to us right now like it will accrue in both the second and the third quarters. So we realized over two quarter, I think this one and next one

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Michael Needham
Analyst, Bank of America Merrill Lynch

Q

Okay. Thank you.

Operator: Thank you. Our next question comes from the line of Bill Katz of Citigroup. Your line is now open.

Ben Herbert
Analyst, Citigroup Global Markets, Inc.

Q

Hi, good morning. Thanks for taking my question. This is Ben Herbert on for, Bill. Just wanted to ask about, any thoughts on where we are in the credit cycle and then, that against plans for deployment over the next few years?

William E. Conway, Jr.
Co-Founder, Co-Chief Executive Officer and Managing Director & Chief Investment Officer, The Carlyle Group LP

A

Well, I would say, this is Bill again, that when you think rates can't go down, they go down even more. And it's kind of what's happened for really two decades or so, and certainly since the GFC, which would be at the beginning of it, almost 10 years ago, but even more than that really is long-term decline in interest rates and it's hard to say, well that with the 10 year, let's say at 2.20% that it's going to go a lot lower than that, but it was 1.50% or so a year ago. So it certainly can go lower.

And nonetheless, I think investors are really seeking some balance in a credit portfolio of reasonable returns. Our CLOs for a long time and even through the GFC earned pretty steady returns for our investors and so there's been significant interest in that part of the credit assets. But based upon what the LPs want, I think that there certainly is demand despite these relatively low rates for movement.

I would say in terms of low rates, as we look at our CLOs, we get almost a daily request from some, one of the hundreds of investments that we hold in our CLOs for somebody wanting a price reduction and you really have two choices, you either give them a rate cut, or you get paid out. And it's been going on for quite a while and it continues now. You look at the credit statistics and most of the credit being raised is actually refinancings, not new credit.

Ben Herbert
Analyst, Citigroup Global Markets, Inc.

Q

Thank you. And then maybe just one follow-up on some of the chatter we've seen on residual in-sourcing by LPs and what your thoughts are on if that's a trend or impacting fundraising at all.

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David M. Rubenstein
Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP

A

I'm sorry, can you repeat that. You said residual in-sourcing?

Ben Herbert
Analyst, Citigroup Global Markets, Inc.

Q

Yeah. Just in-sourcing by LPs, we've seen some increased chatter about that and just if that's impacting fundraising at all or if you think that's a trend.

David M. Rubenstein
Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP

A

Okay. You're referring to sovereign wealth funds or their equivalent doing deals themselves directly as opposed to investing in funds.

Ben Herbert
Analyst, Citigroup Global Markets, Inc.

Q

Yes.

David M. Rubenstein
Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP

A

Okay. This is the so-called Canadian model, a number of the Canadian sovereign wealth funds and pension funds have been doing deals directly where they are the GP or the co-GP and a number of those transactions have been quite visible. I think generally, we don't see this across the board through all the sovereign wealth funds and public pension funds.

The Canadian model is somewhat unique because the Canadians are willing to pay their officials in these funds as much as $5 million to $6 million a year, which is very unlikely to happen in U.S. public pension funds. And to recruit and retain people with these skills, you often have to pay a lot more than U.S. public pension funds are willing to pay. So while I think the U.S. public pension funds would like to put their toe into the water and do some of what the Canadians are doing, I don't yet see it impacting our fundraising.

Outside the Canada and in the other parts of the world, China, Asia, Middle East, I think there are people who are talking about it and I think they'd like to increase their co-investments, but I don't think they really want to be as actively involved as GPs as maybe the Canadians. It may change in time, but right now it is not impacting our fundraising, if anything people really want to just go into these funds.

And as I mentioned earlier, the biggest concern that some of the investors have now is that they're afraid they won't get their full allocation in a fund and we are telling people now and I assume our peers are doing the same, if you don't come into a first closing of some of our funds, you're not going to get your full allocation and that is really helping to drive these processes forward.

And one of the things you will notice with Carlyle in the future and because of the demand, we've often had multiple funds for our closings, but I suspect we will reduce the number of closings to a much shorter amount that we've had historically, because we just will truncate the fundraising process and more people who want to be in the first closing, they get their full allocation. To answer your question, I don't see a big impact.

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Ben Herbert
Analyst, Citigroup Global Markets, Inc.
Q

Great. Thank you.

Operator: Thank you. Our next question comes from the line of Chris Kotowski of Oppenheimer. Your line is now open.

Chris Kotowski
Analyst, Oppenheimer & Co., Inc.
Q

Yeah. You've touched on it before, but if I can come at it in a slightly different way. You mentioned the 21% depreciation in Fund V and assuming you go forward with or the press reports about the sale in PPD come through as expected and all that, some of the remaining investments in Fund V had struggled. And I wonder if other companies have talked about an escrow process or a netting whole process and what should we – how should we think about the carry potential of the remaining investments in Fund V after PPD is sold I guess is the question.

William E. Conway, Jr.
Co-Founder, Co-Chief Executive Officer and Managing Director & Chief Investment Officer, The Carlyle Group LP
A

Well I'd say, this is Bill. I'd say that there's still excellent carry potential for the remaining investments in Fund V. Each quarter, we do valuations and imagine that we have an investment in Fund V that we invested $500 million in and things didn't work out and we think it's only worth $200 million. We are in effect for purposes of calculating our accrued carry and any carry we'll really take, we're looking at that $300 million as a loss and a reduction in value that will affect the carry.

So for those that are known to be struggling, that's already reflected in the valuations of the deals and the valuations of the fund. I want to repeat what I said before, we take carry on a fund basis, not on a deal specific basis. But CP5 is a fantastic fund for Carlyle and our investors and there's still a lot of good deals left in it.

David M. Rubenstein
Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP
A

And just to add on it, Bill, I mean just to reiterate, when we're taking carry, we will generally look at the whole portfolio just as Bill said and as we've said before on CP5, sometimes we'll take carry at reduced rates. So in the past, we were as low as taking a 10% carry rather than a full 20% carry. And then we'll modulate that and look at it over time. So sometimes it goes up to 15% or back to 20%, et cetera.

And when we're doing that is we're essentially creating a carry bank, a reserve to really kind of cover some of those deals that are challenged, but that carry bank essentially sits as accrued carry, because it's carry that essentially we're owed, that we haven't taken yet and so what we're trying to do is make sure that we don't front end carry, but really that the carry comes, is realized over the remaining life of the fund as we access those remaining investments.

And so sometimes, you will see in some of our filings where we have what we'll consider a great save, where it's returned back to we realize cost or a little bit more than cost, it actually will throw up a lot of carry because we've previously reserved for it and it's set aside cashed out. So I think we're in pretty good shape in terms of CP5 in particular.

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Curtis L. Buser
Chief Financial Officer & Director, The Carlyle Group LP

A

Yeah. And let me just talk a little bit about CP5 because I'm actually pretty proud of it. CP5 was a fund that we launched in 2007 and it had a committed capital of $13.7 billion. Today, we value that fund all-in at about $26.5 billion. So it's a fund where we and our investors have almost doubled the money. Now, it's one thing to double your money on $10 million. But when you double the money on $13.7 billion and it's just a – it takes a lot of work and a lot of time. Now, the remaining fair value on CP5 at the end of the first quarter was about $5.5 billion. And obviously a big part of that is PPD. It isn't half of it, but it's a big part of it. And so, we just are – we're continuing to build value in the rest of the fund and that reflects the markups and markdowns on our valuation basis of all the assets remaining in the fund.

Chris Kotowski
Analyst, Oppenheimer & Co., Inc.

Q

Okay. Thank you. That's helpful. That's it for me.

William E. Conway, Jr.
Co-Founder, Co-Chief Executive Officer and Managing Director & Chief Investment Officer, The Carlyle Group LP

A

Thanks, Chris.

David M. Rubenstein
Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP

A

No, follow-up question like everybody else.

Chris Kotowski
Analyst, Oppenheimer & Co., Inc.

Q

I am sticking with the rule book.

David M. Rubenstein
Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP

A

We're changing the rules as we go along here, I think. So you can have a follow-up question.

Chris Kotowski
Analyst, Oppenheimer & Co., Inc.

Q

No, I mean, that was – I mean I guess everybody has their own different way of talking about this with the escrows and the netting holds and everyone seems to follow a slightly different process. And so I was just trying to think about the potential of the end of the lifecycle of some of the funds and what it can still generate in terms of cash earnings.

William E. Conway, Jr.
Co-Founder, Co-Chief Executive Officer and Managing Director & Chief Investment Officer, The Carlyle Group LP

A

Thanks, Chris.

David M. Rubenstein
Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP

A

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Well, the other thing that happens is, these funds also, they – at some point in time, you're no longer taking management fees from these funds as well. That happens at some point too and that can affect the earnings part of the cycle too.

Operator: Thank you. And our next question comes from the line of Robert Lee of KBW. Your line is now open.

Robert Lee
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thanks and good morning. Thanks for taking my question.

William E. Conway, Jr.
Co-Founder, Co-Chief Executive Officer and Managing Director & Chief Investment Officer, The Carlyle Group LP

A

Good morning, Rob.

Robert Lee
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Maybe just starting with the fundraising, just kind of curious, is there any difference or change in the complexion of LPs, I mean obviously the demand is high. So I guess also as part of that, how do you balance interests from maybe new LPs versus existing LPs who want to maintain or even up their capacity.

David M. Rubenstein
Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP

A

Well, go ahead, I'm sorry, I thought that was the question.

Robert Lee
Analyst, Keefe, Bruyette & Woods, Inc.

Q

[indiscernible] (55:07) high class problem.

David M. Rubenstein
Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP

A

Well, what we do now is we're going back with all of our major funds, we're going back to our existing investors and letting them know of our plans to raise successor funds. So we probably do inform existing investors before we tell non-existing investors and clearly we have a high re-up ratio. We're not upset if we have a high re-up ratio because if people re-up, they send the re-up for many, many funds into the future as well, but you always want to have some new investors, because there are people who are new investors who might be just starting their private equity programs.

They might not have private equity programs before and now they could be potentially large investors in the future. There are some sovereign wealth funds that are just getting into private equity. There are some large family offices that are just getting into it and there are some public pension funds outside the United States that are just getting into it. We, today, I would say that most of the private equity firms that are peers of ours, their large investors in their main funds are tend to be U.S. public pension funds which have historically been roughly 30% of the money for public firms like ours and our numbers are roughly like, something like that.

Probably 30% of the investors in our main funds are U.S. public pension funds, however, as a percentage, they're going down a bit and sovereign wealth funds are coming up a fair bit. And I suspect sovereign wealth funds are

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probably 17% to 20% of U.S. peer firms like ours in terms of their capitalization, money coming into these funds and I suspect that percentage will increase. One of the biggest increases percentage wise is now coming from family offices.

Family offices are proliferating, not in the United States only, but around the world and family offices can have as much as $10 billion or $20 billion of capital to invest and they are becoming very important, not only to us, but to all the peer firms as ours. And so that's another big increase that we're seeing as well.

And of course, and beyond the family offices that are investing directly, you're seeing a big influence and a big influx of money from the feeder funds, so the major firms like JPMorgan, Credit Suisse, Morgan Stanley, Bank of America Merrill Lynch, they are raising enormous amounts of feeder funds for us, which are coming to some extent from individual investors that might not have family offices from relatively small family offices. And some of these are new investors, but some of them are repeat investors.

I guess it's coming from across the board and I would say it's coming from all parts of the world. Today historically, Carlyle's raised about half of its money from within the United States, about half outside and that's probably what we're seeing in the future as well. It may change in time, a little bit more might come from outside the United States, but generally, we're probably in the same ratio, approximately we've been in the last couple of years about 50-50.

Robert Lee
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Great. And maybe if I could break the rules too with a follow-up question. I'm just curious with all this fundraising going on currently the next couple of years and given that there is such strong demand, is there any – is your need to put up contribute commitments of 1.5% or so at all changing and how should we think about that in any way from in terms of demands on Carlyle's cash flow and balance sheet. I mean I'm assuming the commitments in aggregate will go up, will more of that be funded by employees or are there fewer – is there less need to commit more to fund?

David M. Rubenstein
Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP

A

Well, the way we do it now is we ask the professionals in the firm if they want to participate in a fund and to our delight, many of our investment professionals put a fair amount of their net worth into their funds. I think over the years, we've had about roughly $9 billion of capital invested or committed to our funds from people who work in the firm and because the investments have been pretty good, this is what people tend to do with their money. So I suspect that will continue as we earn a fair amount of money, people will have more money to invest.

So I don't think that is a big problem in terms of getting that product served. We do put money from our balance sheet as well and the balance sheet can contribute anywhere from 1% to 2%, depending on factors and so forth and we are improving our balance sheet position. I expect that is important way for us to earn money and I suspect we will continue to do that. I think that is – our ability to fund our GP part is not that significant problem that we're worried about, because we have some money on our balance sheet, and there's an enormous appetite from people in the firm. So I don't really think that's a concern of ours.

Bill or Curt may have a different comment.

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Curtis L. Buser
Chief Financial Officer & Director, The Carlyle Group LP

A

So I full agree with what David just said. The only thing I would just add to it is risk retention as it relates to the CLOs that will – you will see a bit of an increase in our investments, simply due to the risk retention rules. So we're investing more off of the balance sheet into the CLO program, which – look, we're really pleased with, that's a good safe place to put capital.

Robert Lee
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Great. Thank you for taking my questions.

William E. Conway, Jr.
Co-Founder, Co-Chief Executive Officer and Managing Director & Chief Investment Officer, The Carlyle Group LP

A

Thanks, Rob.

Operator: Thank you. And our next question comes from the line of Glenn Schorr of Evercore. Your line is now open.

Kaimon Chung
Analyst, Evercore Group LLC

Q

Hi. This is Kaimon Chung in for Glenn Schorr. Just noted that there has been more dividend recaps lately and generally purchase multiples have been high and covenants have been a bit looser. Do you think there will be a big source of monetization going forward and just curious if your companies have a capacity to take on more leverage and just do you think dividend recaps are good in the long run? Thanks.

William E. Conway, Jr.
Co-Founder, Co-Chief Executive Officer and Managing Director & Chief Investment Officer, The Carlyle Group LP

A

Well, I won't give you, are they good in the long run. I just think they're inevitable. When we exit – move to monetize some of our positions, we can occasionally take the company public, we can sell company private. We can recap it and continue to own it by taking a dividend let's say. At different times in the market, different methods of exit take priority. I think maybe in 2014 or 2015, we had like 15 companies go public. And this is in a world where frankly less and less companies are going public and so we had a lot of them around the country, around the world going public.

I think generally when we model a transaction, we're generally not including dividend, early dividends as part of our rates of return. It doesn't mean, we don't ever do it, but it's kind of not the typical way that we model our results and of course the one thing I've learned is that the model just, you know the model won't happen, something different well hopefully better than the model in terms of the returns. Let's face it, it's tempting with interest rates so low to load up the companies with debt. On the other hand, you can overdo that. Hopefully, we don't do it very often, but certainly it can happen.

I think that the federal reserve pressure on debt levels that has been ongoing for the last several years and it comes and goes in its strength. I would say generally it has limited the amount of debt in the portfolio of companies to the six times range and maybe in some ways that is actually a good thing. It stops people from doing things they shouldn't do. It stops borrowers from borrowing too much and it stops lenders from lending too

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much. I expect these trends to continue as long as money is cheap and readily available and I expect that money will continue to be cheap and readily available.

David M. Rubenstein
Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP

A

If I can just add to that of what the industry is doing, leaving Carlyle's specific situation on the recap that Bill addressed. The industry now is seeing about 50% of all exits are trade sales and about 30% of all exits are sales to secondary buyouts or other private equity firms. About 15% of our IPOs, recapitalizations are in the single digit number. So it's relatively small as a percentage of all the way that we're exiting it generally. And Carlyle's numbers are probably not that different than the industry numbers.

Kaimon Chung
Analyst, Evercore Group LLC

Q

Okay. Sorry if I missed it. But can you just give us an update on your global infrastructure fund and then your Core Plus real estate. And also just what type of allocation to the LPs like sovereign wealth funds and pension funds are making to them and how the consults approaching them?

David M. Rubenstein
Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP

A

Well, on global infrastructure, there's clearly a great appetite for infrastructure around the world. The current administration in Washington has talked about increasing the U.S. expenditures towards infrastructure, but a lot of that will be involving private investors coming alongside public investments and we see this increasingly in Europe and in Asia. And so I think if you take a look at any public pension fund or any sovereign wealth fund, I suspect the highest percentage increase of what they're doing is probably going to be in infrastructure because the percentages are relatively low now, but they're going to go up.

And so I think that there's a fair amount of appetite there and I think what the administration is going to do is probably going to increases that. In Core Plus real estate, there, we see a lot of opportunity – a lot of interest in opportunistic real estate, but as I may have said on earlier calls, opportunistic real estate is still only 3% or 4% of all real estate in the world. While we have big funds in this area, opportunistic is still a small segment of real estate. Core Plus is probably slightly bigger in some respects and core is the biggest of course. We see an increasing appetite for Core Plus and that's why our fundraising there has gone reasonably well and we expect to increase that in the future. And we see more allocations to Core Plus real estate from some of the sovereign wealth funds and the public pension funds. Does that answer your question?

Kaimon Chung
Analyst, Evercore Group LLC

Q

Yeah. It does. Thank you.

Operator: Thank you. And I'm showing no further questions at this time. I'd like to hand the call back over to management for any closing remarks.

William E. Conway, Jr.
Co-Founder, Co-Chief Executive Officer and Managing Director & Chief Investment Officer, The Carlyle Group LP

Thank you, Nicole. And thanks everyone for listening to our earnings call this quarter. We look forward to speaking to you next quarter as well.

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Operator: Ladies and gentlemen, thank you for participating in today's conference. That does conclude today's program. You may all disconnect. Everyone, have a great day.

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