Good day, ladies and gentlemen, and welcome to Carlyle’s third-quarter 2014 earnings conference call. With me on the call today are our Co-Chief Executive Officers, Bill Conway and David Rubenstein, and our Interim Chief Financial Officer, Curt Buser. Earlier this morning, we issued a press release and detailed earnings presentation with our third-quarter results, a copy of which is available on the Investor Relations portion of our website.

Following our remarks, we will hold a question and answer session for analysts and institutional investors. Please limit yourself to one question, so we can provide everyone on the line a chance to participate, and return to the queue for any follow-ups. Contact investor relations following this call with any additional questions you may have. 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 the 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 this 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.

Carlyle’s third-quarter performance was solid, despite increased volatility in many global markets. Our results were anchored by strong fund raising, and by carry fund returns, as well as by continued growth in our portfolio. Carlyle has continued to perform very well on a year-to-date basis.

Let me provide some specifics. Year-to-date pre-tax distributable earnings of $666 million are 52% higher than last year, and net realized performance fees have increased 47% over the prior year period. Fee-related earnings of $179 million year to date are 58% higher than last year. Carlyle's carry funds are performing very well, appreciating 14% through the third quarter of 2014, compared to the MSCI world index up 1%.

We have raised $19.4 billion in new capital this year, 7% more than we did in the first three quarters of last year. We have deployed $8.2 billion into new and follow-on investments across our entire platform, the same amount we deployed in all of 2013. And realized proceeds of $14.1 billion year to date are 28% higher than last year.

Our carry fund portfolio is in a very good position to achieve exit and to generate attractive distributable earnings. Depending on short-term market conditions and regulatory reviews, exits could accelerate above our expectations or they could be delayed a bit. We obviously cannot control the exact timing of every exit.

What we can do and what we are doing, however, is to continue investing in strong companies and in quality assets across our global platform, and to build long-term value for our investors. And importantly, through volatile and nonvolatile markets over 27 years, our carry fund returns have consistently outperformed relevant benchmarks. Of great importance, as Bill will talk about a bit later, is that volatility creates opportunities, which sometimes may be hard to see at first blush. However, we have spoken about frothiness in various markets in past calls. That frothiness now seems to have subsided to at least some degree.

Carlyle has more than 800 investment professionals around the world and varied investment strategies, and many of these professionals have considerable experience deploying capital successfully in volatile markets. Fortunately, because of the strength of our portfolio and our committed and long-term investor base, we are never a forced seller of assets in our closed-end funds as we have shown time and again. With our carry fund dry powder of $38 billion, we can focus our energies on exploiting investment opportunities whenever and wherever they arise.

Let me now focus on Carlyle’s strong third-quarter results. We continue to generate attractive cash earnings. Pre-tax distributable earnings were $159 million in the quarter, up from $105 million in the third quarter of 2013. Carlyle has generated $1.88 per unit in after-tax distribute earnings year to date, compared to announced $0.48 in distributions per unit. In other words, our year-end true-up distribution continued to build through the third quarter. Pre-tax economic net income was $166 million, compared to $195 million in the third quarter of 2013, and was $805 million year to date, up 8% compared to 2013 year-to-date period.

However, of particular interest to our unitholders, after-tax ENI per unit was $0.55 in the quarter and $2.13 year to date, up 12% compared to 2013 year-to-date period. Our carry fund investment portfolio is in great shape, and appreciated 3% in the quarter.
Fund raising remains a major area of strength. We continue to see strong net inflows and commitments to our funds, especially from sovereign wealth funds, public pension funds, and high net worth individuals. We raised $6.5 billion of new capital in the third quarter, with about one-third of those funds from pension funds, and about one-quarter from sovereign wealth funds.

Specifically, we are making great progress towards a final close in our initial international energy fund at the $2.5 billion cap. This fund will be the largest first-time fund in Carlyle’s history. NGP 11 held a substantial second close, and that fund is in a position to be at its cap level of $5.3 billion. We closed our fourth Asia buyout fund at $3.9 billion, 50% larger than its predecessor fund, bringing our total corporate private equity AUM in Asia to $12.4 billion. We closed two new CLOs this quarter for a total of $1.4 billion, and have closed $3.8 billion year to date. In general, we are raising substantial sums in each of our segments, with opportunities for new products and follow-on funds driven by strong LP demand and our long-term track record.

Demand is spread across all of the geographies in the world. But for the quarter, we did see an increase in demand from Asia, perhaps reflecting our strong presence there. Slightly more than one-third of our new capital for the quarter came from Asia.

We continue to have success across many of our key metrics. I would like to highlight a few particular sources of strength. Our US buyout funds, the largest source of our earnings continue to produce substantial realized proceeds and distributable earnings. For all of our corporate private equity, we have invested over $7 billion in capital over the last 12 months into attractive investments for our fund investors.

Previously we have highlighted 11 funds that we believe would be significant contributors to earnings over the next few years. We recently updated that list to 14 funds with the addition of NGP 10, our equity opportunities fund and our energy mezzanine fund, which together have a remaining fair market value of almost $5 billion as of September 30. This quarter we took carry for the first time in our sixth US real estate funds, CRP VI, and our business development company adding additional drivers to our performance fee earnings.

Before turning to Bill, let me make a few comments on each of our segments. Our corporate private equity business continues to be in exceptional shape. The CPE portfolio with remaining fair value of $41 billion has appreciated 25% over the last 12 months. We are exiting investments at attractive levels and at a good pace, more than $10 billion in realized proceeds year to date.

In real assets, an increasing number of funds are strengthening. We have among the most diversified global energy investment businesses of any alternative investment firm in the world, and see significant opportunities to deploy capital over the longer-term.

In real estate, fundraising for our latest vintage US opportunistic real estate fund is progressing well, and, in the third quarter, we raised more than $3 billion for our real assets funds. We have deployed more than $2.4 billion in capital over the past year into what we expect to be great long-term energy and real estate opportunities.

In GMS, we have multiple areas of strong performance, our new business development company, structured credit business, energy mezzanine and distressed funds are performing very well, deploying into high-quality new assets realizing gains, and raising new capital. We raised $1.7 billion for GMS funds in the quarter, and over $6 billion during the last 12 months, and we continue to have a number of attractive products in the market for the remainder of this year and into 2015. However, the hedge funds on the GMS platforms which have been strong performers over many years, have negative performance on a year-to-date basis.

Solutions continue to be a positively developing opportunity. This past quarter, we launched a Carlyle liquid tactical fund into our DGAM business, and in metropolitan real estate, we had our first close on a real estate secondaries and coinvestment fund. In sum, we are optimistic on the current state of Carlyle and the direction we are heading.

With that, let me turn it over to my Co-Chief Executive Officer, Bill Conway. Bill?
I want to begin by addressing three questions which we frequently receive from investors. First, what is the impact of the recent volatility on our business? Second, with valuation so high, how will the investments we make today perform? And third, is Carlyle at the peak of the harvesting cycle? Starting with the recent volatility of interest rates and the global equity markets.

With regard to interest rates, investors including Carlyle, have been preoccupied over the last couple of years with the impending rise in interest rates. Instead, recent market turbulence has brought interest rates back near all-time lows. Our general view, despite the volatility of the past month, is that interest rates will rise gradually over the next few years, as the global economy, led primarily by the United States, continues its slow but steady growth.

While interest rates remain low, we continue to take advantage. For example, in July, Carlyle portfolio company, the Nielsen Company issued $800 million in senior notes at a 5% yield, and refinanced an equal amount of 7.75% senior notes resulting in an interest savings of $22 million per year. In addition, we took advantage of access to cheap credit to complete over $700 million in dividend recaps in the third quarter in companies such as PPD in the United States, Ameos, Twin-Set and [Model] in Europe, 7 Days Group in China, and Tsubaki Nakashima in Japan.

In the equity markets, our opinion is that the recent market turbulence probably reflects a combination of the market recognition of these enormous gains over the past few years, and an emotional reaction to a confluence of recent events rather than a change in the underlying fundamentals of the global economy. Data from our portfolio companies continues to indicate that the growth in the US economy is real and steady at about a 2.5% GDP growth rate. European growth has slowed to a near standstill but does not appear to be shrinking, and China, while slightly decelerating, will still grow faster than the rest of the developed world.

In the short run, no one knows whether the public market will go up or down. It is important to note, however, that our business model allows us to take advantage in any economic environment. If the equity markets depreciate, we will continue to exit. But if the equity markets fall, we will find more compelling investment opportunities, and we are under no obligation to sell.

This leads to the second question; with the recent deals done at high valuations will negatively impact returns in the future? Current market multiples are no doubt high, particularly in the United States. However, in Europe and Japan, valuation multiples are much lower than in the US, and in Asia, multiples are below the average of the past decade. As we look at new investments and while each transaction is unique, in order to prepare for potentially tougher markets ahead, we try to ensure that the expected returns can withstand the contraction in valuation multiples of often 1 turn or more.

This leads us to focus on businesses where we can drive operational improvement, businesses with seasoned management teams and market-leading positions, or businesses that benefit from strong competitive positions in growing end markets. Such a company is Acosta, a CP VI portfolio company we purchased in the third quarter, which has demonstrated organic growth through economic cycles, most recently in 2008 and 2009.

It is reasonable to ask, how we performed in past periods of high valuation? We don’t have to go back too far for relevant examples, Carlyle Partners IV, Carlyle Europe II, Carlyle Asia II were all fully invested or nearly so by the end of 2007, right before the global recession.

Nevertheless, CP IV is marked at 2.3 multiple invested capital, Asia II at 1.7, and Europe II at 1.9, all strong returns for their respective vintages. In addition, Carlyle Partners V and Europe III, the next generation of those funds, both invested significant capital by the end of 2008, and are both marked today at 1.8 times multiple of invested capital, with over $19 billion of combined fair market value still in the ground. Thus we have been successful in investing in high valuation periods, and still generating attractive returns.

With respect to the third question, of whether we are at the later stage of our harvesting cycle; the answer is unequivocally no. The fair value of our investments in the ground is $4 billion more today than what we had two years ago, despite realizing proceeds of more than $38 billion over that period. The design of our business model is to have different funds investing, creating value, and maturing at different times. For example, we are currently at the tail end of harvesting Carlyle Partners IV, a $7.9 billion US buyout fund; a fund with distributions already of over $15 billion, gross gains of almost $10 billion based on current fair market values, and a remaining fair market value of $2.3 billion.
Meanwhile, we are still building value in Carlyle Partners V, a $13.7 billion fund, which has already distributed over $10 billion, and we have about $12.7 billion in remaining fair value to harvest in that fund. And we do that – and while we do that work on Carlyle Partners IV and Carlyle Partners V, we are making new investments in Carlyle Partner VI, and the cycle goes on.

Our net accrued carry, which is the amount of carried interest Carlyle would generate if we liquidated all our investments at today’s fair market value, stands at approximately $2 billion, 62% of which is in the United States, 31% in Europe, and the balance in the rest of the world.

Turning to our activity in the quarter. As David mentioned, the value of our carry fund portfolio appreciated by 3%. Our nonpublic portfolio continued to have strong appreciation up 6%, while our public portfolio was down 4%. We invested $3.7 billion in the quarter. And as David mentioned, we have now invested $8.2 billion through the first three quarters of the year, about the same as we did all last year.

Among our new investments are: in the United States we invested $1.4 billion to acquire Acosta, which provides product sales and marketing support in the grocery and retail sectors. In our newest Europe buyout fund, CEP IV, we closed our first two transactions, both in France; Custom Sensors & Technology and Homair. In Japan, we acquired SBI Mortgage and Sunsho Pharmaceuticals. In China, we invested in Ganji, a classified advertising company. And in real assets, we invested almost $1 billion globally during the third quarter in new and follow-on energy and real estate investments.

We continue to exit investments. In the third quarter, we closed several large sales of portfolio companies. In the US, we sold our stake in Beats Electronics to Apple. We sold Quorum Business Solutions to Silver Lake. We sold Viator to TripAdvisor, and we sold the majority stake in Service King Collision Repair Centers, while retaining a significant minority stake in that business. In Europe, we sold ADA Cosmetics, the German supplier of premium hotel healthcare products and accessories to Ardian.

In MENA, we sold our 30% stake in General Lighting Company to Philips Electronics. We continue to build our public portfolio with the IPO of Healthscope, and a position of publicly-held sequential brands. We have a number of IPOs in the pipeline, and depending upon the markets, these companies could add to our public portfolio in the next quarter or two.

We remained active in the secondary markets. We sold our last remaining shares in Allison Transmission, where the management team did a spectacular job transforming the company, producing return for our investors in excess of 3 times invested capital. We also had secondary sales in the public market of Healthscope, Concord Medical, Repco Home Finance, Rice Energy and HD Supply.

We received dividends from certain of our strong cash flow generating companies, including Booz Allen, which paid a $1 per share special dividend, and where we continue to own more than 60 million shares. In addition to Booz Allen, and excluding the aforementioned recaps, we realized approximately $300 million in additional proceeds from dividends and operating proceeds across the portfolio.

And looking forward, we are working to close previously announced sales including [Vance] and PQ Corporation in the US, and the partial sale of Rac in Europe. In total, we realized proceeds of $4.5 billion for the third quarter, and $14.1 billion for the first three quarters of the year.

In summary, the strong performance of our carry funds led to an increase of over 50% in distributable earnings from the third quarter of 2013. While we are unable in the short term to predict the course of future market moves, we continue to be well-positioned to deliver attractive returns to our fund investors and unitholders.

With that, let me turn it over to Curt Buser.

---

**Curt Buser** - Carlyle Group LP - Interim CFO

Thank you, Bill.

Distributable earnings this quarter were comprised of $62 million of fee related earnings, $99 million of realized net performance fees, and a $3 million realized investment loss. On a year-to-date basis, pre-tax distributable earnings of $666 million are up over 50%, compared to last year at
this point in time. Third-quarter fee related earnings were 40% higher than the third quarter of 2013. And as noted earlier, year-to-date fee related earnings of $179 million are up a solid 58% from the first three quarters of last year.

Looking at revenues. Carlyle benefited from $25 million in catch-up management fees during the third quarter, driven by new capital committed primarily to our fourth Asia buyout fund, fourth European buyout fund, and international energy fund. This is in line with the catch-up management fees we earned in the second quarter, and more than the $8 million per quarter average during 2013. Carlyle again generated a higher than trend transaction fees of $18 million in the quarter, largely owing to the closing of certain large bio transactions, but below the $30 million earned from such fees in the second quarter.

Shifting to expenses. Cash-based compensation expense, excluding performance-based compensation, was $185 million, $7 million higher than the second quarter. The quarterly increase reflects higher compensation expense corresponding to an outperformance in fee revenue growth.

Equity compensation expense of $24 million was up from $19 million last quarter, owing to the onboarding of certain new employees over the past half year, and the full quarter impact of equity grants issued in May. Fund raising expenses this quarter of $12 million were lower than last quarter. Through the first three quarters of 2014, Carlyle has raised 7% more capital than we did in 2013, but our year-to-date fund raising costs are more than 30% lower, owing to utilizing fewer outside feeder funds.

Moving on to net realized performance fees. Carlyle generated $99 million in net realized performance fees in the third quarter, largely driven by exits in various global buyout funds, as well as the first realized carry we have taken on Carlyle Realty Partners VI, which we realize over $14 million in net realized performance fees.

Also contributing to net realized performance fees for the first time, were the incentive fees realized from our new business development company. We generated realized performance fees from 17 funds and vehicles during the quarter, and have now realized performance fees from 21 funds and vehicles year to date. Year-to-date net realized performance fees of $472 million are 47% higher versus 2013.

We posted a realized investment loss of $3 million in the quarter, below the $12 million in realized investment income last quarter. This quarter’s loss was comprised of $13 million of realized investment losses in our real asset segment, partially offset by realized investment gains in other segments. The realized losses in real assets were driven by our investments in Urbplan, and a mezzanine loan investment to one of our European real estate funds.

Moving to economic net income. Third-quarter 2014 pre-tax ENI was $166 million. On a per unit after-tax basis, ENI per unit was $0.55 in the third quarter. And for the year-to-date period, ENI per unit of $2.13 is up 12% over last year.

The tax benefit on economic net income was $11 million in the quarter, resulting primarily from the reversal of performance fees in the solutions segment which pays corporate taxes. Similarly, in the second quarter when solutions have higher performance fees, we had a larger than normal tax provision on economic net income. In total, Carlyle generated $124 million in net performance fees in the quarter, and for the year, Carlyle’s net performance fees of $693 million are 9% ahead of 2013.

At this stage, I want to spend a few minutes talking about each of our segments. Third-quarter corporate private equity pre-tax distributable earnings of $117 million are more than double the third quarter of 2013. And on a year-to-date basis, pre-tax distributable earnings of $527 million more than double the prior period.

Economic net income of $159 million benefited from 3% quarterly appreciation across our buyout funds, and 8% appreciation in our growth capital funds. And in total, ENI was on par with the prior period.

In global market strategies, we continue to make progress in newer funds and initiatives. Carry fund performance remains strong, with quarterly appreciation of 6%, leading to 23% in year-to-date returns. Pre-tax distributable earnings of $23 million for the quarter are down 5%, compared to the prior year period.
Year-to-date pre-tax economic net income of $102 million was down 37% compared to last year. The asset weighted hedge fund performance of our reported funds was negative 2.1% in the third quarter, and subsequently declined further. At September 30, we substantially eliminated all accrued performance fees related to our hedge funds.

In real assets, our real estate funds generated a 4% appreciation during the quarter, primarily as a result of the performance of our US real estate fund. Our natural resources portfolio, including NGP 10, power, international energy, our agribusiness fund, and infrastructure appreciated 3%, while our legacy energy investments were flat. Distributable earnings in ENI were adversely impacted by the investment losses from Urbplan and European real estate.

Pre-tax distributable earnings of $8 million were down from last year’s $12 million. And on a year-to-date basis pre-tax distributable earnings of $36 million decreased 26% from the prior year-to-date period. However, there is underlying strength in real assets that is outside the investment income volatility, notably management fees are up 20% over the last 12 months. Net performance fees are up 37% over the past year, and net accrued carry of $267 million is up 46% from a year ago.

Finally on solutions. Year-to-date distributable earnings of $35 million are up 30%, compared to 2013 year-to-date period. Fund performance at AlpInvest was mixed, results in a reversal of net performance fees of $12 million in the quarter.

That said, we believe our solutions performance remains good on a longer-term basis, and year-to-date economic net income is $61 million, which is 32% higher than 2013. We have experienced strong performance year to date and over the last 12 months. Our portfolio is in good shape with several potential transactions in the pipeline.

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

David Rubenstein - Carlyle Group LP - Co-CEO

To summarize, we have shown progress in this quarter in a number of our key areas of focus, and in a number of our key metrics. Our focus though, is always on overall long-term performance, and not quarter-to-quarter numbers. There are to be sure some areas where we expect to face challenges going forward, but, overall, we are pleased with the progress and direction of the Firm.

Now we would be happy to take your questions.

QUESTIONS AND ANSWERS

Operator
(Operator Instructions)

Ken Worthington, JPMorgan

Kenneth Worthington - JPMorgan - Analyst

Hello, good morning. I wanted to chat about compensation particularly in private equity and GMS this quarter. I guess, primarily why was it up so much again in 3Q in those two areas? Was any of the compensation unusual in any way? So you have got transaction fees, and you have got catch-up management fees. Like are those flowing through to make comp higher than what otherwise be the case? And if we look at compensation in PE and GMS, it grew 30% in TE annualized, 60% in GMS. What is the right growth rate we should expect in those areas over the next, call it 12 months or the calendar year or so? I assume this pace won’t continue, but what should we be thinking about from a higher level perspective?
Curt Buser - Carlyle Group LP - Interim CFO

Ken, this is Curt. Hey, thanks for your question. Anytime you look at compensation in any one quarter it is particularly challenging in our business, given the number of moving parts. Often you have to look at in connection with fee related earnings in total, which increased 58% year-to-date over 2013. The way that I typically like to look at this, and think about it and analyze is over a longer-term period. So like -- let's take a look at the last three years. Funds that were in place beginning in 2011, along with the back office associated with supporting that, actually their comp has grown a pretty reasonable rate, about 3% to 4% on a compounded average annual rate over that time.

The other components to kind of add to it are really the acquisitions that we have done over that three year period. That has included investments in ESG, Claren Road, [DGAM], Metropolitan, AlpInvest, et cetera. And so, that also kind of clouds period over period analysis. And also impacting compensation is, we continue to invest really in new products and new funds in the business, as we continue to invest, obviously can distort that. The best way to probably look at this, is again over a longer term period, 3% to 4%.

Kenneth Worthington - JPMorgan - Analyst

Okay. And the growth this quarter was substantial year-over-year sequentially, kind of anyway you cut it. Is it based on new teams you are hiring? And I guess, if so when do they start to pay off.

Curt Buser - Carlyle Group LP - Interim CFO

So it depends on obviously which piece of the business we are looking at. But a lot of it kind of comes down to doing to invest in new products, especially in the GMS space. We are doing the same across the entire platform. You also, quite frankly, have the pick-up in free related earnings. And as we adjust for how we look at kind of total year comp, we try to obviously set that correctly in each quarter, and there will be true up at year end as we look at everything for the past year.

Kenneth Worthington - JPMorgan - Analyst

All right. Thank you very much.

Operator
Brennan Hawken, UBS.

Brent Thill - UBS - Analyst

Hello, this is Brent Thill on for Brennan. How are you?

David Rubenstein - Carlyle Group LP - Co-CEO

Good morning, Brent.

Brent Thill - UBS - Analyst

Just wanted to ask a quick question on the retail opportunity. I guess, recently there is a new vehicle Carlyle private equity access 2014. I just wanted to see what kind of dialogue you have had with investors thus far, and I guess just how receptive investors have been to the product?
David Rubenstein - Carlyle Group LP - Co-CEO

Well, it’s still in the preliminary stages. But there is no doubt that investors who are -- I would call them medium high net worth to upper high net worth, are interested in getting the higher rates of return that private equity has historically received. I think this will be a very large growth area for our sector over the next few years, but because of regulatory kinds of concerns, and just making certain that we are not doing anything in conflict with other businesses we have, and other considerations. It’s moving not at a velocity that will show up immediately on the bottom line, but we have a team that is working on it, and we do think that it will be something that will be significant to us a bit down the road.

Brent Thill - UBS - Analyst

Okay, great. Thanks for taking my question.

Operator

Robert Lee, KBW.

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

Thanks, good morning. My questions actually on the CLO business. Just kind of your thoughts on that? I mean, it has been pretty successful business for you the last couple of years. But there is some new risk retention rules out there related to the industry. And I am just kind of interested in your take on how that impacts your thoughts around the business, as whether you see it as more of an opportunity? Or does it make the economics a bit more challenging? I mean how should we - - what is your thoughts on that.

Bill Conway - Carlyle Group LP - Co-CEO

Sure, Rob, this is Bill. I would say that we still like the CLO business. But maybe to some extent, having a people have some skin in the game is a great business practice, frankly anyway. I don’t think that the 5% of risk retention rules that are going to go into effect over the next few years will significantly diminish our interest in building that business. I think year-to-date through 2013, we are actually number one in terms of number of CLOs that we have launched.

We are constantly assessing it, but I think that it will -- will continue to be attractive business for us. And frankly, during the 2008/2009 global financial crisis when everything else was really having a major problem, the structure of the CLOs enabled all of our CLOs to survive in that business, and come out just fine in the end. So I think it’s a pretty good business, a core holding for Carlyle, and one we will keep trying to grow.

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

Okay, great. And then maybe I did have one question on the solutions business. I mean, there was -- it looks like some pretty healthy, maybe unusually large, hard to say outflows or distributions from that. Was that just a big period for realizations? Or was there anything else kind of happening in the solutions business behind the scenes that led to some outflows? I am just try to get a feel for what drove that?

Bill Conway - Carlyle Group LP - Co-CEO

Well, the assets -- this is Bill -- the assets under management in solutions went from $56.7 billion to $54.3 billion. Remember, most of our business is run in dollars, our main accounting scheme in dollars. AlpInvest started with two big European investors, as their primary investors. Across our entire portfolio, I know that by far the biggest single source in reducing the assets under management was -- would say it went down a couple billion -- was actually the drop in -- was the strength of the dollar, which caused like a -- an FX transaction loss on the order of $3.5 billion.
Robert Lee - Keefe, Bruyette & Woods, Inc. - Analyst

Okay. And then if I could, maybe just one last question, really just updating your thoughts around the distribution policy. I mean, obviously you have the flat distribution for four quarters and the true-up, but any updated thoughts on migrating the policy in the future towards -- more in line with what many of your peers do?

David Rubenstein - Carlyle Group LP - Co-CEO

What we have said consistently, and what we will say today, is that we are always assessing our policy. And at the end of this year, we will really dig into it again, and see whether we should change that policy. It is a policy we initiated, because as a new public company we wanted to be certain we had the cash to do this, the dividends at the rate we said. We are a public company, a little bit less time than some of our peers. And we recognize what they have done, and we have a different policy. We are comfortable with it today. But at the beginning of the year, after this year, we will take a full look at it again, and that's all I can say now.

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

Great. Thanks for taking my question.

Operator

Chris Kotowski, Oppenheimer.

Chris Kotowski - Oppenheimer & Co. - Analyst

Yes. I wanted to ask about the rate of realizations versus the rate of realized cash carry. So you had $3.2 billion of private equity realizations. And if you, as a rule of thumb say, okay, it is roughly historically been a 2 times point, that would say there is a gain of $1.6 billion, and 20% of that would be close to $300 million something like that. And in the first half of the year, your -- that was actually -- that crude math kind of worked. But this quarter, $125 million of realized cash carry relative to $3.2 billion looks a bit light. And I was wondering, are there funds in which you are not taking carry or why is, why was that pattern there?

Bill Conway - Carlyle Group LP - Co-CEO

Well, I -- this is Bill. I will start, and Curt may finish this one. First of all, I would say that your general mathematics actually works over some period of time. It -- but in any specific quarter, it is going to be a function of exactly which funds had exactly what kind of realizations. For example, sometimes when we do a recap, we don't actually think of that as a realization. Yes, it's money coming back to the investors. It's reducing the 8% preferred return. It is stopping the clock on that, but it doesn't actually lead to a carry, would be an example of the kinds of things that can happen. The other thing that happens, it depends on which funds, at which times are doing the realizations.

Curt Buser - Carlyle Group LP - Interim CFO

And the only thing I would add to that is, as we have looked at when we take carry, there is a number of criteria that we use historically, have spelled out, in terms of how we think about it. So where is the funds in its investment cycle? Where we from a return profile? How much of a -- essentially returns that we have already given back to investors, so that we actually make sure that we can manage any kind of clawback risk, because we don't want to take carry, and then really be in a position where we have to return that back to them So we try to manage that carefully.
Chris Kotowski - Oppenheimer & Co. - Analyst
Okay. And then just as a follow-up, is there any way of us figuring out roughly what the MOIC on the $3.2 billion in realizations was?

Curt Buser - Carlyle Group LP - Interim CFO
One table that is very helpful in our earnings release is to look at slide 26. Slide 26 will give you the remaining fair value of our more significant funds. It will tell you what the invested multiple and invested capital is. It will tell you whether or not those funds are in accrued carry, whether or not we have actually taken carry in the last 12 months, catch-up rate and the like. One thing that is important here to know is the number of funds that really are in accrued carry is up from the prior quarter, as are the number of funds that have realized carry in the last 12 months.

Chris Kotowski - Oppenheimer & Co. - Analyst
All right. That is it for me. Thank you.

Operator
Brian Bedell, Deutsche Bank

Brian Bedell - Deutsche Bank - Analyst
Hello, good morning folks. If you could just talk a little bit about the performance accrual reversals in both GMS and solutions segment, and then talk about sort of the forward-look into fourth-quarter? I know in the GMS segment, you are saying one of the hedge -- where actually the hedge fund aggregate is still -- it had negative performance so far in 4Q. I guess, just the outlook into 4Q for realizations in those two segments, or realized performance fee rather?

Curt Buser - Carlyle Group LP - Interim CFO
Thank you. So on accrued basis in the third quarter, roughly $30 million net performances were reversed, really in the GMS segment related to the hedge funds. Our hedge fund struggled like others in the third quarter, and so we had that true-up essentially as we previously said. Related to solutions, there is a reversal of accrued performance fees.

You will see that coming through in the -- really because a fund went into carry in the second quarter. So you have higher performance fees in the second quarter, lower performance fees in the third quarter. Again just on an accrued basis, so it essentially reverses out. That business is best to look at on a year-to-date basis from a performance perspective, because of that very fact. In terms of forecast, we generally don't comment on forecasts going forward, and that's hopefully helpful just to understand this business is choppy, as the normal course of action for what we do.

Brian Bedell - Deutsche Bank - Analyst
And then just on fundraising, again well ahead of schedule, in terms of your $20 billion target already there. Just maybe a peek into the -- maybe it is early looking to 2015, but maybe an early look of what your fundraising plans are as we move into 2015, whether we will keep this -- whether you think we will keep this pace up?

Bill Conway - Carlyle Group LP - Co-CEO
Well, it is always difficult to predict that far into the future. We have seen overall in our fundraising and in the industry fundraising, a fairly big demand for products that either are unique or have long track records. So the international energy fund is a relatively unique product, and that is
what we probably raising a larger first sum than anything we ever have raised for a first fund. But some of our funds have been around a while, like Asia IV doubled 50% more than they had before.

So the investor demand is pretty significant. So it’s hard to say whether it will ever abate. But right now, I want to remind everybody that the amount of money that being raised in private equity, while it is still pretty attractive and we are raising more than our fair share, it is still well below the 2007 peak. So we could still raise significant sums for the industry or for Carlyle, even much more than we are raising now, and still be below our peak year.

For example in 2007, I believe we raised $30 billion. Now that was a smaller organization, a smaller fundraising team, but it just showed you in that period of time, people were just so interested in private equity, they were just shoveling money to people like us. We are not quite at that level yet, but we are moving toward that level. And so, therefore I would say in next year, unless some unforeseen macro economic crisis were to occur, we would expect to be a very healthy fundraising total. But I don’t want to give a specific number. I just think we are in pretty good shape, and our product seem to be well-received by the market.

Brian Bedell - Deutsche Bank - Analyst

Okay. The momentum remains good. Okay. Great, thanks for taking my questions.

Operator

Mike Carrier, Bank of America

Mike Carrier - BofA Merrill Lynch - Analyst

Thanks, guys. Hey Curt, I just want to understand two things on the numbers that you went through, just on the solutions business. But I understand the reversal in those performance fees. But just wanted to understand how that correlates to the tax benefits. And maybe if you have like a net number of the impact to ENI? Because the unfortunate thing is, if we can ding you for the negative performance fees, but then exclude the tax benefits, because it is one-time itself. And so, if we got the net number, it would just be helpful.

And then on the realizations going forward, particularly for the GMS on the hedge funds business. Because we don’t have the detail on each of the hedge funds, I just want to make sure that like we think about the realizations in the fourth quarter, ex a big rebound, we should just like we mute the expectations for that product in terms of crystallizing the fees. And if not, that’s fine. But I just want to make sure our expectations are in line?

Curt Buser - Carlyle Group LP - Interim CFO

Sure. Thanks Mike. So with respect first to the Solutions business. The right way to think about the performance fees is, in structuring those deals most of it really relates to -- and these are older funds -- so a lot of the benefit from the performance fees goes to the team. The portion that really comes to the Firm really covers the taxes, because those fees are set up to essentially provide returns to the team, and cover taxes because they are all subject to corporate level tax. So on a net basis, ENI out of that essentially break even in the quarter.

You will see the fluctuation really in the tax benefit, and that is why the tax benefit tick comes up this period. We are offsetting that decrease in the period. On GMS, the hedge fund, the accrued performance fees related to the hedge funds essentially all reverse to zero across the board in the quarter.

Mike Carrier - BofA Merrill Lynch - Analyst

Okay.
Bill Conway - Carlyle Group LP - Co-CEO

Right. And you are right -- and this is Bill. And you are right to say, that unless we get a significant rebound in the market performance of the performance of those hedge funds, it will stay there. And if we get that rate rebound, then it may change, but we will see.

Mike Carrier - BofA Merrill Lynch - Analyst

Okay. Thanks a lot.

Operator

Patrick Davitt, Autonomous

Patrick Davitt - Autonomous Research LLP - Analyst

Hey, guys, good morning. My question is in a few parts around oil and gas and energy exposure. Could you possibly quantify, if positions in your energy portfolio, they are directly exposed to oil prices? How do you think about the performance of that portfolio in a sub $80 oil price world? And does a sub $80 oil price world change your view on the energy investing opportunity?

Bill Conway - Carlyle Group LP - Co-CEO

Okay. This is Bill. I would say that, first of all, as the story in yesterday's Journal spoke about, when energy prices fall, there are winners and there are losers. Our estimates are that the consumer from the fall in energy prices is earning an extra $50 billion to $100 billion a year because of that. And obviously, they are going to spend most of that on consumer goods and the like. So consumer goods companies tend to do pretty good when energy prices are falling.

On the other hand, you probably have seen the numbers that at $80, still 95% or so of the wells in the United States can cover their costs at an $80 price. Now it's also true, that if there is a lot of oil, people are going to drill less wells. And so there will be over time some impact of that.

When I talked to my portfolio managers in across the various energy products, so far they would say other than in the public portfolios, where public equity companies are probably down 10% or so since the end of the third quarter, people -- and frankly I think the energy prices generally are down over 20% since June -- you can see that there has not been a -- they would say there has not bee a dramatic effect yet on their businesses. Either they have hedged in place, they can continue to produce. In some of our businesses like our big refinery in Philadelphia, it isn't so much the level of energy prices that are affected, it is what's the spread, the so-called crack spread between what we can buy the energy for, and what we can sell it for. So it has very mixed results across the portfolio, just as it does across the whole economy.

David Rubenstein - Carlyle Group LP - Co-CEO

Let me add that predictions of energy prices and oil prices, I would say invariably are wrong over a sustained period of time. If you ask any oil executive-- company executive, where is the oil going to be in three months, six months, they just -- they don't really know. About three months ago or four months ago, it was generally felt that oil at $100 a barrel or more was here to stay. And now we are, of course at $80, So I wouldn't assume that anything we have today is going to be there for three or six months.

A second point I would like to make is, that only own assets that might have gone down in value, because maybe oil prices have gone down, we are not compelled to sell. But we have a lot of capital to invest in energy prices that may be lower, so we think we have got an advantage by having a broad gauged platform, we might take advantage of some of the lower energy prices. But we aren't forced to sell things into this lower market,
so generally we think we will okay. But again, I don’t really want to say for certain that energy prices are going to be at -- an oil price of $80 a barrel any time for -- or six or nine months. You just can’t really say.

Patrick Davitt - Autonomous Research LLP - Analyst
Okay, thanks.

Operator
Craig Siegenthaler, Credit Suisse.

Craig Siegenthaler - Credit Suisse - Analyst
Good morning. So this morning, Reuters is reporting that the SEC is requesting information from private equity firms regarding how they calculate their net returns, specifically, how they account for capital that is not generating fees. Can just remind us how you calculate your net returns, and share any thoughts you have on the subject?

Curt Buser - Carlyle Group LP - Interim CFO
So on capital that is not invested, from a fee earning AUM perspective, that is only going to include capital that is actually generating fees. So when we have a fee holiday on a fund, that capital is accounted into our fee earning assets and isn’t generating fee revenue in that situation.

From a – looking at our appreciation calculations, if that’s kind of where the question goes, that is only on fair value in the ground, a comparison of beginning fair value to ending fair value, and really the change, and on a [life-time] basis in the period. So on uninvested capital doesn’t come into play in that calculation. From a performance fee perspective again, it is the same kind of deal. It is on as liquidated basis, assuming the fair value as of the date of the return, or the date of the reports. And so that is essentially run through the waterfall. Again, uninvested capital doesn’t come into play in our business for that calculation.

Bill Conway - Carlyle Group LP - Co-CEO
This is Bill. And although the story is news to me, it is not all that surprising. Imagine a fund where you have a certain amount of commitments, and all you are doing is charging a management fee on that, and you have not invested any. Well, obviously you are going to have negative returns in that kind of case, and those fees will continue to be taken into account when you actually invest money.

But when you are calculating the net internal rate of return, you are just taking into account all the expenses that we charge. You are taking into account the performance fees that Carlyle hopefully will earn on those fees. And You are taking it against invested capital including expenses, but not included uninvested capital or committed capital if you will.

Craig Siegenthaler - Credit Suisse - Analyst
Great. That’s clear. Thank you.

Operator
Glenn Schorr, ISI.
Glenn Schorr - ISI Group - Analyst

Hello, thanks. I wonder if you could give a little more color, I think the investment loss in real assets was four or five quarters now straight, not humongous numbers, but still not used to what we are seeing. Maybe just a little color on what is going on in both your LatAm and European real estate markets?

Curt Buser - Carlyle Group LP - Interim CFO

Sure. So if you look at it in total, and actually we had a gain this quarter in total on investment income of $3.5 million, made up of about a $6.5 million realized loss and $3 million -- I'm sorry -- a $6.5 million unrealized gain, $3 million realized loss. That $3 million realized loss primarily is driven from Urbplan, where -- and that is a business that we consolidate. We have made investments year -- really since we started to consolidate about $42 million, and our cumulative losses on that thus far are about $36 million related to Urbplan.

For the mezzanine loan, that is essentially an investment into one of our funds, an initial principal balance of about $54 million. It was written down to about $30 million -- I'm sorry -- $24 million. We have taken roughly $30 million of losses on that year-to-date. In terms of what does the future hold? Really don't know. But if we continue to invest, we will may incur losses, or may actually realize future income depending upon future performance.

Glenn Schorr - ISI Group - Analyst

Okay. I got all that. Thanks.

Operator

Marc Irizarry, Goldman Sachs

Marc Irizarry - Goldman Sachs - Analyst

Great, thanks. David, a question on liquid alternative fundraising versus less liquid [lofting] capital. Any perspective, I guess people get GMS and hedge fund performance. I don't know if you have any income perspective on what the sort of forward outlook might look like for redemptions from more liquid hedge funds, and maybe institutional interest in more locked in product versus less liquid product? Any perspective on that would be great? Thanks.

David Rubenstein - Carlyle Group LP - Co-CEO

As a general rule, we have been in largely in the closed-in non-liquid alternatives business, and that has been the bulk of our fundraising efforts over many years. And we have a very good team to raise those funds, and then we have the bulk of our money invested through those funds. We like other firms comparable to us are experimenting with, and raising more money a bit more than we had before in liquid alternatives. But still it's a relatively modest part of our business. It's hard to talk about redemptions and where they are going to be.

There is no doubt that some people like liquidity, but some large institutional investors, public pension funds, sovereign wealth funds, and others seem to be not in a great need of liquidity, and therefore they tend to be willing to lock their money up for longer periods of time. I do think we will grow the liquid alternatives business as other firms like ours will, it still won't be a dominant part of our business for our foreseeable future, or at least the next year or two. But I don't really have any comment on whether they are going to be -- a certain amount of redemptions or not from a hedge fund, I just don't know.
Marc Irizarry - Goldman Sachs - Analyst

Okay, great. Thanks.

Operator

Ken Worthington, JPMorgan.

Kenneth Worthington - JPMorgan - Analyst

Hello. I just want to follow-up, during the quarter there was a settlement for collusion, I think attributable to CP IV. Was that fully paid off this quarter, or is there still a drag that we should expect in coming quarters on realized carry from -- I think it's CP IV?

Bill Conway - Carlyle Group LP - Co-CEO

Ken, this is Bill. In direct answer to your question, no, there is no additional drag. We -- I have to go comment on it. I find myself unable to do -- not to make a comment. We thought the case was without merit. Once everybody else settled, we thought the risk to our fund investors and unitholders was just too great for us to continue to take.

In terms of why CP IV? CP IV was the fund that was doing most of the investing, actually all the investing in connection with, at the time frame that lawsuit was supposed to cover. We thought it was an expense of the fund. As you may know, virtually today all public company acquisitions, there is oftentimes a suit right away settled in connection with a public acquisition. And I might also comment that although CP IV paid this expense, obviously Carlyle itself paid about 25% of the cost of the final settlement. And CP IV is a fund where we had gross gains of $10 billion.

So the $100 million roughly settlement represented about 1% of those gains. The net MOIC changed on the fund from I think 1.97 to 1.96 times in connection with this settlement. Of course, nobody wants to pay these kinds of expenses at least of all us. Doesn't have very much effect on the unitholders. The investors in the fund clearly, they weren't happy, but I think they generally understood what happened.

Kenneth Worthington - JPMorgan - Analyst

Okay great. Thank you very much.

Operator

Michael Kim, Sandler O’Neill.

Michael Kim - Sandler O’Neill & Partners - Analyst

Hey guys, good morning. Thanks for taking my question. So just coming back to the outlook for realizations. It sounds like a strategic sales and dividend recaps continue to pick up, maybe potentially at the expense of IPOs, and secondary offerings at least to some extent. So just curious what the potential implications could be as it relates to the timeline, or the trajectory of your distributable earnings?
Bill Conway - Carlyle Group LP - Co-CEO

Well, this is Bill. No forecast from that, but I would say that we continue to have some IPOs in the pipeline. When it comes to realizations also remember, IPOs are a little bit of a mixed blessing. When you do an IPO, you are not really exiting the investment sometimes. Sometimes the IPO happens, you don’t sell any. Sometimes the IPO happens, you are starting to sell, but you continue to have a large public position that hopefully one of the Carlyle strategies in the past has been trying to sell all the way up.

When you do the IPO, there is not enough liquidity, and there is a big overhang from Carlyle, and you are not happy with the price. Then sometimes you sell a little bit, and liquidity goes up, and then overhang goes down, and the price was up. And the company performs and things work out. Obviously the volatility, if you had asked me this question three weeks ago, when we are in the very part of early October, one thought would of thought well, then there weren’t going to likely be many IPOs. Different days, people have different feelings on what they are going to be. But no projection on it. We do have, of course, some expected sales in the marketplace that we have previously announced. Vance and PQ in the US, which are both big sales as is the Rac, selling half of the Rac in the UK.

Michael Kim - Sandler O’Neill & Partners - Analyst

Great. Thanks for taking my question.

Bill Conway - Carlyle Group LP - Co-CEO

Hard to be more precise. I wish I could be.

Michael Kim - Sandler O’Neill & Partners - Analyst

Fair enough.

Operator

Craig Siegenthaler, Credit Suisse.

Craig Siegenthaler - Credit Suisse - Analyst

Thanks. Just a follow-up here, on the capital raising front. How much capital have you raised cumulatively in the Japan buyout, and in the European tech buyout funds? And also, can you remind us what the capital targets are for these two funds?

David Rubenstein - Carlyle Group LP - Co-CEO

Yes. In those two funds, did you say?

Craig Siegenthaler - Credit Suisse - Analyst

Yes.
Bill Conway - Carlyle Group LP - Co-CEO

In the Japan buyout fund, we are raising our third fund. The target is roughly in -- US dollars roughly $1 billion. We have raised roughly $600 million so far. That has come largely from Japan. And what we like to do in these kind of funds is, to raise the money in the kind of host area, because that gives credibility to it when you go outside. So we are now in the process of raising money outside of Japan.

The fund will be probably smaller than our last generation Japan fund, just because the interest in Japan has probably been less than it was when we raised the last one, but we still are, I think the dominant private equity player in Japan. We have been there longer and have a longer track record, but $1 billion is the target. I won’t say whether it will go over the target or not, it is little early. In the European technology fund, the target is EUR500 million, and we are, I would say about 60% there at this point of time. And I don’t anticipate in either case, the Japan fund or the European technology fund a problem in getting to the target.

Craig Siegenthaler - Credit Suisse - Analyst

Thanks. And maybe I can just ask one follow-up here? Can you provide us any color on the CLO pipeline?

Curt Buser - Carlyle Group LP - Interim CFO

On the CLO pipeline?

Bill Conway - Carlyle Group LP - Co-CEO

Yes, this is Bill. We have tended to do one or two CLOs a quarter. Usually on a quarter in the United States, or maybe more than that occasionally, and maybe a little less regularly than that in Europe. Right now, it looks like we could get additional CLOs done. Of course, they are so dependent on what happens to the various spreads across the various asset and liability categories that make up the CLOs. But as you know, the CLO market has been pretty good all year long, well over $100 billion raised in CLOs. Carlyle has done $3 billion or $4 billion of that. And right now, I would expect that we would continue to be able to do those CLOs on that same kind of pace.

Craig Siegenthaler - Credit Suisse - Analyst

Great. Thanks for taking my questions.

Operator

Mike Carrier, Bank of America

Craig Siegenthaler - Credit Suisse - Analyst

Thanks, guys. Just one question on the fee revenues. Just given the catch-up on the management fees and the transaction fees. Given the outlook for fundraising, and then also for deployment, just wanted -- I know it’s tough to gauge -- but we should be expecting some level of catch-up in transaction fees for the foreseeable future, or was this a -- an unusual quarter?

Curt Buser - Carlyle Group LP - Interim CFO

Right. This is Curt. So we, in the last two quarters, we benefited nicely from catch-up management fees and from transaction fees. Both quarters, I tried to indicate that they were higher than normal, higher than prior periods. I think there will be periods going forward will -- maybe they will be
the same, and maybe they will be lower in some periods. But it is hard to tell exactly. But you are right, those are the key items to think about from a toggling of where we will fall on our fee related earnings.

Craig Siegenthaler - Credit Suisse - Analyst
Okay. Thanks a lot.

Operator
Thank you. And at this time, I would like to turn the call back over to Daniel Harris for closing remarks.

Daniel Harris - Carlyle Group LP - Head of IR
Thanks for your time and interest today. Feel free to follow-up with me after the call, with any additional questions you may have, and we look forward to speaking with you next quarter's call.

Operator
Thank you. Ladies and gentlemen, this concludes today's conference. You may now disconnect. Good day.