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Corporate Participants

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David M. Rubenstein – Co-Chief Executive Officer & Director, The Carlyle Group LP
William E. Conway – Co-Chief Executive Officer, Co-founder Washington, DC, The Carlyle Group
Adena T. Friedman – Chief Financial Officer, Managing Director Washington, DC, The Carlyle Group

Other Participants

Kenneth B. Worthington – Analyst, JPMorgan Securities LLC
Howard H. Chen – Analyst, Credit Suisse Securities (USA) LLC (Broker)
Michael S. Kim – Analyst, Sandler O'Neill & Partners LP
Robert Lee – Analyst, Keefe, Bruyette & Woods, Inc.
Matt Kelley – Analyst, Morgan Stanley & Co. LLC
Warren A. Gardiner – Analyst, Evercore Partners (Securities)
Brennan Hawken – Analyst, UBS Securities LLC
Marc S. Irizarry – Analyst, Goldman Sachs & Co.

MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the Carlyle Group third quarter 2013 earnings call. At this time all participants are in a listen-only mode. Later we'll conduct a question and answer session and instructions will be given at that time. [Operator instructions]

I would now like to introduce your host for today's conference, Daniel Harris, head of investor relations. You may begin.

Daniel Harris, Managing Director & Head-Public Investor Relations, The Carlyle Group LP (Corporate Private Equity)

Thank you, Mercy. Good morning, and welcome to Carlyle's third quarter 2013 earnings call. With me on the call today are our Co-Chief Executive Officers, Bill Conway and David Rubenstein; and our Chief Financial Officer, Adena Friedman.

Earlier this morning we issued a press release with our third quarter 2000 (sic) [2013] 00:43) 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 unit holders. We're going to allow each person to one question to allow everyone on the line to participate in a reasonable timeframe, but feel free to get back in the queue if you have additional questions. This call is being webcast, and a replay will be available on our website.

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

Any forward-looking statements made today do not guarantee future performance and undue reliance should not be placed on them. These statements are based on current management expectations and involve inherent risks and uncertainties, including those identified in the risk 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.

Before we move on to our quarterly remarks, I want to take a moment to remind investors in Carlyle as well as the analysts that follow us that we'll be hosting our first investor day next Monday beginning at 8:00am Eastern time in New York, and will be simultaneously webcast. Over the course of the day you'll have the opportunity to hear from many of Carlyle's senior business leaders and fund managers. We are excited to have the opportunity to discuss the many positive developments at Carlyle over the past 18 months since our IPO and look forward to seeing many of you there. If you have further question, please reach out to me following this call.

In addition, we have reposted a copy of this morning's earnings release to our website which addresses a minor error on page five of the release.

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

David M. Rubenstein, Co-Chief Executive Officer & Director

Thank you very much, Dan. Thank you very much for joining this quarter's earnings call. Our prepared remarks today are going to be briefer than our normal earnings call, for we will be taking a deep dive into Carlyle at our investor day in New York on November 11.

To summarize our current position and perspectives, fundraising remains exceptionally strong. Our portfolio continues to perform quite well, we are distributing significant amounts to our fund investors, investing activity in our carry funds was up from the prior quarter, and we believe we are well positioned for strong performance in our key metrics for the future.

With this high level message in mind, let me now review the highlights for the quarter. Four key points. One: We continued our strong pace in fundraising with a third quarter total of $6.5 billion, giving us a total of $22.9 billion raised over the past 12 months. We believe that investors of all types and from all types of the world are increasingly looking to Carlyle to address more of their alternative investment needs. Investors come in many types and sizes, and they can speak for themselves of course, but we believe our fundraising success is due to our track record over 26 years, our global brand, the reach of our firm, and the quality and scale of our fundraising team.

Two: We invested $1.9 billion across our carry funds in the quarter, slightly up from the third quarter over the second quarter.

Three: Our carry fund portfolio appreciated by 4% in the quarter and 17% over the past 12 months. Notably, carry funds in our largest segment, corporate private equity, appreciated 5% in the quarter and a robust 25% over the past 12 months, driving substantial gains in accrued carry across our largest buyout funds. As of the end of the quarter our net accrued carry position exceeded $1.6 billion, the highest level since our IPO and actually the highest level in the firm's history.

Four: Our production of realized proceeds also continues to be strong at approximately $3 billion for the quarter and $17.8 billion over the last 12 months. Even after realizing proceeds of $3 billion, total AUM now stands at a record $185 billion.

As our key metrics show, the underpinnings of our business continue to strengthen and will ultimately result in increased harvesting of our investments for our fund investors and growth in our distributable earnings for unit holders over time. For the third quarter, distributable earnings were $105 million. Over the past 12 months, Carlyle's distributable earnings have been $627 million.

Our activity rate in the fourth quarter is developing along the lines we anticipated throughout the year. Of course we do not know precisely how our fourth quarter will develop. We're working on a number of exits which are likely to produce healthy performance fees in the near term. Certain of these exits may close in December, but they could also slip into the first quarter of 2014. As we have always said, our business is inherently long term and not one driven by quarter to quarter milestones. Most importantly, our carry portfolio is strong and we expect to be exiting a fair number of transactions in the not too distant future on attractive terms.

We continue to be confident in our ability to generate future cash earnings for our fund investors and our unit holders. That optimism derives from our large accrued net carry position and the strong performance of the key investments in our key funds. Strong fund performance, especially in funds in carry, led to economic net income of $195 million for the quarter. Economic net income on a last 12 months basis increased 15% to $926 million.

Let me now make a couple of comments on fundraising. This year will be by far our best fundraising year since the financial crisis and the second best in our firm's history. We have 14 very attractive funds in the market and we remain active in launching new strategies that will satisfy our investors' interest. Our latest vintage U.S. buyout fund, which is Carlyle's largest new fund and which we believe will be a major source of future year distributable earnings, will complete its fundraising process in the next few weeks. It is oversubscribed. The final size will be no less than $12.9 billion. We're finalizing allocations and legal work and will announce the formal close of the fund in the coming weeks.

We also continue to make progress on a number of other funds, including our Europe, Asia, and Japan buyout funds, our Sub-Saharan African fund, our international energy fund, our financial services fund, and our business development company. In October, AlpInvest closed its fifth secondaries fund, bringing the total capital commitments in AlpInvest's secondaries program to $4.2 billion, with over $750 million in new external commitments.

Finally we closed a €335 million CLO fund, our second of the year in Europe, and we are working now to close another CLO in the United States. In total we expect to close more than $3 billion in new issue CLOs for the year. We now manage over $17 billion in CLO assets.

In late September we announced our intention to buy Metropolitan Real Estate Management, a global real estate fund of funds. We closed that transaction earlier this month. Metropolitan will be the second significant fund of funds strategy we offer in our solutions segment along with private equity fund of funds through AlpInvest. The addition of Metropolitan to our solutions segment will better enable us to provide a more complete range of asset allocation services to institutional clients. Metropolitan has a strong management team and we're excited to help the team expand its business. We view solutions as a solid, growing source of earnings for the firm.

We continue to execute our strategy to grow the firm. While investors are still cautious with allocations, Carlyle's investment performance, the diversity and strength of our investment strategies, and an improving macroeconomic backdrop have enabled us to grow continuously. We also see more upside over time as our new products gain traction and our recent new fund launches and acquisitions continue to scale. Specifically, we continue to focus on building our natural resources capabilities, our global market strategies business, and our still nascent but expanding solutions business.

Together with continued strong investment performance we are focused on building an even stronger, better, and more diversified firm that delivers strong returns for our fund investors and growth in distributable earnings for our unit holders.

Bill?

William E. Conway, Co-Chief Executive Officer, Co-founder Washington, DC

Thank you, David. Carlyle's investment pace picked up modestly in the third quarter to a total of $1.9 billion, up from $1.3 billion from the second quarter. Over the last 12 months we have invested $9.1 billion in our carry funds in line with our long term average, but benefiting from $3.3 billion we invested in the fourth quarter of 2012.

We have been particularly active in Europe and believe that there have been excellent opportunities particularly in mid size European companies, precisely at the time when some other investors are turning away from Europe. Over the last 12 months we have completed nine new investments in Europe across our buyout growth and distressed funds. Despite the generally slow recovery of Europe we see good value, and while it is still early each of these investments is performing in accordance with or better than our original plan.

We have a great team of investors in Europe, a long and successful track record, and are focused on finding good investments in the region. Notable investments this quarter were: three new European buyout investments – Alloheim, a German skilled nursing firm; Chesapeake Limited, a British packaging company; and Marelli Motori, an Italian manufacturer of industrial motors and generators. We also made an investment by our distressed fund in Klenk Holz, a German manufacturer of wood products.

In Asia, 7 Days Group, a Chinese budget hotel group, was taken private by our Asia buyout fund other investors. We made an investment with Interlink Maritime in fuel efficient dry bulk ships. And two growth-oriented investments in China including a cornerstone investment in the IPO of Tenwow International, a packaged food and beverage company.

We also invested $640 million in our real assets segment. Slightly more than half of this amount was invested in real estate with a particular focus on the United States, with the balance in infrastructure and energy. We recently closed an investment on October 31 of approximately $500 million in Beats Electronics, a leading manufacturer and marketer of premium headphone and audio accessories. This was a minority investment by our U.S. buyout group in a company that is well positioned in a market experiencing significant growth.

Our portfolio continues to strengthen. Our carry funds have appreciated 13% year-to-date and are up 17% over the past 12 months. Our private portfolio appreciated 2% in the quarter, while our public portfolio increased 10%. Our fourth and fifth U.S. buyout funds continue to perform well, appreciating 10% and 5% respectively in the quarter. Our financial services fund also appreciated 11% in the quarter, taking it further into accrued carry and positioning it to produce cash carry in the fourth quarter 2013.

A number of our key funds, including Carlyle Europe Partners III with net IRR of 8%, Carlyle Asia Partners III with net IRR of 7%, and Carlyle realty five with net IRR of 7% continued their movement toward exceeding their preferred returned hurdles and producing performance fees. None of these funds is net accrued carry. Our largest hedge funds remain well above their high water marks for the year. Over our entire business, despite realizing net performance fees of over $320 million so far this year, our net accrued carry balance has grown by over $400 million and now stands at over $1.6 billion.

Turning to realizations, we have produced $17.8 billion in realized proceeds over the last 12 months with approximately $3 billion in the current quarter – third quarter. Approximately half of these proceeds were in our corporate private equity business, while real estate and energy each contributed 20% of the third quarter realized proceeds.

Notable realizations this quarter were: the final exit of our positions in Boston Private and SS&C; we also executed block sales in a number of companies including Wesco and Allison Transmission; we closed the sale of 650 Madison, a marquee property in New York City as well as numerous multifamily residential properties; we closed the sale of the Yashili, a Chinese infant formula company; we realized proceeds through the IPO of [ph] Chi Wan (13:20) Hotels, a China-based high-end hotel chain; and as usual a number of our portfolio companies issued dividends in the quarter.

At the end of the quarter, the publicly traded portfolio in our carry funds exceeded $14 billion. And we have already taken two companies public in the fourth quarter of 2013, one of which, CommScope, has added more than $2 billion in market value to our quarter-end public portfolio With such large liquid positions, we believe we will be ready to take advantage of opportunities to sell when the opportunity arises and the price is right.

David has already mentioned our 2013 fund raising efforts. With $51 billion in dry powder, $31 billion of which is in our carry funds, we've been in the process of reloading our capital. Notwithstanding the present challenges of finding the right assets at the right prices, we are doing what we should be doing – building value across our portfolio and exiting when possible and appropriate.

Our investment business model is built upon limiting our downside risks. While we are far from perfect, our job is to generate attractive absolute returns and based on our experience in the most recent funds and our deep bench of investment professionals globally, I remain confident in our ability to put our dry powder to work.

Let me now turn to Adena.

Adena T. Friedman, Chief Financial Officer, Managing Director Washington, DC

Thank you, Bill. With our investor day in just five days, I will keep my comments brief and make a few points about our results and overall financial position.

Specifically, I want to discuss the quarter's financial results, spend some time on our accrued carry position, and finally highlight the impact of recent acquisition.

As David mentioned pre-tax distributable earnings were $105 million, which led to after tax distributable earnings per unit of $0.32. Year-to-date on a post tax basis, Carlyle has generated a $1.33 per unit of distributable earnings. Over the same period we announced cash distributions of $0.48 per common unit for the first three quarters of 2013.

Our fourth quarter fixed distribution is targeted at $0.16. And to reiterate our distribution policy, we will expect to distribute between 75% and 85% of our annual post-tax distributable earnings to unit holders, which will be accomplished through a true-up distribution based on our full-year 2013 results.

Fee-related earnings for the quarter were $40 million, up 52% compared to the second quarter, and reflects the impact of strong year-to-date fund raising as well as the impact of acquiring the remaining 40% interest in AlpInvest as of August 1.

Over the last 12 months, our fee-related earnings are now up 20% compared to the prior 12 month period. With fundraising still running at a robust level, we expect to see ramping management fees coupled with associated expenses to raise that capital. In the short-term, we'll also benefit from catch-up management fees and funds that are in the process of fundraising over the next year, such as our latest Asia and Europe buyout funds.

If we look at management fees, the $281 million in the third quarter in 2013 is up 20% compared to last year's third quarter, driven by $23 billion in new funds raised over the past year as well as our partnership with NGP Energy Capital Management and our increased AlpInvest ownership position. The $80 million in G&A this quarter was slightly below the second quarter level, reflecting the sustained high-level of fundraising activity in the firm, but also with the focus on managing expenses where possible.

Base and equity compensation moved up to $157 million this quarter, reflecting the addition of the 40% of AlpInvest we did not own last quarter as well as a slight adjustment to our expected full year compensation levels.

Moving to accrued carry, our net accrued carry balance reached $1.6 billion this quarter, an 11% increase over the prior quarter. Our balance grew not only because of the 4% appreciation in our carry funds but also due to a more modest level of exit activity in the quarter, which would otherwise put downward pressure on accrued carry.

As we've noted before, our accrued carry balance is a tremendous asset to the firm that is likely to produce robust future cash revenues as harvesting activities increase across our mature funds in future periods. The timing of exits is never an exact science, but we feel very good about the health of our portfolio and the resulting net accrued carry position, which is now up 34% since year-end 2012, all of which will benefit unit holders as profitable exits continue in funds and carry.

Turning to our strategic investments this quarter, on August 1 we completed the acquisition of the remaining 40% interest in AlpInvest, resulting in an improvement of approximately $6 million in fee-related earnings to our results this quarter. Our interest in AlpInvest management fees now stands at 100% while our interest in carry did not change from our original investment.

We also closed the acquisition of Metropolitan Real Estate on November 1. Given the closing occurred after quarter end, Metropolitan did not impact our financial results this quarter, but in the fourth quarter we will include its AUM in our metrics along with the financial results. As of September 30, Metropolitan had $2.6 billion in capital commitments. We believe the strategic capabilities we acquired will be extremely beneficial as we continue to build out our solution segment. You will hear more about the solution strategy next week.

We look forward to providing much more color on the state of our business next week in New York at our investor day. And with that I will turn it back over to David for some concluding remarks.

David M. Rubenstein, Co-Chief Executive Officer & Director

Thank you, Adena. As you've heard, we will hold our investor day next week on November 11 in New York and will have there the entire senior leadership of the firm along with many of the firm's leading investment professionals. We believe that program will provide those who are able to attend with a fuller sense of the breadth and depth of the firm as well as our global reach. That occasion will provide a better forum than this call to provide more detailed information about our firm's activities and plans and will enable us to better respond in detail to your questions.

However, we are certainly pleased now to take a few questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question is from Ken Worthington from JP Morgan. Your line is open.

<Q – Ken Worthington – JPMorgan Securities LLC>: Great, thank you very much. David, just to extend your comments on fundraising, in terms of final closes of Carlyle funds how do you evaluate the potential to increase the target size of a fund? You mentioned CP V will be at least $12.9 billion into oversubscribed. So when is it right to actually increase the size of a fund and maybe when is that the wrong decision?

And then given how good the fundraising environment seems to be, are you seeing kind of maybe less pressure on fees? I'm sure clients always want lower costs, but are fees really not an issue given the demand for a number of your flagship products? Thank you.

<A – David Rubenstein – The Carlyle Group LP>: On the first question, obviously when we set an internal target of what the level we'd like to raise is, that is based on what we expect our ability to invest over that period of time. In other words we don't tend to say, well we'll raise whatever we can raise and we'll figure out later how to invest it. We do tend to go through very carefully what it is that we can invest over a period of time. At some points during the fundraising period – which may take a year or two – our ability to invest more, in our view, may increase. Sometimes it may decrease. But generally we are within I would say 10% or 15% of where we're going to be ultimately. In other words when we set a target we might increase it by 10% or so if we think we can invest more money. Obviously some investors are always interested in putting more into a particular fund than you might expect at the beginning.

So it's not a science, it's a bit of an art. We don't go out with very low targets and hope to increase them, showing everybody that we have such demand. We actually set targets that we think are realistic for the market and what we think we can invest.

In the case of Carlyle Partner VI, we had a target initially of around $10 billion, but $900 million to $1 billion of internal kind of money and we will have that. We'll have about – we originally thought we'd have $10 billion of external capital and about $900 million to $1 billion of internal capital, for about $11 billion. We'll be above that a bit, but over the period of time I think our feeling is that we can invest this over the five year period of time that we have to invest. So that's kind of how we did it.

Of the funds we currently have in the market now, many of them are relatively younger in their investment fundraising period so it's hard for us to say whether we will need to increase them or we think we should increase them. In some cases we have turned money away without increasing the cap because we just didn't think we could invest the money.

In terms of the second question. There are three types of fees that I think people should focus on. On is the management fee, a second is the carried interest, and the third is the deal fee so-called. On the management fee, the pressure on that hasn't been as great as one might expect only because those fees are more or less repaid. So it's in effect an interest-free loan you might say in some respects. So there's been less pressure on that.

There has been more pressure in recent years on the so-called deal fees, and I think it's fairly standard now to have a deal fee of either 100/0 or 80/20 as opposed in the old days 0/100 the other way or 50/50 in recent years. And I think our fund will probably be in that neighborhood of what's common, the big U.S. buyout fund.

In terms of the carried interest, there really hasn't been much pressure on carried interest, but I there's a general view that 20% seems fairly appropriate. Some people that get large managed accounts sometimes will take a 10% carried interest, but I'm talking about commingled funds, roughly 20%.

I'd say the real hidden fees that are affecting private equity, but not as directly as you might think, are, one, the preferred return has stayed very high, and that is in effect a hidden fee because it's a very high hurdle that you have to make in this environment; and second, a lot of investors want unpromoted co-investment, and if they take that unpromoted co-investment that will effectively reduce their fee and carry. Though it's a difficult thing to measure.

Does that answer your question?

<Q – Ken Worthington – JPMorgan Securities LLC>: Thoroughly on all accounts. Thank you very much.

Operator: Our next question is from Howard Chen from Credit Suisse. Your line is open.

<Q – Howard Chen – Credit Suisse Securities (USA) LLC (Broker)>: Good morning, everyone.

<A – David Rubenstein – The Carlyle Group LP>: Good morning, Howard.

<A – Adena Friedman – The Carlyle Group>: Hi, Howard.

<Q – Howard Chen – Credit Suisse Securities (USA) LLC (Broker)>: David, you highlighted the potential for a number of exits in the not too distant future in the remarks. Has anything changed that makes you feature that pipeline now, or is it just the right time given how long certain investments have been in the ground and the value you've been able create?

And then Adena, a quick numbers question. The 11% expansion in the net accrued performance fees, how much of this quarter's increase was attributable to funds crossing over? And any sense of what percentage of those fees are coming from funds that are currently paying carry?

<A – David Rubenstein – The Carlyle Group LP>: I'm going to -

<Q – Howard Chen – Credit Suisse Securities (USA) LLC (Broker)>: Thanks.

<A – David Rubenstein – The Carlyle Group LP>: I'm going to let Bill pretty much answer that. I'm going to just say at the beginning, though, we really – we don't say we want to close a certain deal by a certain quarter and are always able to do that because sometimes you have regulatory concerns and other factors. So we can't time precisely when these deals are going to close and we just aren't able to do that, and that's really what I was referring to. But Bill?

<A – Bill Conway – The Carlyle Group>: Well a couple things I might say, Howard, on the exit side. First of all we have a public portfolio of about $16 billion now. And many of those companies we've been in awhile, we own a lot of stock. We're not somebody who really thinks that we have to get the last dollar out of each stock price when we sell it. A lot of times we're disappointed in the initial price that comes when we start taking companies public or selling blocks. People complain there's a big overhang or there's not enough liquidity in the stock or whatever. So one of our strategies generally has been to be selling all the way out, and if you were to look at the history of companies like Dunkin Brands or SF&C it kind of defines how we like to do that.

We continue to have a lot of companies in the public portfolio, many of which you're aware of in that $16 billion – CommScope we just took public, HD Supply, Wesco, Allison Transmission – and we're taking companies public all the time. We hope to have in the next week or so at least one more IPO.

Obviously the public markets have been great. I would comment again that interestingly in the third quarter, by our valuation methodologies, our public portfolio appreciated 10% and our private appreciated only 2%. Now I don't think that there's such enormous precision on the private portfolio, but I would say that the public portfolio has tended to be more volatile than the public (sic) [private] (26:58) portfolio. It tends to move up more quickly than the private portfolio, it tends to move down more quickly than the private portfolio. So we think now is a pretty good time to be exiting. That doesn't mean any of those companies that we will do secondary blocks this quarter, but if the time and the price is right I think we will, and that can obviously affect the carry balance – the realized proceeds.

Also affecting the realized proceeds is we have one large private company that we're hoping to take public, hoping to sell this quarter. It's already been announced, it's been in the press. It's subject to a Hart-Scott-Rodino. Time will tell whether or not that deal is closed this year, and that's a pretty big swing factor in the current quarter.

<A – Adena Friedman – The Carlyle Group>: Okay. In terms of the accrued carry, Howard, I would say the large majority of the accrued carry are coming from funds that are currently in a position to take carry of fund realization events. We had one fund cross into carry this quarter but with a very small additional balance it's just starting to move into a carry position. So even though it is in catch-up it didn't have a big swing factor in the accrued carry balance.

And so it's really – a majority of what you're seeing is just a growth of the funds that are already in carry and are in a full carry position. And you're not seeing that swing coming in from a catch-up situation or anything like that.

<A – Bill Conway – The Carlyle Group>: But I might comment – in my remarks, Howard, I spoke about CEP III, CAP III, and Real Estate-V. Those are big funds that are close to moving into accrue and carry. And in most of our funds once you pass over your hurdle rate and have returned the fees as David said, then the catch-up is generally 100/0. So you begin getting every single dollar of appreciations going to the GP as opposed to the LP. And so we're hopeful in the coming months and quarters that we'll have funds that move into that accrued carry that are very significant movers. It'd be something I'd be watching if I were a security analyst following our stock

<Q – Howard Chen – Credit Suisse Securities (USA) LLC (Broker)>: Understood. Thanks. See you on Monday.

<A – Adena Friedman – The Carlyle Group>: Thank you.

Operator: The next question is from Michael Kim from Sandler O'Neill. Your line is open.

<Q – Michael Kim – Sandler O'Neill & Partners LP>: Hey guys, good morning. My question relates to deal flow. So it seems like most of the activity is still centered in real estate, energy, as well as overseas investments. So I know the environment is always in flux but now that you've pretty much raised a U.S. buyout fund, any concerns around maybe a bit of a mismatch developing between sort of where you've got a big pool of dry powder versus where the best investment opportunities may be looking out over the next couple of years?

<A – Bill Conway – The Carlyle Group>: This is Bill. I'd say I wouldn't call it a mismatch at all. And I'm not worried investing it over the period of the fund. Certainly today – let's take last year's fourth quarter, the United States was very, very busy in the buyouts that we did in that quarter. And in the third quarter this year it really did no buyouts. It announced beats already that will be in the fourth quarter.

But I don't see a mismatch. I'll say it's tough out there. Investing the money is – as I said, finding the right assets at the right prices is tough, but this business is always tough.

<Q – Michael Kim – Sandler O'Neill & Partners LP>: Okay. Thanks for taking my question.

Operator: Next question is from Robert Lee from KBW. Your line is open.

<Q – Rob Lee – Keefe, Bruyette & Woods, Inc.>: Thank you. Good morning, everyone.

<A – Adena Friedman – The Carlyle Group>: Morning.

<A – David Rubenstein – The Carlyle Group LP>: Good morning, Rob.

<Q – Rob Lee – Keefe, Bruyette & Woods, Inc.>: Quick question on the GMS segment. Just kind of curious, can you maybe talk through some of the moving parts there? Where you- looks like you had maybe – I don't know if it was some reversals of prior accruals in GMS where you had some negative unrealized performance, just trying to understand maybe some of the underlying mechanics that may have taken place that generated that?

<A – Adena Friedman – The Carlyle Group>: Sure. So Rob, as you know with the hedge funds we basically accrue performance fees throughout the year, and then at the end of the year based on their performance and whether or not they're over their high water mark, we then realize that carry all in one quarter. And as you are seeing throughout the year, you're seeing basically a pretty strong performance fee accrual, but every quarter it's going to be a little bit different based on the performance the quarter. And this particular quarter they had some of the – a couple of the funds had a slight decline and other funds frankly did very well, but on balance you're seeing a slight decline. I think that that's really what's happening within the quarter on the unrealized performance fees for the quarter in GMS. So there is nothing more than that. It's just a little bit of quarter-over-quarter movement.

<Q – Rob Lee – Keefe, Bruyette & Woods, Inc.>: And I don't know if I can have a quick follow-up. So how much of the accrued incentives are related to the GMS segment with the hedge funds particularly?

<A – Adena Friedman – The Carlyle Group>: So we don't – we will provide that in the 10-Q in terms of our breakout of the accrued performance fees by segment. We don't provide that in the earnings release. And I don't have it right in front of me. You can obviously see how much changed over the quarter, but the accrued carry balance itself is not provided in the earnings release.

<Q – Rob Lee – Keefe, Bruyette & Woods, Inc.>: All right. Thanks and see you on Monday.

<A – Adena Friedman – The Carlyle Group>: All right, thanks.

Operator: Next question is from Matt Kelley from Morgan Stanley. Your line is open.

<Q – Matt Kelley – Morgan Stanley & Co. LLC>: If I can come back to Rob's question for a second, within the GMS hedge funds, is there anything from a rate perspective where the hedge – some of the larger hedge funds are positioned that we should be focused on for kind of going forward as we think about performance there?

<A – Adena Friedman – The Carlyle Group>: From a – from a – I'm sorry, a rates perspective you said?

<Q – Matt Kelley – Morgan Stanley & Co. LLC>: Yes.

<A – David Rubenstein – The Carlyle Group LP>: Not that we could comment on this call.

<Q – Matt Kelley – Morgan Stanley & Co. LLC>: Okay. And then second, just a quick follow-up on the funds crossing hurdle rates are getting close. Would anything change in your perspective of how cautious to be in terms of accruing versus actually paying cash carry on these funds at this point? And what sort of metrics should we be looking for in terms of how you guys think about it? Obviously I understand that you're trying to be conservative.

<A – Adena Friedman – The Carlyle Group>: So on that, I'm actually going to spend time on that on Monday, so that we talk a little bit about the idea of basically accruing carry and then kind of taking it to the point of being able to take carry and what do we look at when we make this decision. So we will spend some time on that on Monday. I'd like to make sure that we reserve the time to do it thoroughly. But I would say that we do have certain measures that we do examine when we decide to take carry after a fund has been accruing carry for a period of time, and we'll spend some more time on that.

<A – Bill Conway – The Carlyle Group>: Yeah. I don't think we're any more cautious than we were when we were a private company than we are now that we're a public company. The first step is to get the funds to make money, second step is to get them over the hurdle rate, and then the third step is to get them enough over the hurdle rate that you're certain they're going to stay over the hurdle rate after fees and changes in the valuations that can occur. So it isn't just getting through the hurdle rate. You have to be well through it or really right at the very end of the fund before you're going to be taking that last dollar of carry.

<A – David Rubenstein – The Carlyle Group LP>: Now let me just add to that, everybody says they're conservative. Nobody says I'm liberal in taking accrued carry. So you wouldn't be surprised to hear us say we're conservative, but a best indicator of that is that in 26 years I believe we have probably had a claw-back of what less than -

<A – Adena Friedman – The Carlyle Group>: Certainly less than I'd say $30 million.

<A – David Rubenstein – The Carlyle Group LP>: Less than $30 million. So we've distributed out to our investors about $90 billion over the 26 years – $90 billion back to investors and we've had claw-backs about $30 million. So we are pretty conservative and again this is probably an art more than a science and you'll hear more about it on Monday.

<Q – Matt Kelley – Morgan Stanley & Co. LLC>: Okay. Thanks very much.

Operator: Next question is from Warren Gardiner from Evercore. Your line is open.

<Q – Warren Gardiner – Evercore Partners (Securities)>: Great, thank you. Good morning. So in both the traditional and alternative space we've sort of seen – we've been reminded recently of some of the importance of key man risk. I guess in the alternative space you guys are kind of recently the beneficiary. And so I was just wondering how you guys manage that risk and how much of an advantage or disadvantage being public has been? And now that some of the peers are public, I mean does that kind of create more of a fluid situation on that front where we could maybe see some more movement than in the past?

<A – David Rubenstein – The Carlyle Group LP>: Well, key man risk is something that obviously you're always worried about because you want to make sure that you're not going to lose your fund because people might have left for whatever reason. We have never really had that problem in part because we tend to have a number of people running our funds. We often have co-heads and therefore if one person were to leave, it generally doesn't have the same impact. But we also have a fairly deep bench. And then the way our firm works is we have a lot of people involved in the oversight process, and so we've never had a situation in 26 years where somebody left and all of a sudden the fund dissolved or our ability to be the manager of the fund dissolved because we couldn't satisfy the investors on key man. So you always want to make sure that you have a deep bench and you make sure your people are happy and well compensated, but this hasn't been a big problem for us at least.

<A – Bill Conway – The Carlyle Group>: Just to add you can never have too much talent though.

<Q – Warren Gardiner – Evercore Partners (Securities)>: Thank you.

<A – David Rubenstein – The Carlyle Group LP>: It's less of a problem for us than let's say the analysts community because if one of you leaves one of your organizations they often scramble very quickly to find a replacement. We generally don't have as much of a problem I would say.

<Q – Warren Gardiner – Evercore Partners (Securities)>: Okay. Makes sense.

Operator: Next question is from Brennan Hawken from UBS. Your line is open.

<Q – Brennan Hawken – UBS Securities LLC>: Hi, thanks for taking the question. Just a follow up on Howard's point and sorry if I missed this, but when you guys said that realizations may slip into 1Q, is that a potential update for your prior broad guidance about distributable earnings? I think you had said in the past that this year was going to be roughly equal to 2012. So is the outlook now that maybe since some of these are slipping into next year it might be a little bit lighter, or am I reading too much into that?

<A – David Rubenstein – The Carlyle Group LP>: I'd say it might be lighter, it might be heavier, depending upon the timing of what happens at the sales of public companies and the private company I mentioned.

<Q – Brennan Hawken – UBS Securities LLC>: Okay. So basically no update to that previous guidance?

<A – David Rubenstein – The Carlyle Group LP>: I'd say no update, other than what I just said.

<Q – Brennan Hawken – UBS Securities LLC>: Cool. Thanks.

Operator: Next question is from Marc Irizarry from Goldman Sachs. Your line is open.

<Q – Marc Irizarry – Goldman Sachs & Co.>: Thanks. Bill, for you. You talked about good value in Europe, but I guess if we look at the U.S. it seems like there's more growth equity capital investing going on that buyouts. What do you think, is there sort of a – when you look ahead is there one or two things that might change, that might help sort of change the mix in the way your deploying capital [ph] with U.S. bias (38:30)?

<A – Bill Conway – The Carlyle Group>: Well, I think in all our buyout businesses, Marc, we have to be really creative today. Sometimes when you think about the competition that we face, we face competition from other private equity firms, the strategic investors, although they're more active than they were they're not as active as I thought they might be. And I think you guys all know that the IPO market, there've been more IPOs done in the third quarter than like any quarter since 2006 or 2007, and the lineup is continuing to be strong for Carlyle and for everybody else.

And some companies have the alternative of going public rather than taking capital from Carlyle. I think we had to be creative – examples of the creativity that we had to do in the United States were for example our investment in Genesee in Wyoming, when we did a $350 million pipe; or buying the Philadelphia Energy refinery; or doing the minority investment in Beats.

It's great to do those classic carve-outs that you like to do, of Hamilton Sundstrand from UTC or Axalta from DuPont. And we're looking for those. I think we're actually pretty good at carving a business out from a big strategic because it's – there's quite a work that has to be done to take somebody from historical, having been in a big co. for a long time and then now they are off owned by private equity firm.

Right now that pipeline is not that active, but it changes every day. And we're – we still expect we'll be able to invest the fund and not cut our return targets. The same thing would be true by the way in Europe. We're not lowering our IRR targets there. If the current situation were to persist for months and years things could be very different, but as I say it's changing every day.

<Q – Marc Irizarry – Goldman Sachs & Co.>: Okay. Great. Thanks.

Operator: [Operator Instructions] Our next question is from William Katz from Citi. Your line is open.

<Q>: Good morning. This is actually Neal filling in for Bill. My question is, I noticed the in-carry ratio declined a little bit quarter-over-quarter. Perhaps that's due to maybe some better performing investments rolling off in 3Q, but maybe you could provide some more color. Thanks.

<A – Adena Friedman – The Carlyle Group>: Sure. So we have some younger funds that have been in carry. But as they continue to deploy capital they're going to go – they're going to toggle in and out of carry because as they get in new investment, that new investment is generally marked just below cost and that will take down the returns over the short term for a fund. So we actually had two of our newer funds, or younger funds, come out of carry for the quarter as they continued to make some new investments. And they're very – they're obviously very likely to go right back into carry over the next few months. So that takes that – all of the AUM in that fund suddenly comes out, and that includes their dry powder. So it creates a little bit of a swing factor in that, in carry ratio that you see, but it's nothing significant.

Operator: We have a follow up from Ken Worthington from JPMorgan. Your line is open.

<Q – Ken Worthington – JPMorgan Securities LLC>: Thank you. So first maybe, Adena, there were investment loses this quarter I believe. Can you talk to us about the nature of that if I got that correct? And then may be for Bill, market conditions are important for the investment side and the realization activities of Carlyle. You guys sift through a tremendous amount of data. Can you share with us maybe your outlook for the public market over the next 12 months to 18 months in both or in North America, in Europe, and in Asia just so that we get a sense of how you're thinking about maybe investments and realizations over that time period? Thanks.

<A – Adena Friedman – The Carlyle Group>: Sure. So with regards to the investment loss, it was in our real estate area. We had a settlement of a matter in a particular fund that – and a co-investment that we basically settled out. It's done. It's a kind of a one-time thing, and we did have an investment loss that we've realized as a result of that settlement. So that's really what that was. In terms of the bigger question, Bill?

<A – Bill Conway – The Carlyle Group>: Well in terms of the investment environment, Ken, globally and how it informs our behavior, we do have 200 portfolio companies roughly. And so we're constantly trying to mine those companies for data to help us make better decisions both on investments and on how we monitor our portfolio.

Now you guys are perhaps more experts in public markets than I am, but I would say that we expect the public markets to be strong for the next year or so particularly because we expect interest rates to be very, very low for the foreseeable future. And I think with very low interest rates and so much liquidity in the market, everybody can say, well, I don't like Europe because of – I'm worried about the governance in Europe, or I don't like gold because of some reason, or I don't like U.S. equities because they run up so much, or whatever. You can go around the world and say, geez, I don't like anything.

But the truth is the money has to be invested somewhere. People have to put their money to work. They can put it in high yield, now low yield. Or they can put it in U.S. treasuries or Japanese government bonds or any of the other things that you look at. But I think with these low rates, I expect that the public equity markets in the United States and abroad will be pretty strong.

Turning – if I went around the world a little bit, I think the United States is – it's had a great run so far this year, I think it's up about 25% year-to-date in the public equity markets. Saw a story last night on the news that indicated every time that the stock market has been up 25% – I think since 1929 it's been up 25% through the first 10 months of the year 12 times. And 11 times it kept going up after that for the balance of the year on average like another 5%. Now I'm not predicting what the market is going to do, but I think the U.S. equity markets will continue to be pretty strong. A lot of really good companies pay nice dividends and I think that's a pretty attractive place to put money.

I think in Europe, our business there is strong. Our portfolio companies tend to do better than the headline growth rates that you see in the press. We've actually been able to take advantage of the fact that one of the big problems in Europe is the financing markets. And with our global business, the way we've organized in Europe, some of things that we've done, our CLOs and like, we think that the European, at least our portfolio is doing pretty well over there. I'd say that the European market can still take companies public as well, and we're hoping to take advantage of that.

Japan, Abenomics speak for itself. I think that although it's slowed down from its initial burst, I think Japan is still likely to have increasing public markets. And in China although the public markets have been down and down pretty dramatically for the last year or so, there are 600 companies in the queue right now waiting to go public in China. And so a lot of those companies are either coming to America to go public or going public in Hong Kong as opposed to go in public in China per se, and we've actually taken advantage of the Hong Kong market ourselves.

So I think that I'm pretty optimistic about public markets and what they are going to do. And what does that it mean for us? Well I think that $16 billion public portfolio, a couple of things are going to happen. First of all periodically when the price is right, particularly when we own such giant positions of public companies, we'll be selling blocks and taking money off the table.

Secondly, the portfolio will be increased because we'll be taking more and more companies public and adding to the public portfolio. I think it's a pretty good time to have our business model.

<Q – Ken Worthington – JPMorgan Securities LLC>: Okay. Great. Thank you very much.

Operator: We have a follow-up from Matt Kelley from Morgan Stanley. Your line is open.

<Q – Matt Kelley – Morgan Stanley & Co. LLC>: Thanks for taking another question. I wanted to – speaking of Europe, I wanted to get your sense for the hiring of Adam Metz from TBG. Should we kind of take that as a sign that you could actually look to grow European and Asian real estate more than you might have thought a few quarters ago given the kind of weaker performance of a couple European funds that you've talked about, or maybe expansion into more real estate debt?

<A – David Rubenstein – The Carlyle Group LP>: Adam Metz is an extremely talented real estate professional who has been in the investment business, he's been in the management business, and we had opportunity to get him to join the firm and we're quite happy that he was willing to do so. His main focus is to help strengthen and grow what we're doing overseas in real estate. We have a base in Europe. We have a base in Asia. We'd like to strengthen those, expand those, and it may well include more than just equity. It could include debt. We haven't completely decided if we need to assess exactly what we should be doing to strengthen those markets and in perhaps other markets. But we're very pleased, our ability to be to attract high quality investment professional such as Adam, and we'll just have to wait and see exactly what we're going to do. We can't be specific now, but it's likely that we'll do more international real estate than we have done in the past.

<Q – Matt Kelley – Morgan Stanley & Co. LLC>: Okay. Thanks.

Operator: And we a follow-up from Michael Kim from Sandler O'Neill. Your line is open.

<Q – Michael Kim – Sandler O'Neill & Partners LP>: Just on the fund raising side, it sounds like you continue to raise capital at a pretty healthy clip, so just trying to get a sense of maybe the relative contributions from the different factors driving that success in terms of maybe more targeted marketing versus continuing to expand the LP base in terms of new clients as well as more non-US LPs versus just higher demand for alternatives from the traditional pension plans.

<A – David Rubenstein – The Carlyle Group LP>: All of those. I mean every one of those, that's the answer. To be very serious, all those factors are at play. We have fairly significantly expanded our fundraising team. So when you have more fundraisers it's like, as I say it's more IRS agents. When you have more IRS agents you collect more. When you have more fundraising people you probably raise more. Obviously you have to have a product that people want to invest in, but generally if you have more fundraising people you will probably raise more money.

And we've built up a pretty good-sized team, but not just the way we did it before. We have people now who are specialists in given areas. So we didn't use to have several years ago, specialists in real estate for example. Now we have specialists in real estate. We didn't years ago have specialists in GMS kind of products. Now we have specialists in those kind of products. So the specialization has been a factor.

We have also have people who are on the fundraising team that aren't actually out fundraising so much but they are doing a lot of support work which is so necessary. Today, for example, almost every significant investor wants a questionnaire to be answered and somebody has to answer these questionnaires, and they are very, very lengthy and we have a team of people that does that.

Another factor is the increase in allocations that people are making to private equity and alternatives, and that's been a factor as well. I'd also think – you see sovereign wealth funds are increasing their allocations particularly significantly to private equity. And now for us sovereign wealth funds represent a pretty big part of our investor base, I think it's now about 13% of our capital comes from sovereign wealth funds.

We also see another phenomenon which is that people like to invest with somebody they're comfortable with. And so increasingly people who are already investing with us or giving us more money. I think today roughly 62% of our capital is coming from investors in five or more of our funds. If somebody likes the fund and they will be more predisposed to go into another Carlyle fund.

Also the economic environment is reasonably good for fundraising now because investors seem to have more cash to invest and they seem to think that alternatives will produce a pretty good rate of return in the future. So it's a combination of things. I do think our brand name is pretty good and that probably helps a bit. So all those factors. And beyond that I don't know what else I could be more specific about.

<Q – Michael Kim – Sandler O'Neill & Partners LP>: Great. That's helpful. Thanks.

Operator: Thank you. I'm not showing any further questions in the queue. I would now like to turn the call back to Daniel Harris for closing remarks.

Daniel Harris, Managing Director & Head-Public Investor Relations, The Carlyle Group LP (Corporate Private Equity)

Thank you very much for your time and attention this morning. We do look forward to seeing most of you next week at our investor day. If you have any follow up questions after the call, please don't hesitate to contact us at any time. Thank you.

Operator: That does conclude today's conference call. You may now disconnect. Thank you and have a great day.