THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

CG - Q3 2015 Carlyle Group LP Earnings Call

EVENT DATE/TIME: OCTOBER 28, 2015 / 12:30PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Daniel Harris *Carlyle Group LP - Head of IR*

David Rubenstein *Carlyle Group LP - Co-CEO*

Bill Conway *Carlyle Group LP - Co-CEO*

Curt Buser *Carlyle Group LP - CFO*

CONFERENCE CALL PARTICIPANTS

Brennan Hawken *UBS - Analyst*

Michael Cyprys *Morgan Stanley - Analyst*

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

Craig Siegenthaler *Credit Suisse - Analyst*

Michael Kim *Sandler O'Neill - Analyst*

Mike Niemann *Bank of America - Analyst*

Bill Katz *Citigroup - Analyst*

Alex Blostein *Goldman Sachs - Analyst*

Glenn Schorr *Evercore ISI - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Carlyle group third quarter 2015 earnings call.

(Operator Instructions)

As a reminder this conference may be recorded. I would now like to turn the conference over to your host, Mr. Daniel Harris, Head of Investor Relations. Sir, you may begin.

Daniel Harris - *Carlyle Group LP - Head of IR*

Thank you, Amanda. Good morning and welcome to Carlyle's third quarter 2015 earnings call. In the room with me on the call today is our Co-Chief Executive Officer, David Rubenstein, and our Chief Financial Officer, Curt Buser, while our other Co-Chief Executive Officer, Bill Conway, is on the call from Asia.

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. To ensure participation by all those on the call, please limit yourself to one question and return to the queue for any follow-ups.

Please contact investor relations following this call with 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. The statements are based on current Management expectations and involve inherent risks and uncertainties, including those identified in the risk factor section of our annual report on form 10-K that could cause actual results to differ materially those indicated. Carlyle assumes no obligation to update any forward-looking statements at any time.

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

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

Thank you, Dan. Notwithstanding the turmoil in the markets during the quarter, Carlyle continued to again produce attractive levels of distributable earnings, which we have consistently said is the metric which best reflects our performance and our value.

For the third quarter, we produced $244 million of distributable earnings up 55% from $157 million in the third quarter of 2014. For the first three quarters of 2015 we have produced $777 million in distributable earnings up 17% from the same period last year.

Our third-quarter distribution per unit will be $0.56. For the nine months year-to-date, we will have distributed $1.78 per unit up 25% compared to the same period in 2014 when normalized for the change to our distribution policy this year.

To place this level of distribution in some perspective, over the trailing four quarters, our 75% payout target would have represented an almost 13% yield on yesterday's closing price.

In short, we believe we have proven that in up markets and in down markets we have the ability to produce attractive levels of distributable earnings and we are indeed well-positioned to continue to do so going forward.

In addition to our solid production of distributable earnings during the quarter, we also continued to raise funds at a strong pace. In the third quarter we raised $5.6 billion of gross new fund commitments or $4.6 billion in net in-flows for the quarter after redemptions and open-ended funds.

These amounts were raised for both new funds and for follow-on funds, principally in corporate private equity and real assets. We continue to believe that we have a corporate private equity business whose 28-year track record, current scale and global reach is without peer.

And we also see many areas of growing strength in a number of other parts of the firm. For instance, our dry powder and energy continues to grow at a time when you investments in the energy sector are becoming more attractive.

Our US real estate business continues to thrive and recently closed its latest fund at $4.2 billion, which is our largest real estate fund to date. Some of our newer funds, power, our BDCs and Asian structured credit, are also off to a great starts and we continue to be one of the top global issuers of CLOs.

Despite all of these mid- and longer-term positives, the valuation of our portfolio was not immune from the short-term volatile movements in global markets during the quarter. As a result, our overall carry fund portfolio depreciated by 4% in the quarter, though declines in our portfolio marks were actually less than those of comparable public market indices and I should note that our public portfolio has already recovered a substantial amount of this value since October 1.

These declines, not surprisingly, adversely affected our economic net income and produced an ENI loss of $128 million for the quarter. The quarterly decline does not however impact the real strength and growth potential of our firm, does not impact our ability to raise new funds, and does not impact our ability to invest these funds, or our ability to produce attractive levels of DE going forward. And that is why we do not focus our energies on ENI on a quarter-to-quarter basis.

Let me now drill down on a few issues which have been the focus of our energies. We realized proceeds of $3.7 billion for the quarter and $14 billion year-to-date, consistent with our realization pace over the last four years.

And we have a number of significant sales or liquidity events already announced that should close over the next few quarters, including Freescale and Landmark Aviation as well as a number of exits in our Asian funds.

In fundraising, we had another strong quarter, hitting our hard cap on funds we closed and demonstrating strong progress on other funds. Specifically, we closed our seventh generation US real estate fund, hitting, as mentioned earlier, our hard cap at $4.2 billion.

We closed our third Japan buyout fund at JPY119.5 billion, or about $1 billion, also hitting the hard cap. We closed our fourth European buyout fund at EUR3.75 billion, its hard cap.

We raised one US and one European CLO, together totaling almost $1 billion in assets. And we continued to make progress towards our goals for second mid-market buyout fund, our second power fund, our first US core plus real estate fund, and our second energy mezzanine fund, among other funds.

As a result of this and earlier fundraising activity, we now have approximately $48 billion in cash carry fund dry powder, which places us in a strong position to deliver an attractive level of future distributable earnings.

Let me now address two matters of obvious interest of late to our unit holders: our energy capabilities and our common unit values. On energy, our exposure to energy investments made before the decline of oil prices is deminimus.

To remind everyone, our incremental ENI downside risk for our energy legacy assets is limited to $8 million. $8 million, which is obviously modest compared to the upside we see in having $12.3 billion of dry powder.

Indeed, we believe that we are as well positioned to take advantage of the low prices in the energy market as any one of our private-equity peers. To be specific, we currently have within our four energy teams approximately 65 investment professionals available to deploy that capital.

Because we have been exceptionally well-disciplined with our deployment, we are now in an excellent position to invest opportunistically moving forward. Our four teams, operating in equity and credit, are employing differentiated strategies in various segments of the industry.

In NGP, we are poised to capitalize on new North American E&P and midstream investment opportunities with our recently raised $5.3 billion NGP 11 fund and now have over $6 billion in dry powder at the NGP.

Carlyle Power Partners, our first power fund, is performing well and has recently moved into cash carry. We are currently raising, with clear success, $1.5 billion for our second power fund.

In international energy, we are deploying a $2.5 billion fund for energy investments outside North America. We have invested heavily in midstream assets and continue to see this as a promising part of the market.

[SEMA], our energy credit business, housed within our GMS business, has so far raised over $2.4 billion in its latest vintage fund, nearly all of which we have yet to deploy. In sum, we have a large and diversified energy platform whose existing investments are performing well, indeed exceedingly well, given the market and is in a strong position to deploy it's substantial dry powder.

Let me close by making some comments on the market's view of our common units. Clearly we are disappointed with the current price of our units. Consider a few facts comparing where Carlyle is today to where it was in the time of our IPO in May of 2012.

At the time of our IPO, we had reduced trailing 12 months pre-tax distributable earnings of approximately $2.37 per unit on a pro forma basis. Today our trailing 12 month distributable earnings is $3.26 per unit, an increase of 38%.

Fee-related earnings have nearly doubled since our IPO. Are trailing 12 months pre-tax FRE at the time of our IPO was approximately $0.39 per unit on a pro forma basis.

Today, our trailing 12 month pre-tax FRE per unit is $0.69 per unit an increase of 77%. Our firm is larger, more diverse, and has greater earning potential than was the case in 2012.

We have raised over $70 billion since the second quarter of 2012, introduced new fund strategies in energy, credit, real estate, and private equity, and have developed and recruited experienced teams to invest these funds well into the future.

Of course, not every investment has gone as planned and not every business line has grown as we initially hoped. But if everything works perfectly in a business, that business is probably not taking the risk needed to build for the future.

In our view, we have proven since going public and indeed over 28-year history, that we can raise new and follow-in funds, create new strategies, invest well, create value, and produce attractive levels of cash for our limited partners and our public investors.

And to repeat what I said at the outset, producing these attractive levels of cash is the best way to measure our progress and our success. Assuming global markets remain relatively healthy, we believe we will continue to be able to produce, for the foreseeable future, high levels of cash distributions for investors and for our unit holders.

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

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

Thank you, David. Last quarter we said that we were being cautious with respect to new investments for a variety of reasons: high asset prices, uncertainty over China, the significant downturn in commodity and energy prices, the strong dollar and low growth.

These trends remained largely intact during the third quarter and continue to persist today. Recent market turbulence has reaffirmed our view that a cautious investment pace during the first half year was warranted.

The widespread decline in assets during the third quarter revealed that today's markets are extremely sensitive to risks. While these periods of volatility can create pockets of opportunity for us, in order to do so, we must focus on the factors that we can control: the business we buy, the prices we pay and the management teams we hire.

Despite our caution, we continue to find suitable opportunities for our fund investors. During the third quarter, we invested close to $500 million in three companies in China focused on the logistics, technology and consumer sectors.

While the macro environment in China has slowed, certain sectors continue to grow rapidly and we are backing leading players in those sectors. For example, the IT software and business services sectors are growing more than 30% annually. And the healthcare sector in China is growing about 13%. Overall, the Chinese services sector grew 8.6% in the third quarter.

We invested in two new companies in India: Metropolis Healthcare, a leading chain of pathology laboratories, and DEE Piping, an engineering firm that serves the power and energy sectors.

We made 16 new and 56 follow-on investments in US real estate assets, totaling almost $400 million in equity. And we invested in several mid-market companies, including Coalfire Systems, a cyber defense firm, and Cap Vert Finance, a Paris-based firm that manages IT life cycles for corporate users.

In total, we invested $1.6 billion for the quarter and have invested $4.6 billion for the first nine months of the year, down from $8.2 billion in the same period last year. Since June 30, we have announced or agreed to investments totaling, if they close as we expect, more than $4 billion in equity commitments.

We expect these transactions to close during the balance of 2015 or early in 2016. The largest of these transactions is our investment in Veritas, an information software provider, for a total acquisition price of $8 billion.

In the past, executing such a large transaction would've required us to partner with other private equity firms. Now were able to move independently, thanks to improved scale and relationships with key fund investors.

This autonomy, combined with our expertise in corporate carve-outs, allowed us to act decisively in a complex situation that aligned well with our core strengths. In addition to Veritas, and subsequent to the third quarter, we have closed or announced several other transactions, specifically we recently closed acquisition of Novetta, a provider of advanced analytics services in the intelligence and defense industry.

We agreed to acquire a global platform of leases and loans on corporate aircraft from GE, through our portfolio company, Global Jet Capital. We agreed to acquire Rhode Island State Energy Center, a large natural gas-fired power plant.

We agreed to take private Blyth, Inc., a US-based home fragrance business. And we agreed to invest approximately $300 million in several businesses in the financial institution sector, including the launch of Athena, an innovative financing platform for fine arts. We also continue to find opportunities in the real estate and energy sectors.

Our exits, realized through both the public and private markets, totaled $3.7 billion for the third quarter. These transactions included sales of publicly traded holdings and ExAlta, HealthSCOPE, and Central Pacific, exits of our investments in Telecable, a Spanish cable TV company, ETC Group in East Africa, Cedar Bay, a power plant in Florida, and sales of almost $600 million in real estate assets.

We continue to have positions in over 200 companies across corporate private equity, real assets, and global market strategies. As David mentioned, the valuation of our carry portfolio fell about 4% during the third quarter of 2015.

In total, the carry funds are up approximately 6% over the past year. Not surprisingly, to me at least, there has been a wide variation across the segments, with corporate private equity up 16% over the past year, while real assets driven by commodity prices and credit markets were down 10% and 6% respectively over the past year. Rather than be troubled by these desperate valuation changes we consider this diversification one our core strengths.

Turning to a few additional comments on our business segments. Our corporate private equity business remains the core strength of the firm and our funds continue to perform well in challenging markets.

For example, our latest fully deployed US buyout fund, Carlyle Partners V, is up 12% over the past year even after decline of 6% in the third quarter. Our third European buyout fund is up 26% over the past year even after a modest third-quarter decline, and our third Asia buyout fund is up 20% over the past year and was flat during the quarter.

For the past three quarters we have emphasized that we need and expect to see increasing contributions from business segments other than corporate private equity. This quarter our real asset segments showed solid momentum.

We had a strong quarter in real assets, with distributable earnings from $47 million, fundraising of almost $1 billion, and realizations of slightly over $1 billion. Our US real estate funds are performing very well, with our fifth and sixth US real estate funds up 34% over the past year.

Our power fund recently generated its first cash carry distribution. Overall, we deployed approximately the same amount of capital in real assets as we did in corporate private equity.

In global market strategies, we priced two CLOs totaling almost $1 billion in assets. We have now raise more than $2.4 billion for our next energy mezzanine fund, and we have started to raise our fourth distressed investing fund.

Each of the three previous distressed funds is a top-quartile performer and we have a strong team in the United States and a recently expanded team in Europe. Our significant hedge funds were down about 4% in the quarter and, as previously reported, our credit hedge funds had redemption requests of $1.9 billion during the third quarter which will be paid out over the next several quarters, beginning in the fourth quarter.

We believe that we are doing the right things to build our business for the long-term, selectively putting money to work, aggressively taking advantage of exit opportunities, taking good care of our fund investors, and creating value for unit holders. Let me now turn it over to Curt Buser.

Curt Buser - *Carlyle Group LP - CFO*

Thank you, Bill. Our business continues to produce solid cash earnings. And our long-term outlook remains positive for our business. Our portfolio is in good shape and we have several large investments in staging for exit later this year and in early 2016.

Let's begin with fee-related earnings. Fee-related earnings of $57 million were $10 million greater than our second quarter and $5 million below the third quarter of 2014. The decrease from a year ago is due largely to a $17 million decrease in transaction fees.

Catch-up management fees in the current quarter were approximately $34 million for the second quarter in a row, primarily driven from final fund closings in our Europe and Japan buyout funds, and our latest vintage US real estate funds, as well as additional closings in our latest power fund.

Catch-up management fees were approximately $9 million higher than a year ago. Lower hedge fund related assets and foreign exchange drove the management fee declines in global market strategies and solutions, while strong fundraising contributed to the management fee growth in real assets.

We continue to remain focused on managing our cost structure. And this quarter reflects those efforts. Direct and indirect cash compensation of $164 million was down 11% compared to the third quarter of 2014 and is down 8% year-to-date, a change which in part reflects the downward adjustments we made to compensation accruals in the fourth quarter of last year.

General and administrative expenses of $78 million were down $4 million from a year ago and $16 million from the second quarter of this year. The decrease from the second quarter reflects a lower level of external feeder fund cost as well as foreign exchange fluctuations.

Fee-earning assets under management of $128 billion was down from $130 billion at the beginning of the quarter, due principally to distributions in our funds and fund-to-fund vehicles based on invested equity.

Foreign exchange had a nominal impact in the quarter, but still accounts for $4.5 billion of the decrease in fee-earning assets under management over the last 12 months. We have approximately $12.6 billion in new capital commitments that do not yet show up in fee-earning assets under management, up from $11.5 billion in the prior quarter.

About 66% of this capital will turn on fees between now and early 2016, with the balance commencing largely as we deploy capital. As we mentioned last quarter, even though we have not yet turned on fees for this funds, we still expense fundraising costs upon each closing. This is just one example of how we invest in our business today to generate earnings opportunities in the future.

Now turning to our business segments. Corporate private equity had another solid quarter, producing distributable earnings of $178 million, up $61 million from $117 million in 2014, reflecting higher realized net performance fees as compared to year ago.

Fee-related earnings in corporate private equity were $29 million, down $9 million from $38 million a year ago, despite a $16 million decrease in transaction fees over the same period.

Catch-up management fees were approximately $21 million in the current quarter, consistent with the same period a year ago. At this stage in our fundraising cycle, the vast majority of our significant corporate private equity funds have been raised and we expect catch-up management fees beginning in the fourth quarter to slow from the current level.

Compensation expense was $11 million below the third quarter of 2014, partially offsetting the effect of the lower transaction fees in the quarter. Global market strategies produced distributable earnings of $15 million in the quarter, down from $23 million in the third quarter of 2014.

The decrease in distributable earnings from last year primarily reflects an $8 million decline in fee-related earnings. We expect GMS management fees to move higher in the next several quarters as we turn on fees from our new energy mezzanine and distress funds and continue to raise additional capital with some upfront expenses to raise the capital.

Our significant hedge funds remain below their high water marks and are not contributing any material accrued performance fees in 2015, though certain smaller knee strategies are performing better.

We recorded a charge in our GAAP results to reduce our unamortized intangible assets related to our investment in Claren Road by $162 million net of a reduction in related earnout liabilities and before the related tax benefits. This charge is consistent with the range we estimated in our 8-K filing in August.

Turning to real assets, a segment which we believe is well-positioned for continued growth. Fee-related earnings increased to $20 million in the third quarter from $3 million a year ago, due to higher management fees reflecting fundraising in our new US real estate and power funds and generally flat compensation expense.

Catch-up management fees were $13 million in the quarter, largely drive by two funds: the final close of our seventh US real estate fund and an incremental close on our new power fund, compared to catch-up management fees of $4 million a year ago.

Net realized performance fees increased to $32 million in the quarter as compared to $19 million a year ago. US real estate continued to perform well and our first power fund generated its first realized carry this quarter.

Investment solutions generated $3 million in distributable earnings in the quarter, lower than the $9 million generated in the third quarter of 2014. Management fees decreased $8 million in the quarter from a year ago due to the impact of foreign exchange and lower fee-earning assets under management.

One final comment on economic net income, which can change materially based on which day the quarter closes, and which makes me scratch my head as to the utility of ENI of evaluation measure.

For instance, had we closed our books today rather than on September 30, ENI would be much higher given the significant improvement in our public portfolio and global equity valuations in the last four weeks. Yet there is no fundamental difference in the health of our business today versus September 30. Accordingly, we continue to believe that distributable earnings is the best way to measure our business since that metric reports the cash generated and available for distribution to our unit holders.

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

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

In sum, we believe that we continued to demonstrate, during the quarter, that our global franchise is quite strong, as evidenced by our ability to raise significant amounts of new capital, to find attractive investments across many of our sectors and around the world, and to exit our earlier investments at levels which produce appealing returns for both our fund investors and our unit holders.

We remain optimistic about the firm's core global franchise and our ability to continue to generate attractive returns for common unit holders. Now we are pleased to take your questions.

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

Our first question comes from Brennan Hawken of UBS. Your line is open.

Brennan Hawken - *UBS - Analyst*

Thanks and good morning. I actually just wanted to follow up on some of David's comments on the valuation. I agree it's pretty confusing. I'm not completely sure I get it. But, given that, are you planning on making any changes to capital deployment policies?

Are you looking at maybe being opportunistic? I know that floating your stock is somewhat thin, but given how remarkably cheap the stock looks, maybe, I thought there might be a shift there.

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

Well I think what you're referring to is some type of either stock buyback or some other type of change in our basic policy. I guess that's what you mean. And we have looked at every possible option, but we continue to believe that the best thing we can do is produce very good distributable earnings for investors, let people know about how cheap the stock is relatively speaking, and in time, we do suspect the market will catch up with where we think it should be.

We do not have any current plans to do a stock buyback. In our view, our capital is best deployed in creating new funds for investors and for deploying our capital in our investment activities over to the principal investment activity, as well.

We do not plan any imminent change or anything like that, but we have obviously considered these things. But right now, we are comfortable with where we are. I should also point out, as you do, that our float is relatively modest, and if we were to do a stock buyback that would reduce the float and if anything, exacerbate the problem that we already have, which is relatively modest float.

So we are currently quite pleased with where we are. We just think that the market should recognize the value of the franchise more than it does the value of the distribute earnings that we are producing.

Brennan Hawken - *UBS - Analyst*

Okay, thanks. I'll re-queue.

Operator

Thank you. Our next question comes from Ken Worthington of JPMorgan. Your line is open.

Unidentified Participant - *JPMorgan - Analyst*

Hello, good morning this is Amanda filling in for Ken.

Can you expand your view on energy? Carlyle has built up a tremendous amount of energy dry powder. How is the market shaping up for investments here, given the current asset value? Should investors expect to see a solid rate investment pace for energy funds?

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

Bill?

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

Yes, I'll take that one. Well, I think that for a long time, Amanda, there's been a disconnect between the buyers and sellers of energy properties, be they energy loans or actually producing properties, and I'm really referring now, not so much as the midstream and the refineries, but rather to the exploration part of the business.

In that part of the business I think people have either because of the forward curves of energy prices or for whatever reason, hope perhaps, expectations that the prices were going to bounce back, of the energy, and therefore they had some expectations that their acreage or whatever was worth more than the market said it ought to be worth, and so there was kind of a time for which there weren't that many energy transactions occurring.

I think, gradually now, with the continued fall in energy prices and having stayed down for a while, I think buyers and sellers are getting closer together in terms of ability to find good transactions to do. I suspect we'll be announcing some soon across the platform as prices are more in line with where we think they ought to be. I think it's a good time to have dry powder, but it's not like we know whether or not energy prices are going to go up or down.

Obviously if we'd all known prices were going to go from $100 to $40 over the last 18 months, everybody on the planet would have been short energy and made a lot of money and I didn't think many people saw that coming. We're not predicting where they're going to go. They feel low to me and to us because they are below the price at which sustainable development would occur and energy quanta would serve the demand on a long-term basis. But you know, that's not a prediction they're going up from here anytime soon.

Unidentified Participant - *JPMorgan - Analyst*

Thank you. And can you also talk about fundraising potential and GMS? Where do you see the near-term areas of opportunity?

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

Let me address that.

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

David. David. Go ahead, David.

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

Okay. Thank you. On GMS, we have a number of products in the market now that are doing quite well and that we're very optimistic about.

For example, our CSP fund, which is our just distressed debt fund, is in the market now. It has a very good track record, as Bill has mentioned, in the top quartile in each of its previous three funds. And so that is off, I think, to a good start and we expect that will do quite well.

Our energy mezzanine fund is also in GMS. That has, as I mentioned, raised $2.4 billion already and we think there's still a fair amount of interest in that fund so those are two products in that GMS sector that we think are going to do quite well.

We also are continuing to raise CLOs and as we noted, we are the second largest, I think, CLO operator in the world at the moment and we continue to be quite bullish in our ability to raise new funds there. So those are three areas under GMS where we're quite optimistic about our ability to raise funds in the future.

Unidentified Participant - *JPMorgan - Analyst*

Thank you.

Operator

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

Michael Cyprys - *Morgan Stanley - Analyst*

Hi. Good morning. Thanks for taking the question. I was just hoping you could just share an update on some of the new product initiatives at Carlyle, such as the core plus real estate and some the longer-dated private equity fund structures. Just curious how much have you raised so far in those structures?

How are you thinking about structuring them in terms of the economics to Carlyle and just more broadly on those two structures in particular? What's the expectation in terms of those ramping from a fundraising and also deployment expectation over the next, call it, 12 months or so?

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

Let me address those two funds. As you know, we have had for many years, an opportunistic real estate business that's been quite successful and we just closed our seventh opportunistic US real estate fund.

We have another product that's a core plus product designed to get slightly lower returns and therefore you might say slowly lower risk in the profile. That is now in the market. I would now expect we'll have a closing probably early next year for our first closing on that. It's going quite well. We have a very large real estate team in the United States and part of that team is now focused on core plus. It's a very large market.

I suspect core plus may be even a larger market than opportunistic in the end because there are more products that you can buy due to the core price type of return, so we are very optimistic that we can raise a target there that will be pretty attractive. Now it's structured somewhat differently than our typical private equity kinds of funds. It's more of an open-ended type of vehicle and it will trade kind of on a NAV basis, but it's different and it's similar to other core plus funds that are in the market. It's one that can continue to grow all the time. It doesn't really require a seriatim kind of fundraising.

On Carlyle global partners, we haven't really said what we have raised to date and I don't think I'm going to do that now.

I would just say that that is a product that I think has great potential for us. It's a longer-term investment. We might hold on to assets anywhere from 5 to 10 or longer years. It's one designed to get a current yield as well as some capital appreciation.

We are only talking to a limited number of investors, because we only what a limited number of investors in it, and so far, the progress has been quite good. I would expect we'll have some announcement about the size of that fund probably in the next quarter or beyond, but we're quite happy with it. We've already made a number of investments in that fund that's now being raised.

And I would also add that we probably will do something new in the infrastructure area. We have a track record in infrastructure. We also like the energy infrastructure business and we might well do something new in that area, but the key point I'd like to convey is that we are always looking at new opportunities where we think we can get a pretty good rate of return for our investors and can raise the funds and recruit a good team.

So we have three new ones that I've just mentioned. Infrastructure is not yet in the market, but will be at some point next year. Core plus is in the market and our global fund is in the market and we are continually looking for things like that that we think we can do a good job at, so those are just three of them.

Michael Cyprys - *Morgan Stanley - Analyst*

Thanks. And since you mentioned infrastructure, if I could just ask a follow-up on that. Just curious how you're thinking about the economics in infrastructure. Is it lower returns? Lower fees? And just more broadly, how you're thinking about the infrastructure opportunity. It's done well outside the US, but in the US it's been a slow and go.

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

There different types of infrastructure funds in the market. Some are fee-oriented, when they're getting very low rates of return. Some have a more modest carry and some have a full 20% carry.

We do think that there is a market for a full 20% carry, but it depends on the type of assets you're pursuing. We haven't decided yet fully how to structure that fund, but I do think it's one where you can have a very global business.

In other words, you can focus on the US and you can focus on Europe a bit and that's a pretty attractive market. Emerging market's a little more complicated, but I do think the market is pretty large and increasingly when I talk to investors about what we're doing, they say: Do you have an infrastructure fund? Do you have an energy infrastructure fund?

There's a lot of interest in it because a lot of the large institutional investors have a category called infrastructure and they're looking to find people who can invest in that category for them.

Michael Cyprys - *Morgan Stanley - Analyst*

Great. Thank you.

Operator

Thank you.

(Operator Instructions)

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

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

Thanks. Good morning. I guess I'm just kind of curious if I look at the, it's not a big contributor to DE or FRE, but if I think of the solutions to this, I know there's been some FX impact over the past year, but you've had fee-earning AUM has been declining, deminimus contributor to the FRE and DE. So can you maybe update us on, that's still a big chunk of assets, so can you maybe update us on your thoughts on that business? Anything on the horizon besides FX that maybe could start driving higher contributions from that business?

Curt Buser - *Carlyle Group LP - CFO*

Sure, Robert. This is Curt. You're right that the business has incurred some decreases and we pointed that out in terms of drops in fee-earning AUM. A lot of that has been from foreign exchange. Because a big piece of that's really euro-denominated and so that's really what has contributed there and that has a direct impact on management fees.

Where we are very excited is really in the secondaries business. So we'll have a large secondary fund that Altavest is overseeing, that'll come online here next year and believe that that will continue to add value. And then we also have a number of smaller products that we're looking at, but in the short-term, I think it'll be probably 12 months or so before you'll see an uptick in that space, but we're excited about the secondaries business.

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

Thanks for taking my question.

Operator

Thank you. Our next question comes from Craig Siegenthaler with Credit Suisse. Your line is open.

Craig Siegenthaler - *Credit Suisse - Analyst*

Hey, good morning.

Curt Buser - *Carlyle Group LP - CFO*

Morning.

Craig Siegenthaler - *Credit Suisse - Analyst*

So fee-earning AUM continues to trend lower across the Company and I know there's a lot of puts and takes here, but do you think we're at a point where fee-earning AUM can base and start to build here?

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

So the key thing to remember on fee-earning AUM is that there's $12.5 billion, or $12.6 billion to be exact of AUM which we've not yet turned on, so it's excluded from the number.

The other thing to kind of keep in mind again is the $4.5 billion impact of foreign exchange, which impacted us negatively over the last 12 months. And so the way I always think about it is we've actually increased fee-earning AUM when you factor in those two points over the last 12 months.

And we'll even start to see that kick in, really in Q1 as those fees will turn on, but the other piece that comes into play here is really the rate at which we're able to exit. And it's been a strong exit environment and we don't really see that changing.

We've had four years where we've been exiting assets at $18 billion to $20 billion a year, which has really been driving the very strong performance fees that we've enjoyed. So those were the big things to think about and I think over the long-term you will see an increase in fee-earning AUM.

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

Yes, I would add that if we had a problem raising funds because our investors weren't happy with what we're doing or our new products, you should be concerned about fee-related AUM. But the truth is, where our products are pretty well-received. If anything, we are hitting caps pretty consistently in our fundraising. So I think our ability to generate new funds and then ultimately have fees related to them is pretty good.

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

And Craig, one last thing to keep in mind is in our legacy energy business, that's going to naturally run off and so there is, I think the number is like $8 billion or so of remaining fee-earning AUM there, and that's just going to sell down. So that's another piece to kind of keep in mind as you're looking at the total piece. Really look at really the ongoing business.

Craig Siegenthaler - *Credit Suisse - Analyst*

Great. Very helpful.

Operator

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

Michael Kim - *Sandler O'Neill - Analyst*

Hey guy. Good morning. So obviously the level and pace of fundraising remains quite strong, but just given your evolving LP mix, assuming commodities prices remain under pressure for an extended period of time, just curious to get your thoughts on how that environment could potentially impact the fundraising trajectory over time, specifically as it relates to maybe sovereign wealth funds?

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

Yes, let me address that if I could. Sovereign wealth funds are increasingly an important investor for us and we are getting more money from sovereign wealth funds than historically we have done. But the sovereign wealth funds where we're getting most of our money now are actually based in Asia.

So, we probably get about, of our sovereign wealth fund money, probably about 2/3 is coming from Asia and about 1/3 is coming from the Middle East. And that's a percentage that we're quite comfortable with because we think the Asian ones are not just in one country. They are across the Asian continent and therefore we're not dependent on any one or two investors there.

The Middle East has been very strong for us over the years and we haven't honestly seen any diminution in their interest in alternative investments. If anything, it's increased because they recognize that given lower oil prices, they have to do something to get higher rates of return, and therefore, some of the largest sovereign wealth funds in the Gulf are now actually quite bullish in their commitment, at lease to us, in funds that we're presenting to them.

So I'm not that worried about the Middle East. I do think in the end we'll probably continue to raise a fair amount of money there. But probably for the future, I would expect a great deal more money will come from the sovereign wealth funds in Asia.

Michael Kim - *Sandler O'Neill - Analyst*

Great. Thanks for taking my question.

Operator

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

Mike Niemann - *Bank of America - Analyst*

Hey, thanks. This is Mike Niemann for Mike Carrier. So another strong quarter for the cash distribution, and just focusing on the private equity business, and thinking about the cash generation from the business from that business over, say the next year versus the last 12 months, if we look at the mix of season capitalize, it's been roughly flat year-over-year. The incentive accrual is down a bit, but guessing there's been some recoveries. Markets rebound in the fourth quarter and just assuming an okay market backdrop, where you can keep up the pace of secondaries, is it fair to say that the next 12 months could look pretty similar to last 12 months for the PE business distribution? And if not, could you give us some color on your private pipeline? Thanks.

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

Okay. This is Bill. I'll take that one.

First of all, it's hard in our Business and we really don't make forecasts about how much we might be about to distribute or how much our realizations are going to be over any particular period of time. Clearly over some long period of time, if we don't put more money to work, we're not going to have the distribution. So for example, in the first nine months of this year, we only invested $4.6 billion. And, obviously, we would like to do more than that if we could find good deals to do it in. We're not willing to lower our standards, don't feel any need to do so, but I would have liked to invest more in the first part of this year.

However, the amount still remaining as capital in the ground, I think it's $57 billion, and if you think about our ability to be selling assets over periods of time, and the type of turnover we have, I don't know if next year's going to be as much as this year or not, but I think it'll continue to be another pretty good year, assuming markets are strong, or at least remain roughly where they are. They don't have to get any stronger than this.

Mike Niemann - *Bank of America - Analyst*

Okay. Thanks.

Operator

Thank you. Our next question comes from Bill Katz of Citi. Your line is open.

Bill Katz - *Citigroup - Analyst*

Okay. Thanks very much. Good morning, everyone. I appreciate taking the question. This may have already been answered in part in some of your other Q&A, but when you step back and think about asset allocation and demand for the business, you obviously just addressed some of the sovereign wealth fund, but more broadly, where do you think we are in terms of the institutional allocation? And then maybe an update on retail strategy?

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

Well first on the indications that we have from our investors and from overall data from the industry is that investors are interested in increasing their allocation to private equity, not decreasing it. In fact, I'd say about half of the investors who were surveyed have said that they would like to increase their allocation private equity. This was in a preqin survey. So I'm not that worried about diminution in interest.

If anything I think our problem is making sure we can accommodate the interest in the fund capacity we have. In terms of retail, let me just address the retail that we consider retail with respect to feeder funds.

Feeder fund business is very strong for us and I believe it's probably strong for some of our peers. Right now, we have a number products that are in line with the feeder funds to be launched in early next year. Some are already in the works.

We think that high net worth individuals around the world and in the United States are really interested in private equity kind of products and therefore we don't see any diminution in interest in that area right now.

And so our focus is to really work closely with the feeder fund organizations that are often doing these kind of things, and also work directly with some of the registered investment organizations that are not quite as large as the largest people that do feeder funds for us.

But we have a pretty robust business there now and I expect it will probably grow. Now remember, we are focused on, in our business, on a high net worth of credit investors.

Our focus has not been on the non-accredited investors largely. It's really on the high net worth investors who are accredited, whether we would do something beyond, that is not something we're really ready to talk about now.

Bill Katz - *Citigroup - Analyst*

Okay. Thank you very much.

Operator

Thank you. Our next question comes from Alex Blostein of Goldman Sachs. Your line is open.

Alex Blostein - *Goldman Sachs - Analyst*

Great. Good morning, everybody.

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

Good morning.

Alex Blostein - *Goldman Sachs - Analyst*

Question for you on the CLO market. You are, obviously, a very big participant in that space. So just curious to see what you seeing on the ground from both the fundraising perspective looking ahead, as well as just some of the performance of the underlying credits because the public markets have gotten a little bit tougher in that space. But trying to see if there's any actual cracks in credit profiles you are starting to see. Thanks.

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

This is Bill. I'd say no cracks. Clearly in the loan market, you've seen some price decreases in the value of loans that have been relatively small. And we see this in the buyout business where the prices we pay, I think the markets are a little choppier, and I think spreads have widened a little bit on the credits. Not significantly yet, but it is noticeable, I would say.

You know, we have about 40 CLOs and I would say that the CLO structure proved in the 2007, 2008, and 2009 time frame that it is enormously resilient. That if you're assuming you have a good manager and assuming you have a great diversification of credits, they're not market-to-market type vehicles and their designed to withstand a lot of problems. So I would say, I think in all that period of time, I think our lowest CLO earned a return of about 4%, and virtually all the others earned over double-digit returns, so it was a good business even through that timeframe.

At various points in time in the market however, it becomes difficult to raise the CLO and that can be for one of really I'd say three reasons. One reason is you can't get people who are willing to invest in the equity of a CLO, for some reason. That's usually less our problem than it may be other people. We can usually get the money to be raised for that, although there are going to be coming in the next year or so, significantly higher capital requirements on the CLO business that may cause that to be a bigger problem for some people.

The second problem can be can you raise the other parts of the capital structure on the liability side of the CLO? The biggest part of those is usually the so-called AAAs. They represent often times like 70% of the total of size of the CLO.

Their pricing has ranged from under 100 basis points over LIBOR to over 200 basis points over LIBOR. And just by the mathematics, when it gets up to the higher levels there, unless spreads on loans really blowout to a big extent, the CLO can't make -- it doesn't make sense mathematically.

And the third limiting factor is do you have the product in terms of the number of assets to put in the asset side of the CLO business? I would say, in the United States market, today that's not a problem. You get enough credits in enough size and quality with enough diversification to be able to raise a CLO.

In Europe, generally it's a little tougher to find enough credits of enough credit quality to raise CLOs there. The European market was a little slower to come back than the US market after 2009, when we were able to get CLOs done in the US with -- you could raise the equity. The spread on the AAA's made sense and you could get enough credits at the right price for right diversification scores to make the CLO work.

And it was tougher in Europe for maybe an extra 12 to 18 months. Right now, while it's always a fight to make them work, to raise the AAA at the right rates and get the equity and get the loans, I still think we can do it. You're right to point out though that in the recent month or so, last month or so, I think there has been some drop in the prices of loans, which will have a, so far at least, a relatively small impact on the business.

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

One macro point to add to what Bill just is that our CLOs have a relatively low exposure to energy assets.

Alex Blostein - *Goldman Sachs - Analyst*

Understood. Great. Thanks so much for all the color there.

Operator

Thank you. Our next question comes from Glenn Schorr of Evercore ISI. Your line is open.

Glenn Schorr - *Evercore ISI - Analyst*

Thanks. So I heard your earlier comments and I think everyone appreciates the patience on the investing side. But still, it is what it is, investing at a slower pace than you're realizing, and like you said, eventually that has to flip, so I'm curious on the third quarter specifically, if it just wasn't enough time. Markets got beaten up a lot. I didn't know if things have bounced back too quickly to put money to work.

And then in energy specifically, where along the food chain is the most value and maybe even what part of the capital structure?

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

Well, okay. Well first of all, although the pace was only at the rate of about $1.5 billion per quarter in the first three quarters of the year on average, clearly it did pick up in the third quarter.

Now, you agree to a deal, it doesn't actually get closed right away. So it takes a while. So I would say the pace has picked up to some extent. Whether that's a function of buyers and sellers just being more reasonable with each other on prices or whatever, I don't know, but it has certainly picked up. The Veritas is an example of that; so was Novetta and some of the other deals that I mentioned in my prepared remarks.

I think in the energy space, there are two areas that strike me as particularly interesting now for money going to work. One is in the energy lending space, energy mezzanine, where we have a big team, we have our first fund is still marked above cost, despite what's happened. It's already returned a lot of capital to our investors.

And although it's called energy mezzanine, a lot of the loans being done in it are actually senior loans. You've had a reduction in the so-called reserve base loans that the banks make to energy producers and I think that will create opportunities for our energy mezzanine fund.

So I think energy lending could be a pretty interesting space. Now having said that, there were a lot of loans made to the energy business in the first half of 2015, when people thought the same thing. And prices fell and those loans are well underwater. Unfortunately, we weren't busy then, but we were busy raising the fund rather than putting money to work. Maybe that was a good thing for us.

The other spot I would say that strikes me as interesting today is power. We have made a push through our infrastructure funds and our power funds into investing in power plants. Most of this has been gas-fired power plants in the United States, scattered around among a various number of the grids.

We think that the economics are pretty good. We've got some real operating talent that we have there and we have a business called Cogentrix that's able to take power plants and have them run better and more efficiently. It's got about 70 people, and it's a real asset for us, so I like the power business as well and the energy space.

I think also we're a big player in the backend in the refinery business and our refinery, for a long time this year was really benefiting from the increase in the spreads between the price of crude and the price of the refined products. And that's been a good business for us.

So I think those businesses can get over priced from time to time but you can see that the number of transactions, for example, that are happening in the pipeline business and other places where people don't -- sometimes the whole energy space gets beaten up. Everybody says I hate energy, all energy gets sold, and sometimes the good is thrown out with the bad, so you might find opportunities there as well.

Glenn Schorr - *Evercore ISI - Analyst*

Yes, I find the same thing in asset management these days. Thanks a lot.

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

Also, on the pace of investing, I would say the phone, that if you maybe oversimplified the model a bit, we might invest roughly $10 billion a year and we went return roughly $20 billion a year. So it isn't the same $20 billion that was related to that same $10 billion. It just takes a few years for us to grow the value of that, and it doesn't work always that way, and sometimes it works better than others.

Clearly it's the case if we were only investing at a pace of $6 billion rather a pace of $10 billion, that the distributions would have an issue. But I think we'll find suitable investments for our investors. We've got 700 investment professionals around the world, across a number of asset categories, looking for good deals to do and I'm confident we'll find them over time.

Glenn Schorr - *Evercore ISI - Analyst*

Okay. Thanks very much.

Operator

Thank you.

(Operator Instructions)

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

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

Great. Thank you for taking my follow-up question. Looking at the hedge fund part of GMS. I mean, clearly the last couple years there have certainly been disappointments between performance and flows, and I'm curious how your thoughts about building out those types of strategies may have changed in terms of whether it's pursuing additional acquisitions and maybe a little bit of lessons learned from that.

How if you want to grow that business -- adding new strategies, or is it not anything at this point given your experience? You have much interest in adding beyond what you have?

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

Well, I'd say first of all, over the last year -- it hadn't been a couple years, over the last year, the performance of hedge funds hasn't been what we hoped it would be, in either our emerging markets funds or in Claren Road -- that capital in the hedge fund business is not sticky capital. It depends usually on performance. A year or year and a half ago in Claren Road, they were turning money away, we were turning money away. And you get down and have a couple bad quarters and some people want their money back and that's part of the model. You given them their money back as best you can when that happens.

I would say that we're not planning on exiting the business or anything like that. We're going to do everything we can to help our hedge funds be continuing business and be successful. But it's not a business right now I feel like we're anxious to expand.

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

Okay. I mean, I appreciate you taking my question.

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

Sure.

Operator

Thank you. I am showing no additional questions. I would like to turn the call back to Daniel Harris for closing remarks.

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

Okay. This is David Rubenstein. Let me just conclude by saying I think this is our 15th earnings call that we've had, and on all of them we tried to be as honest as we could and forthright. We try to answer your questions as best we could and obviously some people have asked us questions afterwards. Clearly, if you have additional questions, please let us know. But in every one of our calls we try to say that we are a business which is focused on distributable earnings and producing consistent distributable earnings for our investors over a period of time.

We think we're pretty good at investing. We think we're pretty good at fundraising. We think we're pretty good at overseeing the assets and adding value. And we think we're pretty good at delivering returns for our investors and our unit holders. We don't have a message today that's different than that. We just wanted to convey to you that we are able to do in this bad times or good times are pretty much what we've always said we can do, which is produce returns that we think are good for investors, and we don't have anything exciting or other to say other than we pretty good at what we think we're doing well and we're going to do it in the future.

And that's what our focus really is, is distributable earnings and that's how we think we should be best measured and we're quite happy with the distributable earnings that we've announced this quarter. Dan.

Daniel Harris - *Carlyle Group LP - Head of IR*

Thank you everyone for your time and attention. As David mentioned, should you have any questions, please feel free to follow up with me and we look to speaking with you next quarter.

Operator

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