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CORPORATE PARTICIPANTS

Daniel Harris *The Carlyle Group - Head of IR*

David Rubenstein *The Carlyle Group - Co-CEO*

Bill Conway *The Carlyle Group - Co-CEO*

Curt Buser *The Carlyle Group - CFO*

CONFERENCE CALL PARTICIPANTS

Ken Worthington *JPMorgan - Analyst*

Michael Cyprys *Morgan Stanley - Analyst*

Patrick Davitt *Autonomous Research LLP - Analyst*

Craig Siegenthaler *Credit Suisse - Analyst*

Michael Kim *Sandler O'Neill & Partners - Analyst*

Mike Carrier *BofA Merrill Lynch - Analyst*

Gerald O'Hara *Jefferies LLC - Analyst*

Ann Dai *KBW - Analyst*

Kaimon Chung *Evercore ISI - Analyst*

Bill Katz *Citigroup - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to the Carlyle Group first-quarter 2016 earnings conference call.

(Operator Instructions)

I would now like to introduce your host for today's conference, Mr. Daniel Harris, Head of Investor Relations. Sir, you may begin.

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

Thank you, Lauren.

Good morning, and welcome to Carlyle's first-quarter 2016 earnings call. In the room with me on the call today are Co-Chief Executive Officers, David Rubenstein and Bill Conway, and our Chief Financial Officer, Curt Buser.

Earlier this morning, we issued a press release and detailed earnings presentation with our first-quarter results, a copy of which is available on the investor relation portion of our website. Following our remarks, we'll hold a question-and-answer session for analysts and institutional investors.

To ensure participation by all of those on the call, please limit yourself to one question and return to the queue for any 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 the form 10K that could cause actual results to differ materially from those indicated. Carlyle assumes no obligation to update any forward-looking statements at any time.

And with that, let me turn it over to our co-Chief Executive Officer, David Rubenstein.

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

Thank you, Dan. Good morning, and thank you for joining our call today.

Despite the challenging market backdrop in the first quarter, we deployed a significant amount of capital, produced a reasonable amount of distributable earnings, and positioned ourselves for strong performance in the coming quarters. In fact, our performance and outlook today remains largely consistent with our comments from last quarter, with one notable change.

In last quarter's call, we highlighted uncertainty in financial markets, prospects for volatility and risk tilted to the downside. Today, due in large part to recent pronouncements from the Federal Reserve, equity, credit and commodity markets have strengthened, and the risk is, instead, far more balanced.

Turning now to the numbers. We continue to invest actively in the first quarter, deploying a total of $3.9 billion. This brings our total deployed capital to almost $8 billion in the last six months and over $11 billion in the last 12 months. We believe that we have deployed capital at the right time, in the right companies and strategies, positioning us well for future earnings.

We realized proceeds for our fund investors of approximately $3.2 billion, a little lighter than recent periods, owing largely to a few closings which slipped into the first few days in April. For example, in early April, we exit our remaining stake in RAC, the British equivalent of AAA, for more than EUR700 million and a MOIC, all-in, of 3.77 times.

We raised a gross amount of $2.2 billion in the first quarter. However, approximately half of our previously disclosed hedge fund redemptions were returned to investors during the first quarter, and those outflows countered a majority of our gross inflows.

I will discuss fundraising in more detail in a moment, but we continue to see strong investor interest in our funds, and we are excited about the strategies that we have the market.

Pre-tax distributable earnings for the quarter were $129 million, consisting of $51 million in fee related earnings and $70 million in net realized performance fees. On a trailing 12 month basis, pretax DE has been $904 million, and we have generated $2.65 in post-tax DE per unit. Our distribution per common unit this quarter will be $0.26.

Overall, carry fund depreciation increased by 1% in the quarter with solid appreciation for many of our largest buyout and real estate funds and negative performance in certain energy and GMS carry funds. Our fifth US buyout fund, and largest cash carrying producing fund, Carlyle Partners V, appreciated by 4% and we saw real strength across our US real estate platform, with Carlyle Realty V and VI appreciating by 10% and 6%, respectively.

Our natural resources and legacy energy segments were down 2% to 3% for the quarter, a somewhat modest decline given challenging energy markets. Our GMS carry funds were down 12%, largely driven by the effect of energy prices on credits in that sector.

Turning now to some additional color on our fundraising. We held a final close of our second power fund in April, a $1.5 billion fund that closed above our target and was approximately three times the size of our first fund. We held a final close on Metropolitan's secondary fund at $550 million, exceeding the fund's $450 million target.

We held our first close of more than $675 million on our next-generation distressed investing fund. Importantly, our first close was only slightly less than the size of the entire predecessor fund, so we are confident about our prospects of raising a much larger fund.

We continue to make good progress on a variety of existing and new strategies in our global markets business. We did not close any new issue CLO's in the first quarter, but in April we have closed one for about $400 million and will likely close at least one and possibly two more in the quarter. And we're working toward our first closes of our new core plus real estate fund, our global infrastructure fund, our fifth-generation Asian growth fund, a China real estate fund and several other funds. We continue to see increased interest in large managed accounts from our most significant LPs.

And finally, even though our first-quarter fundraising was lighter than normal and several closings slipped into the second quarter, we continue to feel good about the prospect of achieving gross new fundraising commitments of approximately $15 billion for the year.

The fundraising environment remains favorable for alternative investment firms, and investors continue to respond positively to our offerings.

In sum, notwithstanding a somewhat slower first quarter on certain metrics, our position remains solid, and we're excited about a number of market opportunities. Deployment is up, and our pipeline has accelerated since the middle of the first quarter.

Our net accrued carry position remains strong at $1.3 billion. Our public portfolio remains healthy at $15 billion.

We continue to launch new products. We have $43 billion in carry fund dry powder, and $57 billion in dry powder overall, and we are hitting our fundraising hard caps on virtually all the products we have in the market. With that, let me now turn it over to Bill.

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

Thank you, David.

Last quarter, I spoke of the three C's: credit, China and crude, that were creating an uncertain investment environment and increasing financial market volatility. Many of these fundamentals remain the same.

China's growth, after spectacular performance over the past 35 years, has definitely slowed, partly due to demographics. Crude oil prices, which have rebounded some, are still less than half of what they were two years ago. And overall credit markets, while stronger today than earlier this year, remain under some pressure, due in part to the negative weight and volume of energy credits. However, our fund has report that are portfolios are slightly stronger than they were three months ago, despite continuing difficulties in growing revenue particularly in the United States.

Much of the improved backdrop derives from the approach taken by the Federal Reserve which signaled that rates will not rise as quickly as one might have guessed several months ago. That, and other factors, has contributed to a modest weakening of the dollar, increases in dollar invoice commodity prices like crude oil, improved credit markets and a stronger near-term outlook for China, whose currency is managed to depreciate on a trade weighted basis without further decline against the dollar.

In any event, public markets, notably the S&P 500, have more than recovered after dropping as much as 11% early in the year. We do not do any significant block trades during the last quarter. However, as markets recovered in April, we sold a $300 million position in NXP and a block of our shares in Spanish testing company Applus.

As David mentioned, our investment pace has been very strong in the last six months. In the first quarter, we closed 13 new corporate private equity investments, 9 new real estate deals and several distressed and credit investments. These include Veritas Holdings, a global supplier of information management software, 4 transactions in Europe, Hunkemoller in the Netherlands, Comdata in Italy, Saverglass in France and TestPlant limited in the UK.

We closed more than $500 million in energy and real estate investments, most of which was follow-on capital, and we consummated two healthcare related assets in China, one a hospital and another a medical device company, as well as a Japanese bean sprout producer.

Last quarter, I mentioned that we had more than $4 billion in transactions and process that had yet to close. In the first quarter, we closed on approximately $3 billion of these transactions, and we remain confident that we will continue to find attractive opportunities to deploy our $43 billion of carry fund dry powder.

Looking forward, we believe that the energy sector is particularly compelling. Across the entire capital structure, opportunities for investments are increasing and improving. We have teams totaling 65 investment professionals working to invest our available committed capital for energy of about $12 billion now.

On the exit front, we closed on three transactions in the US, WorldStrides, Western Water Holdings and Landmark Aviation, a deal that generated over three times our money and over $1 billion in distributions for our fund investors.

We closed on Ta Chong bank in Taiwan and 7 Days Hotels in China. We closed on B&B Hotels in Europe, and we sold more than $800 million in real estate and energy investments.

Early in the second quarter, in addition to the block trades in NXP and Applus, which I mentioned earlier, we closed the sale of our remaining position in the RAC, a CEP III transaction, which in total, including prior distributions, resulted in gains for our investors of over EUR1 billion.

Fundamentally, with few exceptions, we are in the long-term investing business. Despite quarterly market gyrations and shifting short-term investor sentiment, our job is simple. Define great investment opportunities on behalf of our fund investors and aggressively pursue those ideas with our management teams and investment professionals.

We take a long view of value creation and continue to see significant opportunities in front of us in almost every geography and asset class. Our investing pipeline is in good shape. Due to strong capital fundraising over the past few years, our funds have ample dry powder, and we're ready to put it to work.

With that, let me turn it over to Curt.

Curt Buser - *The Carlyle Group - CFO*

Thank you, Bill.

I'm going to make three general comments before discussing specific segment results.

First, we continue to focus on managing our cost structure while pursuing new growth initiatives. First-quarter cash compensation expense of $162 million was down 6% from a year ago, and I expect cash compensation will remain below 2015 levels for the balance of the year.

Even with a lower level of cash compensation over the past year, we have launched or expanded strategies in infrastructure, core plus real estate, and long data private equity, among others, which, when fully raised, could add more than $10 billion in additional assets under management.

General and administrative expenses fluctuate based on a number of factors, but primarily due to the amount of external fundraising costs and professional fees. This quarter G&A expenses were $74 million, or a little lower than our recent quarterly average expense of $78 million.

Second, despite financial market volatility during the first quarter, we generated a reasonable level of cash earnings, and second-quarter performance fees are off to a good start. Fee related earnings were strong at $51 million, while realized net performance fees of $70 million were lower than recent prior periods primarily owing to two factors.

First, we took reduced carry in our US buyout fund at about half the rate we would normally take. Second, real estate had a slower quarter of exit activity. That said, a single quarter does not make a trend.

Our largest carry generating funds remain solidly in carry and our carry fund portfolio has a substantial inventory ripe for monetization. Finally, with the exits that Bill has mentioned, realization of performance fees in the second quarter is off to a good start.

Third, fee revenues remain flat, but may decrease in the short-term. Total fee revenues this quarter increased to $303 million from $287 million in the fourth quarter of last year and were effectively flat with the first quarter of last year.

As I said at year-end, our 2015 catch-up management fees reflected strong fundraising, and as a result, we had catch-up management fees of $23 million in the first quarter last year compared to only $5 million in the first quarter of this year. Higher transaction fees offset the lower catch-up management fees this quarter, but transaction fees are not likely to remain at this level for the balance of the year.

Accordingly, my expectation for quarterly fee related earnings in 2016 remains unchanged at about $43 million on average, including the out-performance to that average in the first quarter.

Now let's turn to review of our business segments.

Corporate private equity produced distributable earnings of $105 million, down from $194 million in the first quarter of 2015, reflecting an approximate $100 million decrease in realized net performance fees as compared to a year ago. Fee related earnings in corporate private equity were $32 million this quarter, up $10 million from $22 million in the first quarter of 2015, reflecting higher few revenues. Total expenses in corporate private equity, included within fee related earnings, were roughly flat with a year ago.

Net realized performance fees were lower than recent quarters as we did not sell any material positions in our public portfolio during the quarter. And as I noted earlier, carry generated from one of our US buyout funds was taken at a reduced rate of about 10%, rather than the typical 20% rate.

This US buyout fund has performed very well and remains comfortably in carry. However, this fund has some remaining investments marked below cost, while carry is calculated on the entire fund, carry is realized deal by deal. The modeled straight-line average carry realization rate on this fund is somewhat below 20% over its remaining portfolio based on our projections.

We have decided to be prudent and reduce the carry realization rate to 10% for most of this year until we have fully reserved for the identified risk in the portfolio and then resume taking carry at a 20% level. It is important to note that this does not change the total amount of carry that we are otherwise entitled to, but rather it simply changes the glide path for carry realization on this fund.

Now turning to global market strategies.

Distributable earnings in GMS was $1 million in the quarter. GMS is an important part of our long-term growth strategy, but near-term investments and new credit products in carry funds are delaying the acceleration of profitability for this segment.

Specifically, we are adding investment professionals to our credit business within our BDC. We are fundraising larger file on funds for our distressed and energy mezzanine platforms. And we are exploring how to best grow our CLO business.

Forthcoming US risk retention rules are increasing capital pressure especially on smaller issuers of CLO's, thereby creating opportunity for us to further grow.

These investments in GMS's future are impacting current segment profitability. For example, fundraising costs in the first quarter of $5 million offset the higher fee revenues from activating fees on our second energy mezzanine fund.

In addition, hedge fund assets under management and related fee revenues continued to decline. Hedge fund AUM declined to $6.3 billion from $8.3 billion at year-end, and we expect further hedge fund AUM run-off of approximately $1 billion to $2 billion over the balance of this year as redeemed assets are sold and returned to investors.

Moving to real assets. Real assets produced distributable earnings of $20 million with only $1 million from realized net performance fees, reflecting lower exit activity in the quarter.

While a slower first quarter exit pace is normal for our US real estate business, we expect exit activity to increase over the balance of 2016. Fee related earnings were $16 million as compared to $19 million a year ago, reflecting a decrease in catch-up management fees of $7 million offset by higher management fees from activating fees on NGP's fund XI.

In Investment Solutions, our financial results started to improve with our decision to wind down DGAM. Distributable earnings were $4 million in the quarter with over $3 million in fee related earnings.

Fee revenues and fee earning assets under management in this segment may face additional headwinds in the short-term, reflecting the wind down of DGAM and the runoff at AlpInvest of commitments from its former owners of approximately $10 billion over the next five years. However, earnings will likely improve with AlpInvest adding new, higher-yielding assets under management and from the elimination of losses at DGAM.

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

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

Thank you, Curt.

Despite the volatility in financial markets in the first quarter, we had a strong quarter in terms of investment activity and a relatively solid quarter on many other metrics. Our second-quarter is off to a strong start, and we are well-positioned to perform well for the remainder of the year and beyond.

With that, let us now take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Ken Worthington, JPMorgan.

Ken Worthington - *JPMorgan - Analyst*

Hi. Good morning. In terms of energy broadly, to what extent was Carlyle able to take advantage of the brief but call-it sharp correction in energy values in 1Q? We didn't really see too much on the energy mezz side of the existing fund or the new fund.

And in terms of energy mezz, how does the fundraising outlook continue to look? It didn't look like there was a big close this quarter, but I think expectations are still pretty far above where the fund asset levels are currently. Thank you.

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

Ken, this is Bill. I will take the first half, and David will take the second half regarding fundraising.

I would say that the sharp upward move was late in the quarter, relatively brief, still from a relatively low level. I think that we were not able to take much advantage of that movement. We still think that energy prices eventually will go up.

This move was such that most people are beginning to realize that prices are going to be a lot lower for longer. And earlier, I think a lot of hope was driving decision-making. People hoped that the markets would start to come back. They could hang on, and then they would benefit from that. There is now becoming far greater realization that that is not what's going to happen, so I think we've got a great pool of dry powder, and we're getting ready to put it to work.

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

On fundraising, let me put it in context.

The first energy mezz fund was $1.4 billion. We now have closed about $2.8 billion with some things just about ready to go, so it's about $2.8 billion. We expect we'll be over $3 billion when this fund is completed, so that's a pretty big increase from the previous fund.

I was just with the fund head in China last week and meeting with a large investor that will come into the fund. I think investors like the fund for this reason. Some people see it as an energy play. They think energy is coming back, but they like the current yield. This is a fund that provides a quarterly yield that's pretty high, maybe as high as 9%, and so I think the fundraising is in pretty good shape for this and how much higher above $3 billion it will go, I don't know, but that fund will more than double the previous size fund, so I'm feeling pretty good about the fundraising prospects for that.

Ken Worthington - *JPMorgan - Analyst*

Great. Thank you.

Operator

Michael Cyprys, Morgan Stanley.

Michael Cyprys - *Morgan Stanley - Analyst*

Hi. Good morning. Just wondering if you could update us on your progress for building out the longer dated global partners investment fund, how much has been raised, the types of deals you have executed or you're contemplating.

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

That fund has closed on about a little more than $2 billion so far, and I should say more than $3 billion so far. One investor put in about $2 billion, and then on top of that, we've raised more than $1 billion more, so about $3.2 billion I think is where we are now. We've closed on two transactions. We have two more that are in the works and we feel like we have a pretty good pipeline.

We had added a number of investor professionals to it, and we're pretty comfortable that we will raise some additional capital for it, though we don't need to raise additional capital. We're pretty comfortable with it at $3.2 billion or so that we have now. That would be a good amount, but we will probably raise some additional amount of money, and we have a good deal flow right now, and I think probably by the end of this quarter, I suspect we will have four deals that are completed.

Michael Cyprys - *Morgan Stanley - Analyst*

Great. Could you just elaborate a little bit more on the deals that you've already executed, and then also talk to some of the broader strategy? What sort of metrics or types of companies you're thinking about within the strategy?

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

This is Bill. The two deals that have been closed so far. The first deal was the purchase of a large portfolio of corporate jet planes and parts leased and owned from a large owner thereof.

It was a great deal for us, because we're able to user our aerospace expertise that we built up over the last 25 years, and we were actually able to go through the portfolio plane by plane, leasee by leasee, owner. Some of these are leases. Some of them are short-term, long-term, some is outright ownership. And it was a great one Carlyle effort when we put together the people in US buyout and the people in CGP to raise that, to make that investment.

The second investment was in a company that we call Content Partners. What it is is the purchase of the residuals on a number of TV shows and movies, things like CSI, for example, where we bought the residuals, or parts of the residuals, in connection with those properties. And both these deals have the advantage of being very long-term assets.

You own these residuals. You own them for a long, long time. They payout on reruns and re-airing and everything that goes on. And the same thing on the portfolio for corporate jet partners which we've calculated the returns such that if we don't do anymore leases, we're going to earn a very satisfactory return on that portfolio. But we've now built a platform where we can continue to buy additional corporate jets if we were able to find great opportunities to do that.

Michael Cyprys - *Morgan Stanley - Analyst*

Great. Thanks so much.

Operator

Patrick Davitt, Autonomous.

Patrick Davitt - *Autonomous Research LLP - Analyst*

Good morning. Thank you. You mentioned the portfolio may be having trouble growing revenue. Could you kind of walk us through the trends in revenue and EBITDA growth, and maybe more broadly how you are seeing economic trends both by geography and industry vertical?

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

Sure. First of all, I would say, if you look at the data, global GDP measured in dollars was down 5% or 6% in 2015 versus 2014. So, that's part of the dollar being strong which has a lot of impact obviously on US portfolio companies. But the earnings of all the foreign businesses were worth a lot less, and the revenues were worth a lot less as measured in US dollars. And, as you know, the US dollar was fairly strong through 2015.

That, in and of itself, when you are a dollar-based organization as Carlyle is, although we have funds through other currencies, ultimately by the time you guys look at it, it's all measured in dollars, would lead me to say that our view on revenue growth from the US, it's about flat. That there's no significant growth in revenue, and we are an investor kind of in the micro as opposed to in the macro. It's a specific deal. How's the deal doing as opposed to how is the economy doing, but in a world where in dollar terms the economy is shrinking or is roughly flat, it's very tough for us to do a lot better than that and we didn't.

Operator

Craig Siegenthaler, Credit Suisse.

Craig Siegenthaler - *Credit Suisse - Analyst*

Good morning. Just a big picture question here. So, all four businesses have seen a decline in total AUM over the last year. We can see pretty clearly, sort of what drove this from heavy monetizations, lower returns, redemptions, but as we look into the future, can you comment on your ability to grow the overall business from current levels?

Curt Buser - *The Carlyle Group - CFO*

Craig, it's Curt. Thanks for the question. So, this is the question that we routinely get and have received, and so just as in the past, one of the things that was really good is the amount of distributions we've had to our limited partners, and just as you said, that's the opportunity for creating performance fees, but it also puts downward pressure on AUM.

As I've mentioned, you know both before and today, there are just a number of inherent pressures within the portfolio, so we've talked about the hedge funds and the redemptions there. We've talked about the $10 billion of commitments in AlpInvest and how that will bleed off over time, but it will be replaced with higher-yielding assets under management. So more profitable AUM although maybe on lower total AUM. And then also with the legacy Riverstone platform, that too will burn off and that's about $5.8 billion that will run off over the next couple of years.

So those are just natural kinds of things that will run off. We have a number of funds, as David and we've talked about already, that are in the marketplace that we are raising. That will obviously create uplift, but you won't probably see the big uplift again until our big buyout funds come back from the market, and quite frankly, with $43 billion of dry powder in our carry funds and $57 billion overall, we are in good shape from a fundraising perspective.

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

I would add that AUM is not an easy number to grow, but it can be grown if you're willing to take terms that aren't that profitable, and we've been pretty consistent in saying we would like to have AUM that is profitable in the way we manage it. So, we are not adding AUM just for the sake of adding AUM. I do think we will have a fair amount of profitable AUM that we will be adding because the funds we now have in the market and the funds we will have the market next year when some of our bigger funds will come in the market.

Craig Siegenthaler - *Credit Suisse - Analyst*

Thanks for the color.

Operator

Michael Kim, Sandler O'Neill.

Michael Kim - *Sandler O'Neill & Partners - Analyst*

Hey guys, good morning. So, last quarter you pointed to, I think, around 4 billion of realized proceeds that were expected to close in the first half of this year. I know you mentioned a couple of block sales and the RAC sale thus far this quarter, but can you maybe just give us a bit more color in terms of where you stand today including any additions to the pipeline, if you will, and how that might shape the trajectory of realized performance fees going forward?

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

Sure, well let me take a stab at that. The terms of what has happened already of significant scale. There were two, kind of, groups so far.

First is block trades or position sales totaling about $400 million between NXP and Applus. Second was the gain on the sale of RAC. The most recent payment, I think, was about $1 billion, I think. GBP700 million, so you can work out the mathematics of that.

Those were the distributions. Now, distributions don't automatically translate into distributable earnings, and the like, but you know which fund those deals are in, and those funds are, certainly the RAC deal is a fund that's in carry. For the balance of the quarter, without predicting specifics what we might to, we do have a $15 billion, or a $14.5 billion, public portfolio, and I think Carlyle has a history of block trades in that portfolio.

We like to get our businesses public. Many of them are so big that they aren't suited to be sold in private market. And when they are sold, we are obviously able to do block trades, and you can see in our release the names of some of the big positions that we have and sometimes the call it the ABCs of private equity, because we have Axalta, Booz Allen and CommScope that have been huge winners for us for a long period of time, and still we have enormous gains still to come in those transactions.

Not predicting any specific one, but I expect we'll continue to see block sales in the public portfolio.

When it comes to private portfolio, we're working on a lot of things. Given the regulatory environment, the difficulty some people have in getting financing, I can't predict when, or if, they'll close but we've got pretty good portfolio. Some of it's well aged, and we are preparing to sell it, but I can't give you any other predictions beyond that.

Michael Kim - *Sandler O'Neill & Partners - Analyst*

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

Operator

Mike Carrier, Bank of America Merrill Lynch.

Mike Carrier - *BofA Merrill Lynch - Analyst*

Thanks, a lot. Two-part question. First, just on the real estate business, I just wanted to kind of get some color on the fundamentals there and what drove the strength in the performance in the quarter?

And then just based on the FRE outlook for the year, it seems like you know the trends in CPE and also in real assets are fairly favorable including the outlook. I guess when we look at GMS and then IS, I just want to get your take. It sounds like in IS, you are looking at some of the businesses that the economics aren't as good and restructuring that. Just wanted to get your take if there's more that can be done on that front in those two segments to try to maybe improve the fee related earnings over time.

Curt Buser - *The Carlyle Group - CFO*

Mike, this is Curt. Thanks for the question.

So, with respect to the first question on the real estate business and what's driving it. So, keep in mind that this is an opportunistic portfolio, deal by deal, property by property. We are going in and looking at pieces of a property that we think we can make a big difference to, and so as we work through that and develop them and get over key risk and milestone issues, the portfolio appreciates.

And as you look back, especially on the past year, you'll see the realizations that we've had there and the carry generation that it's created, so even as you back test the portfolio, its performance has been very good. And so, feeling really good about the way that those portfolios have been constructed and the other thing I'll note is Foresight is a big property in a number of the funds. It's a public portfolio. You can figure it out, but it has done very well, and that also has helped the portfolio.

On your second question in terms of the fee related earnings outlook. So, we had a great quarter this quarter in terms of fee related earnings, but it was contributed to with our transaction fees, primarily, on a large transaction we did in the quarter.

And we knew that s we thought about the quarter coming in. And so, it was not clearly a surprise, but as we think about the balance of the year, it's hard to say that we're going to have transaction fees at the same level and just as I said last year, I don't think I'm going to have catch-up management fees at the same level so that revenue is not going to be maybe at the same place. We're doing a lot of things on both investing in certain places in GMS, but also managing our cost structure. So I do think that there's opportunities for GMS to improve, clearly over where was in the first quarter, because we have some additional investments that we've made. And in Investment Solutions, I think we will see improvements there as well, really as I've already talked about, with the wind down of DGAM and as the secondaries business at AlpInvest continues to expand.

Mike Carrier - *BofA Merrill Lynch - Analyst*

Okay. Thanks a lot.

Operator

Gerald O'Hara, Jefferies.

Gerald O'Hara - *Jefferies LLC - Analyst*

Great, thanks for taking my question. A couple quarters ago you highlighted some changes within the European real estate team. I was wondering if we might be able to get an update as to how things are progressing there, both in terms of raising assets, but also potentially new product development, buildout or just general execution? Thank you.

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

Well, let me address that, if I can. To review for everybody, we have a domestic US real estate business that's opportunistic, historically. It's now going into the core plus business as well, and that's going quite well in terms of its new fundraising. We have an Asian real estate business that's now raising a China real estate fund and that fundraising is going well.

In Europe, we are still selling off some of the legacy assets from our prior fund. We have a team that we've recruited and we're adding to. It's overseen by Adam Metz in the US, but he has worldwide range of experience in international real estate, as well. He is overseeing our European team. We expect to be doing something that will give the team some capital to invest, but we're not yet prepared to announce that, but we do think that European real estate is a very attractive area, and we intend to be a participant in the European real estate market.

Gerald O'Hara - *Jefferies LLC - Analyst*

Great. Thank you.

Operator

Ann Dai, KBW.

Ann Dai - *KBW - Analyst*

Hi. Good morning. Thanks for taking my question. I just wanted to focus in on China real estate. I'm just curious what you see as the opportunity set there? How big you think your fund could be within that set? And what type of assets you are focusing on or maybe what you're not?

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

This is Bill. What I'd say, and maybe David can help me out a little bit here. The fund will be consistent with as big as we can make it, as well as we think we can put the money to work effectively. I'd be disappointed if it doesn't get to at least $500 million.

It's focused a lot on the consumer, but it also is focused on logistics. We've had a pretty successful run with some logistic properties in China, and I think we will continue to play some of those angles. You know the Chinese economy is really changing from being an infrastructure heavy, manufacturing heavy, export driven economy to a far more consumer oriented economy, and it's a tough transition, although I think the Chinese are making reasonable progress on that, and I think our investing mechanism continues to follow that.

As you know, you've read some stories in China about the residential real estate, and the shape of that, and occupancy rates, and the like. We think that the best place to invest is consumer related businesses and businesses that support the consumer.

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

In addition to the fund we are raising, we do have some managed accounts that are significant that we're investing in China real estate, and we've got a team that has been there for quite some time, so I'd echo what Bill said that we are pretty bullish in our ability to raise some fund for the team, and we expect to be a significant investor in Chinese real estate for quite some time.

Ann Dai - *KBW - Analyst*

Great. I appreciate the color. The other question I had was around high net worth. So, in the past you've talked about your efforts to penetrate that market, so could you give us an update on progress in that section?

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

Yes, let me try to address that. When we talk about high net worth, I would put it in three categories.

High net worth people who have their own family offices. I would say, today, everybody wealthy seems to want to have their family office. In the old days, everybody wanted to have their son grow up or the daughter grow up to be President of the United States. Now everybody wants their son or daughter to have a family office. Everybody wants a family office. So there are plenty of family offices out there.

If you take the wealth around the world, everybody who seems to have a net worth of about $300 million or more has a family office, and so these people are investing very significantly, as endowments are, in alternative private equity, so we are working very hard with these family offices, and all the family office conferences and so forth and we've had them for a long time.

There's a second category of people who are not quite at that level, but they have, I would say, a net worth of $50 million to $100 million, $200 million, and they tend to have their wealth managed by JPMorgan, Goldman Sachs, Bank of America, everybody who is on this call asking questions, your group is no doubt managing high net worth families. And they are probably rounding up them in $1 million to $2 million, $3 million per fund increments, and they pool them together, and that is very large business for us and other private equity firms.

And then you have people who are, I would say, not quite at that level. They might have a net worth of $25 million, $50 million, not that that's not significant, it is, but they tend to have their money managed by firms that are not quite maybe JPMorgan or Goldman Sachs or their equivalent, more regional firms and they are also coming in significantly into private equity.

And so, in recent months, I've noticed, in looking at our statistics that our second biggest investor by category is high net worth. Historically, our biggest category was public pension funds, and that is still the biggest. Sovereign wealth funds are catching up to them, but in the last, I'd say, the first quarter of 2016, and for the last 12 months, our biggest second category has really been high net worth individuals and there's three categories I mentioned, family offices, pooled by the JPMorgan, Goldman Sachs equivalents, and then by the regional firms.

We continue to see this, and one other trend that I would mention is it's not just high net worth in the Western world of the United States and Europe. It is all over the world. Increasingly, the wealth in the emerging markets is winding its way into family offices or the other things I mentioned, so it's a very important part of our fundraising operation now.

Did that more than answer your question or drown you out with more information than you wanted?

Ann Dai - *KBW - Analyst*

It does, thank you. I appreciate the color, and thank you for taking my questions.

Operator

Glenn Schorr, Evercore ISI.

Kaimon Chung - *Evercore ISI - Analyst*

Hi, this is Kaimon Chung for Glenn Schorr. I appreciate the color around the GMS marks and the redemptions.

Just that negative 12% carry from performance after being down 9.4 in the prior 2 quarters is bigger than what I thought. I just wanted to drill down on those performance numbers and what drove it? And I know you said at the goal for redemptions. Maybe a sense of timing and what potential offsets we could look towards in that segment.

And then a follow-up if you can, what's your sense of, or best guess of, when you can turn GMS around? Thanks.

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

Okay. First of all, on the reductions in the GMS carry funds, which were down low double-digit. Most of that, virtually all of it, occurred in connection with our energy mezzanine lending business, which given the fall and the price of crude and other related controlling products, for example, let's say some proved, undeveloped reserves. Their value, they may only be valuable when oil is above $50, so in looking at our portfolio, we wanted to mark it down appropriately, and we took large markdowns in that part of the portfolio.

That would be the single biggest driver to what was affecting the valuations in the GMS carry funds. In terms of, I guess your question would be about growing the hedge funds. Our initial job has been to stabilize the hedge funds as best we can.

We have three hedge fund groups. We have the Claren Road, which is credit hedge funds. We have Emerging Sovereign Group which is the emerging market fund. And then we have our Vermillion funds which are related to commodities. And I'd say that Claren Road fund, the problems there have been pretty well publicized. We received large redemption requests from the investors. We are honoring those on a quarterly basis given the investors gradually their money back there.

The future of Claren Road will be determined by its investment performance. And to the extent it's able to have investment performance it will grow its assets. If it does not, over time those assets will go away, and investors will put their money other places.

Same would be true of the commodity funds, and commodity markets have been very tough as have credit markets so far this year. We've done well in the metals trades, but less so in many of the other commodity related products.

In emerging markets, they have great opportunities. We have a fund there that we are seeing some pretty good performance. It's been tough for, actually so far this year, it's been tough performance as emerging markets have struggled, and I'm hopeful that that will turn around as we go through the year. I have a tremendous amount of confidence in our fund management of the ESG group.

Curt Buser - *The Carlyle Group - CFO*

And, Bill, just to add on to that just a little. Clarifying on the CEMOF I mark, it's really driven by the change in the view from a mark to market, and the credit markets related to energy, and let's just remind everybody that fund is still essentially at one time, so it's still a good fund with good prospects in front of it.

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

Thank you, Curt for making me sound better.

Kaimon Chung - *Evercore ISI - Analyst*

Thank you.

Operator

Bill Katz, Citigroup.

Bill Katz - *Citigroup - Analyst*

Hi. Good morning. This is Justin on the line for Bill. Just one quick question for you, more industry related. I've seen a lot of peers moving into core and core plus private equity and real estate products. I'm trying to get an understanding of what your views are on those as an asset class and if you have any interest in those moving forward?

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

Well, in real estate, I'd like to remind people that roughly 95% to 96% of all real estate in the world is so-called core. Opportunistic is really 2% or 3% and maybe core plus is 1% or 2% if you take all real estate, but in what a lot of the alternative firms have focused on is opportunistic and now core plus.

We think that opportunistic will still be a very significant part of our business going forward and probably for the next couple years. The most significant part of our real estate business will be opportunistic which is trying to get rates of return that are mid-teen or higher.

I'd say core plus is a lower rate of return, but probably still double-digit in some respects, and that business we are now growing in the United States, and we will see whether we grow it in other jurisdictions, but we do think there's a lot of demand for it. We expect to have a closing in this quarter on our first core plus fund, and we think it will be a pretty good-sized fund. Basically, we've got a very large team in US real estate, and they are working on both of those funds right now. And with regard to what you referred to as core private equity investing, I don't think we necessarily think of it as core in the sense of like core real estate would be. I think you're probably referring to those long dated funds that may or may not have a lower rate of return which typically core real estate has a lower rate of return or expected rate of return than does opportunistic real estate. So, we don't really think of it as a core product. We think of it is a long dated fund. Our funds just are designed to liquidate much quicker than the core fund which might have a 15 or 20 year life would have as you'd call it, the core real estate fund.

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

Some other firms do use the phrase core private equity. It's just not one that we have used. There's nothing wrong with the phrase, but we view our main private equity business as core, and so we just use that terminology, I suppose, in that regard.

Bill Katz - *Citigroup - Analyst*

Thank you.

Operator

Ken Worthington, JPMorgan.

Ken Worthington - *JPMorgan - Analyst*

Hi. Thanks for the follow-up. So, first on the restructuring of the Investment Solutions business, can you flush out the change in your strategy and maybe how the changes flow through the P&L as we look out for the remainder of the year? And maybe into next year?

And then, maybe higher level, how do you want Solutions to fit into your suite of products? I think, for example, they were aspirations for Solutions to be a big part of the platform for the retail and the high net worth business. Does that still makes sense or is the focus kind of shifting more exclusively to the bigger institutional clients like the pensions and endowments? Thanks.

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

Well, I would say, for a lot of the high net worth individuals, and some people use that as retail, but we would say for high net worth individuals that I referred to earlier, a lot of them would like to have a cross-section of various Carlyle funds, including the products that are in our Solutions business. And we have the ability to do that, and I suspect in the future, we will increasingly say to people that have large managed accounts with us that some part of what they have will be in our Solutions offerings, so I think that's probably how we will do it.

Just making available to people a cross-section of things that they can have in Carlyle, some of which will be our Solution products.

Curt Buser - *The Carlyle Group - CFO*

Ken, this is Curt. Just adding on to that on the financial aspect, so DGAM was the business that we are winding down in the hedge funds space, and also some of the liquid products. That business was not running at a profit for us, and so by winding it down, we're able to spend those losses and thereby improve profitability over the rest of the Investment Solutions. It will have, you will see revenue decrease somewhat as that revenue winds down and goes away, but from an FRE and DE perspective as well as ENI, it will improve over the course of the year.

Ken Worthington - *JPMorgan - Analyst*

Thank you. And then maybe for Curt, repurchase activity was modest this quarter. I know that's a new program. My guess is maybe even got up and running very late in the quarter, but can you talk about the level of activity this quarter? Maybe why it wasn't stronger given some of the price action? Thank you.

Curt Buser - *The Carlyle Group - CFO*

Ken, you have it specifically correct. We launched the program after our earnings call. We had to wait for our window to open, and so we had less than a month and a half of activity.

The other phenomenon that occurred in the quarter was just the volume of trade in our units dropped, really in the middle of the quarter, it dropped like by half, so as you know, there's limitations on how much you can buy based on average daily trading volume, so that really kind of constrained what we could do within the quarter, so we bought 400,000 units back at roughly a little over $6 million, but that program remains in place and active.

Ken Worthington - *JPMorgan - Analyst*

Great. Thank you.

Operator

And I'm showing no further questions at this time. I'd like to turn the call back over to Mr. Daniel Harris for closing remarks.

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

Thanks, Lauren. Thank you, everyone on the call today. If you have any further questions, feel free to follow up with me at anytime, and we look forward to speaking with you again next quarter.

Operator

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