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PRESENTATION

Operator

Good day ladies and gentlemen and welcome to The Carlyle Group fourth-quarter 2015 earnings call.

(Operator Instructions)

As a reminder, this conference is being recorded. 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 L.P. - Head of IR*

Thank you, Chelsea. Good morning and welcome to Carlyle's fourth-quarter and full-year 2015 earnings call. In the room with me and on the call today is our Co-Chief Executive Officers David Rubenstein and Bill Conway and our Chief Financial Officer Curt Buser.

Earlier this morning we issued a press release and detailed earnings presentation with our fourth-quarter and full-year 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 any 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 a reconciliation of these measures to GAAP in our earnings release.

Any forward-looking statements made today do not guarantee future performance and under reliance should not be placed on them. These statements are based on current management expectations and involve inherent risks and uncertainties including those identified in the risk factors section of our annual report on Form 10-K that could cause actual results to differ materially from those indicated. Carlyle assumes no obligation to update any forward-looking statements at any time.

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

David Rubenstein - *The Carlyle Group L.P. - Co-CEO*

Thank you, Dan. By almost every measure and despite headwinds in various global equity and credit markets, we had a year that achieved many of our financial goals highlighted by the production of outstanding distributions for our unitholders as well as solid returns for our fund investors. However, despite this recent success in producing distributions for our unitholders and despite a nearly 30-year history of generating exceptional returns for our fund investors Carlyle's current equity market valuation does not in our view ascribe any reasonable value to our global investment franchise, our existing investments or our significant growth opportunities.

Therefore, in addition to announcing today what we consider to be quite solid annual financial results we are also initiating a unit repurchase plan of up to $200 million. Anywhere near our current unit priced, our units represent an incredibly attractive value not only for public investors but they also represent for Carlyle a highly accretive investment opportunity and we have decided that we should take advantage of this opportunity while it exists. I will discuss this repurchase plan in more detail in a few moments.

But first I would like to discuss a few other topics: our financial results and our fundraising progress. Then I will provide a few thoughts about our unit price.

On the financial results, in 2015 we invested $8.8 billion and over the past three years have now invested $27 billion into investments that we believe have the capacity to be as good as those we have exited over the past few years. For the year we realized proceeds for our investors of $18.1 billion and 2015 marked the fifth consecutive year that Carlyle has distributed between $17 billion and $20 billion back to our fund investors.

During the year we also raised $22.5 billion in gross new capital. We also produced more than $1 billion of distributable earnings exclusive of an $80 million charge for an international tax matter in the first quarter of 2015 or $923 million inclusive of this charge.

Overall we believe these performance metrics highlight just how strong a year we've had and how well-positioned we are for the future. I should add that the $1 billion of distributable earnings we earned in 2015 compares to $973 million in 2014 and $837 million in 2013.

For the full-year 2015 we will distribute $2.07 per common unit. With that distribution we will have distributed $6.04 per unit to our unitholders over the past three years and that is equal to about 50% of our current unit price. Over the past three years we will also have distributed approximately $55 billion to our fund investors.

For the fourth quarter we invested $4 billion into new or follow-on investments, the highest amount we have invested in a single quarter since the first quarter of 2011. During the quarter we also realized $4 billion in proceeds for our fund investors and we raised a gross $4.1 billion in capital for our funds.

Our activity produced pre-tax distributable earnings of $145 million and a distribution per common unit of $0.29 for the quarter. As Bill will discuss in a moment, we have already signed a number of transactions which will lead to both an active investment and active exit base in the first half of 2016.

On fundraising, we have hit the hard cash on virtually every fund we have closed recently. The fundraising environment for our funds remain strong for investors seem to increasingly sense that a more attractive asset pricing will emerge this year and perhaps as well the next few years.

Because of this investor sentiment and the recognition of our long track record, we expect our funds will continue to be well received by fund investors around the world. I should add that of the $22.5 billion in gross new capital we raised during 2015 we raised $14.5 billion for our carry funds of which nearly 85% came from our existing fundraising base and more than 15% came from investors new to Carlyle. Stated differently, our large existing investor base continues to invest significant amounts with us. They we were also able to attract many new and significant investors.

During the fourth quarter we closed on our second-generation US-mid-cap buyout fund, closing at the hard cap of $2.4 billion. Our second fund was more than twice the size of our first fund which has performed quite well. We have to date raised more than $2.7 billion for our second energy mezzanine fund, passed our initial target of $2.5 billion and twice the size of the first energy mezzanine fund.

We are also now above the $1 billion threshold for our second power fund. We expect to soon hold initial close on AlpInvest VI secondaries fund and to have an additional close in our new Asian structured credit fund. And Metropolitan, our real estate fund of funds, has closed on $500 million for its latest secondaries fund.

We're also working on our fourth-generation distressed debt fund, or fifth Asian growth fund and our first US core plus real estate fund. Further, we also closed three CLOs in the fourth quarter, totaling almost $1.5 billion.

For 2016, despite not having our largest funds in the market, we still expect to raise new commitments of approximately $15 billion. Our fundraising success positions us exceptionally well precisely at a time when new investments are likely to be available at more attractive prices. We now have dry powder of $58 billion across our platform.

Of that amount $44 billion is in our carry funds which we anticipate being able to deploy into what we think will be an especially attractive set of upcoming opportunities in all asset classes across the globe.

Let me now return to our unit price. At the risk of stating the obvious, no one at Carlyle and those who work at the firm own more than two-thirds of the total units finds the current unit price satisfactory or acceptable. And we take no comfort in the fact that the whole alternative investment industry, despite its many strengths, has seen a dramatic decline in unit prices over the past six months.

That said, we are focused on our business, how to further strengthen that business and the market's perception of that business. Stated simply, we believe the market's concerns about our own future earnings capacity essentially overlook the value of our existing investments, our dry powder, our exit pipeline and our track record of strong investment performance in up-and-down markets.

In addition, we believe the market's perception seriously overlooks the positive characteristics which market volatility can and we think will have on our future earnings capacity. And we believe this because we have proven our ability to exit good investments even in difficult environments.

We have also proven that during the market downturn such as this one we have made some of our best investments, grown in size and enhanced our future earnings power. Given the market's extremely low current valuation of our units and given our interest in making investments which are well below our view of intrinsic value, we have decided to implement a repurchase program of up to $200 million. The program will be able to purchase both public and internal units, though the majority of the purchase will be focused on public units.

We will begin to implement this program in the immediate future. And we will fund the program from available cash resources.

Let me mention now two other steps we are also pursuing. First, we are committed to manage the firm and our fee-related earnings as efficiently as possible. To that end, we are intensifying our efforts to drive operational efficiency across the entire firm.

We have already taken steps in this direction and we will take more. For instance, compensation was lower in 2015 and non-compensation expenses have been generally flat for several years despite having a much broader investment platform with new investment capabilities.

The second step I'd like to mention is this. We are committed to growing the firm by focusing our efforts on raising larger next vintage funds and by creating new funds of scale in areas where we have clear competitive advantages and deep institutional knowledge. For instance, Carlyle has been working for the past year on a creative long-term investment fund, one designed to make alternative investments which might profitably be held for longer periods than the normal three- to five-year private equity hold period.

We have an experienced team in place to run this fund which we have named Carlyle Global Partners. We have already invested more than $400 million in two investments through the fund and we have also secured more than $3 billion in commitments from a limited number of well-known institutional investors.

Two other examples in this vein are our new core plus real estate fund which should have its first close early this year and a new infrastructure fund for developed markets which will surely be open to investors. Both of these funds build on our existing expertise in real estate, energy and infrastructure but the new funds with enhanced teams and more expansive focus should be able to scale into substantial businesses for Carlyle.

To summarize my remarks, we are pleased with the cash we have distributed to our unitholders and fund investors in 2015. And to take advantage of an attractive investment opportunity we will initiate the unit buyback program. But in addition to that program our main focus remains on operating our Company efficiently and of continuing the production of healthy cash distributions for our unitholders and investors.

We believe we can do this again in 2016. Bill?

Bill Conway - *The Carlyle Group L.P. - Co-CEO*

Thank you, David. Let me begin with an overview of the increasingly uncertain investment environment. This environment is driven in our judgment by three primary and interrelated factors: China, crude and credit.

China is a country with an unprecedented 35-year track record of growth at an average rate of over 10% per year from about $300 billion in 1980 to about $11 trillion in 2015. It is a country with over $3 trillion in foreign exchange reserves, a $500 billion per year trade surplus and a large and fast growing entrepreneurial sector.

Growth has certainly slowed over the last year, below 7% by official estimates, in part because China is trying to make the difficult transition from an export-oriented industrial focused economy to one more oriented towards consumption and services. As that dramatic shift takes place, China is still growing at a rate that most countries would relish but the global economy and financial markets are still coming to grips with the consequences of this lower level of growth.

Regarding crude, everyone knows where crude prices have been and where they are but no one knows where they are going. Recent experience confirms that futures prices tells where you can complete a transaction today but not what the actual price will be on some future date. This ongoing uncertainty has greatly increased volatility in both equity and credit markets.

And of course unpredictability in the price of crude has spillover effects on the entire chain of energy production, transmission, storage and consumption.

On credit, effective interest rates on new senior secured loans in the United States are up on average between 50 and 100 basis points over the past six months with yields on senior unsecured notes have risen by more than 200 basis points. The average bid price on outstanding senior secured loans has also fallen from 97 per $100 par in June 2015 and 90 today. Overall, loan origination volume fell by more than one-third on a quarter-to-quarter basis during the fourth quarter of 2015.

And paper losses on energy and mineral and mining credits have been so large that credit providers, particularly in the US, are exercising extraordinary caution in providing new credits in all sectors. Compounding this challenge, dealer inventories of corporate debt are less than half the levels of 10 years ago, leading to sharp price adjustments for both buyers and sellers. Credit is definitely tighter but we believe good transactions can and will continue to be financed in this environment.

Taken together these three factors have produced enormous uncertainty across global financial markets. And we believe they will lead to significant volatility for the foreseeable future with the risk tilted to the downside.

In addition to global economic factors we are also highly attuned to feedback from our portfolio. While each company is unique, our fund heads with only a few exceptions report that their portfolios are somewhat weaker on average than they were six months ago with the most impacted sector being industrials.

In challenging conditions the advantages of identifying and supporting strong management teams become more important than ever. Time after time average managers complain about the environment and struggle but the best ones find a way to do much, much better than their competitors. We have always considered management as the most important factor in determining investment success and while every transaction won't meet our objectives we have great confidence in the teams and businesses with whom we work.

We expect a tougher environment over the next few years but it is in this environment that we expect to see the best opportunities. For the past two years we have highlighted the challenge of high asset values and the impact that that has had on our investment phase. We think today and in the near future from a new deal standpoint valuations will be more to our liking.

In terms of our performance, overall valuations were up about 2% quarter over quarter and 7% year over year, driven primarily by our public market positions which were up 7% for the quarter and 13% for the year. For the full-year 2015 our buyout funds were up 13%, our real estate funds depreciated 27% while most of our energy funds were lower.

In terms of investments we invested about $4 billion in the fourth quarter with the largest transaction representing only about 11% of the total. Overall, we executed 46 new transactions across 19 different funds, demonstrating the breadth of our platform.

Specifically we made several investments in Europe, including Innovation Group and PA Consulting, both in the UK. We invested in several new transactions in China including Tongyi Lubricants which we acquired from Shell (inaudible) which is like Zillow for China real estate, and JIC Leasing.

We acquired Novetta in the US, an advanced analytics solutions provider. And in our mid-market buyout fund we closed five new transactions.

We are starting to invest more of our dry powder in natural resources as many energy firms need cash to just survive, certainly to carry out new programs. Our energy mezzanine funds partnered with Hilcorp, one of the largest privately held oil and gas developers in the US on a range of new asset.

Our power fund invested in Rhode Island State Energy Center and NGP invested more than $350 million in new and follow-on opportunities. Overall, natural resources and energy investments were over $800 million for the quarter.

Finally, we continue to be active investing in US real estate opportunities, putting more than $250 million of equity to work. Looking forward we have closed or announced a number of transactions early in the year including Veritas which we closed on January 29. Despite some hurdles we were able to complete this transaction with satisfactory terms for all parties.

On exits, in the fourth quarter of last year we closed on NXP's acquisition of Freescale, about $1.3 billion of real estate sales and operating proceeds, the sale of Kbro, a cable provider in Taiwan. And we also completed a number of block trades including Healthscope, Booz Allen, CoreSite, India Infoline and Xtep.

We had three companies go public in the quarter: Tsubaki Nakashima in Japan, Multipackaging Solutions in the US and Focus Media in China. One might ask whether our exit or investment pace might slow down given the turmoil in public markets. Without providing guidance I note that we have a long list of trade sales and realizations in process which are scheduled to close in the first half of the year.

The results were off to a strong start in terms of new investments. As of early February we already have signed contracts for approximately $4 billion of new investments and $4 billion of realized proceeds, all of which we expect to complete during the first half of the year. And our investment professionals continue to search every day for attractive new investment opportunities and exit opportunities.

As mentioned earlier, we foresee a tougher environment ahead with volatility caused by China, crude and credit amid other factors. We are cautious with all new investments but we are excited to have $44 billion in carry fund dry powder. Given our global reach, industry expertise and experienced investment teams we expect to find attractive opportunities to put this money to work.

Let me now turn it over to Curt Buser.

Curt Buser - *The Carlyle Group L.P. - CFO*

Thank you, Bill. Before diving into the numbers I want to highlight for key themes.

First, we continue to focus on generating cash earnings. Our results for 2015 substantiate this with pre-tax distributable earnings for the year of $923 million. This enabled total 2015 distributions of $2.07 to our unitholders.

Second, our portfolio is well-positioned to continue to realize performance fees. Our largest carry generating funds are solidly in carry: (inaudible) Euro bio III, Asia bio III and US real estate VI with each need to fall more than 40% in fair value to fall out of accrued carry from their fourth-quarter valuations.

On the exit fund, Bill has already mentioned several of our larger announced transactions waiting to close. But I would further point out that as of the end of 2015 we had more than $23 billion of our $60 billion in remaining fair value that was deployed for 2012 with many of those older investments ripe for monetization.

Third we continue to focus on managing our cost structure. We previously expected cash compensation in 2015 to be nominally higher than 2014 but in fact cash compensation in 2015 was down 5% from 2014. We expect to be similarly vigilante on compensation in 2016.

Similar to the fourth quarter of 2014 we had lower fourth-quarter compensation due to paying relatively lower year-end bonuses than previously anticipated. General and administrative expense has not materially changed in three years despite the fact that the firm has grown substantially over this time period and compliance demands are even greater, further evidence of our focus on efficiency.

We are also managing noncash compensation expenses. Although equity compensation increased to $122 million in 2015 from $80 million in 2014, which reflects incremental vesting of annual grants, we have granted fewer units in each of the past two years to our employees. These cost initiatives should enable us to maintain fee-related earnings in 2016 at a quarterly average relatively consistent with the $43 million we produced in this quarter, even with lower expected fee revenues in 2016.

Fourth, during the current quarter we activated fees on several key funds, including our second energy mezzanine fund, our second US middle-market buyout fund and NGP's XI fund, in total adding about $8 billion of fee earnings assets under management as of year-end. In prior quarters we have referred to these funds as pending fee earning AUM which we define simply as capital commitments that will earn fees once activated or invested. However, in the fourth quarter the impact on management fees was limited given the late quarter fee activation.

After activating these funds our pending fee earning assets under management declined to $4.5 billion from $12.5 billion last quarter.

Now, let's turn to a review of our business segments. But as we do so keep in mind that included in our general, administrative and other expenses for both US GAAP and economic net income for the fourth quarter is a $50 million reserve for ongoing litigation and contingents that is excluded from fee-related earnings and distributable earnings.

Corporate private equity, corporate private equity had another strong year with distributable earnings of $790 million, up $8 million over 2014, reflecting higher net realized performance fees and lower fee-related earnings compared to a year ago. Fee-related earnings in corporate private equity were $106 million in 2015, down $23 million from $129 million in 2014. The decline in fee-related earnings was primarily driven by a $44 million decrease in transaction fees and we expect to improve in 2016 but not to 2014 levels.

We effectively managed expenses in corporate private equity to offset this decline in fees.

For the fourth quarter, fee-related earnings were $17 million compared to $33 million in the year-ago period. Catch-up management fees were nominal in the current quarter compared to $7 million in the same period a year ago. I previously mentioned that catch-up management fees beginning in the fourth quarter of 2015 would slow from their prior level and we expect them to remain low until our next generation of large buyout funds return to the market.

Turning to global market strategies, GMS used 2015 to position its business for growth in 2016. As of today we've raised over $2.7 billion for a second energy mezzanine fund. The full impact of management fees from that fund will show up in the first-quarter results.

In addition, during 2015 we built out our investment teams to deploy a larger energy mezzanine complex on a global basis and expanded our distressed debt investing team in advance of what we expect will be a successful fundraise for our fourth fund. We also continue to grow our BDC and our CLO businesses.

Thus while management fee revenue declined 19% in GMS during 2015 cash compensation declined only 4% as we continue to invest and grow carry.

Distributable earnings and Global Market Strategies declined in 2015 due to the buildout of the business as I described and from lower hedge fund related assets under management. Hedge fund AUM declined to $8.3 billion as of the end of 2015 compared to $13.4 billion as of the end of 2014. And we expect AUM runoff of approximately $3.1 billion in 2016 as redeemed assets are sold and returned to investors.

Our significant hedge funds remain below their high-water marks, though they are performing better and certain niche strategies contribute the majority of the $8 million of realized incentive fees GMS earned in the quarter.

Moving on to real assets, real assets had a great year producing distributable earnings of $153 million exclusive of the international tax matter and $51 million in the fourth quarter alone. For 2015 fee-related earnings increased $72 million from $22 million in 2014, largely owing to the successful raise of our seventh US real estate fund, our second power fund and soon to be enhanced by the incremental fees we'll earn on activating fees on NGP XI.

Real assets benefited from $24 million in catch-up management fees in 2015 compared to $8 million in 2014. Again with lower fund raising in real assets in 2016 we expect catch-up management fees to decline from 2015 levels.

In investment solutions, our financial results in 2015 were well below 2014. The decrease in distributable earnings during 2015 was largely a function of lower management fees, $27 million lower than 2014 driven by lower average assets under management from the negative impact of foreign exchange rates as well as the runoff in certain AlpInvest and (inaudible) products.

We expect a continued runoff at AlpInvest of commitments from its former owners of approximately $10 billion over the next five years. However, the revenue impact is expected to be offset with raising higher-yielding fee earning assets under management over the same period and continued expense management in other areas of investment solutions in which we expect to have more to report in the near future.

Now one final thought on fee earning assets under management. Fee earning AUM of $131 billion increased from $128 billion at the beginning of the quarter due principally to the activation of fees on $8 billion of assets under management, partially offset by distributions from healthy realizations in the quarter.

Looking forward, keep in mind that all fee earning AUM is not equally profitable. We currently have approximately $16 billion in fee earning assets from our legacy energy funds and AlpInvest that will run off over the next five years which could mask growth in other areas. However, this AUM has a relatively low fee yield for Carlyle and is not a material driver of our results.

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

David Rubenstein - *The Carlyle Group L.P. - Co-CEO*

In sum we believe that Carlyle had a strong year in 2015 and is well-positioned to build on last year's record in 2016. Indeed we believe the likely market headwinds and associated global economic challenges should actually present opportunities from which Carlyle is well-positioned to benefit and as we have during similar times in the past.

We're now ready to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Ken Worthington, JPMorgan.

Ken Worthington - *JPMorgan - Analyst*

Hi, good morning. Can you talk about your thoughts on deploying dry powder you have dedicated to energy maybe expanding on the comments on energy mezz?

To what extent are you starting to see willing sellers or maybe indication of pending willingness to sell at what could be reasonably attractive prices for Carlyle? And given the stress in that market, to what extent would you expect faster than historic deployment?

I think you tend to deploy four to five years in the private equity carry funds. Is three to four or maybe even faster reasonable or even expected here?

And then lastly financing. Are you able to borrow to get the deals done if all the other pieces come together? Thank you.

Bill Conway - *The Carlyle Group L.P. - Co-CEO*

Okay, Ken, this is Bill. First of all, I would say the gap between buyers and sellers is narrowing in terms of energy transactions. I think people who need money they are more desperate as time has passed and I think it's sinking in that these low prices might be here for a long time.

I would not say that we are in any way calling a bottom, that yesterday's price was the bottom and it's all up from here or that the bottom is $20 or some other number. We're not making a projection on that.

I do think that relative obviously historically to the recent history and what I expect to be a little longer run future that prices will be higher five years from now than they are today but we don't know that. I do think that we probably will deploy the money a little quicker than the four- to five-year period of time but obviously it's going to be a function of the deals we see.

I would also say that the energy platform is a very varied platform and by that I mean we have power funds. We have a power fund, we're on our second one now, we've raised over $1 million for that.

It just recently announced a deal to buy 11 power plants, natural gas fired primarily. And so we're -- that's the deal that perhaps was not considered one that might be as risky as somebody doing E&P off the coast of Hawaii or something like that. I would say that our second business in energy we have the international energy fund.

We have an outstanding team running that business. It gets a chance to see opportunities all over the world. So far its focus has tended to be a little more on the downstream market, so it's got a very good position in storage and refining in Europe, arguably some of the best sectors, frankly, in the energy sector.

E&P, a lot of that is done through NGP, they've begun to both support their existing portfolio of companies as well as looking for new opportunities there as well. Being very cautious, I think they are staying primarily in the lowest cost geographies like the Permian Basin would be an outstanding example of that.

I'd said I was happy with the $800 million or so that we put to work in the energy platform last quarter as the gap narrows between buyers and sellers. And I think that we will hopefully be able to continue apace somewhere in that range.

In terms of financing I would say that financing generally I made a comment on it in my prepared remarks that while definitely tougher and more expensive that for the right deal it can get done. In energy it's less certain that that is the case.

The providers of credit to energy are obviously they've been very badly burned. And most of the reserve based loans really struggle. Just it's been people who thought they were on a bottom six months or 12 months ago have put money to work really kind of regret it now.

And I think that financing, let's say if we were to do a buyout-type transaction that related to the energy industry I think it would be tough to raise the kind of money we used to raise. But I think you could raise something and just be a lot lower quanta and probably a lot higher price.

Ken Worthington - *JPMorgan - Analyst*

Great, thank you very much.

Operator

Brennan Hawken, UBS.

Brennan Hawken - *UBS - Analyst*

Thanks for taking the question. I believe, Bill, you referenced that there has been some deterioration seen in the environment for some of your industrial companies.

I was hoping maybe you could give a little bit more color on that and whether or not the source of that or that's limited to companies that either have a large customer base in the oil patch or in emerging market economies or whether it goes beyond that? If you could help us maybe flesh that out a bit that would be great.

Bill Conway - *The Carlyle Group L.P. - Co-CEO*

Sure. Well what I tried to say was that I did a survey of 20 or so of my fund heads and asked them a five-part question.

Compared to six months ago is your portfolio about the same, somewhat weaker, a lot weaker or about the same, somewhat stronger or a lot stronger? And the general consensus was that the portfolio was somewhat weaker.

I would say it was not consistent, there were some parts for example one of the energy funds thought that their portfolio was actually a little better shape now. And so that was a fund that had certain exposure to the downstream segment I would point out.

The industrial impact, what's happened really is that the dramatic fall of the price of crude from over $100 to under $30 while we keep waiting to see benefits on the consumer side, and perhaps there are some like the sale of 18 million automobiles in the United States as an example, it's hard to imagine we have a weak industrial sector with car sales at an all-time high but it's kind of what we see. I would say most of the industrial companies that I referenced in terms of being weaker do have exposure to either the energy sector or to emerging markets.

Brennan Hawken - *UBS - Analyst*

Okay, thanks for that.

Operator

Robert Lee, KBW.

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

Thank you, just curious on kind of the new product front or new strategy front. You highlighted a couple of the initiatives, core plus, infrastructure, Carlyle Global Partners.

But I'm just curious what your appetite is at this point for looking outside the firm for expansion? I mean clearly in a few years back you had going down the hedge fund route and there was AlpInvest and I guess maybe more mixed results from a bunch of those.

So has your appetite for looking outside the firm for new strategies or new opportunities changed from what it was several years ago and maybe more focused even more focused internally on trying to in the developing new strategies? Trying to get a feel for that.

David Rubenstein - *The Carlyle Group L.P. - Co-CEO*

This is David. We have had pretty good success in buying some things that we're quite happy with. NGP is a very good example of an investment we've made that we're quite happy with.

AlpInvest has also done quite well. We would be opportunistic, we don't have a checklist of things we say we have to buy but we are (technical difficulty) and we are willing to look at things.

But I think it's fair to say from the inference from your question that we are very focused on starting new funds where we can basically develop professionals to run those funds by recruiting them or we have people we've grown internally and we have them start a new fund. Clearly it's much less expensive at the outset to do that and we've had a lot of success with doing that.

So the funds we emphasized in the prepared remarks were really ones that were generating internally but I wouldn't say we wouldn't buy something externally. We just have to take a look at whether it fits with what we generally think we have expertise in.

But I wouldn't read too much into what we said we're starting now as we wouldn't preclude doing something else. But I do feel we're very happy with the idea of starting new funds. It's a little bit less expensive to get them off the ground and you don't have to worry about cultural fit so much because usually we have people that are part of our culture that we're starting these with generally.

But so those are three that we've focused on today. But there will be others no doubt that we'll be talking about in the future.

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

Great, and maybe more specifically on Carlyle Global Partners, I think you mentioned have raised about $3 billion of commitment so far for this kind of more long-duration, long dated PE style investments. Is that kind of where you expect it to cap out for lack of a better way of putting it at this point or is it really just more as opportunities arise you'll just go to your group of investors at that point? Just trying to get a sense of how big you think that type of product can become?

David Rubenstein - *The Carlyle Group L.P. - Co-CEO*

Well we think there are a number investors with whom we are in discussion now that are likely to add to that some. I don't want to state a specific dollar amount as a cap what but we expect it will get bigger at some point during this year.

We think this is a different type of investment product, much longer term, and as it gets to be better known over a period of years this is something that I think a lot of other investors will be interested in. But right now the limited number of very large sovereign wealth funds, international pension funds, public pension funds in the US that are interested in this I suspect over a period of time you'll see a broader array of investors interested in this as the rates return that are appealing become more apparent.

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

Okay thanks. Just one last question, I guess maybe you touched on sovereign wealth fund but certainly there's been a lot written about oil-based sovereigns having to pull back investments to fund budget deficits and whatnot. So just curious if you're seeing any impact on your business in the sense of new commitments from oil-based sovereign funds or you haven't really seen much change at this point, just any color on that?

David Rubenstein - *The Carlyle Group L.P. - Co-CEO*

Yes. I was just in the Gulf not long ago and I met with a lot of our longtime investors there. And honestly I did not see them pulling back on investment with us because the rates of return you can get in alternatives are pretty high. And we're still a small amount of the money that they overall have because their overall allocations to alternatives are probably in the single digits still.

So I didn't really see that. But I want to point out that there are a lot of sovereign wealth funds that we're getting money from now that are not from the Middle East. And now we're seeing an enormous number of sovereign wealth funds from Asia that are increasingly becoming more important to us.

So overall the impact on us from what's going on in the Middle East in our fundraising is significant. But I haven't yet seen the large sovereign wealth funds in the Middle East pulling back from commitments to us at least.

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

Great, thanks for taking my questions.

Operator

(Operator Instructions) Patrick Davitt, Autonomous.

Patrick Davitt - *Autonomous Research - Analyst*

Hi, good morning guys. You know Japan has obviously been in the news a lot and I think you guys are probably the most established presence there.

Could you give us an idea of I guess, one, exposure, is it just the specific Japanese funds or are there positions in other funds? And then maybe some broader color on what stresses you're seeing? And then to what extent you think the opportunity could get that much bigger given what's happening there?

Bill Conway - *The Carlyle Group L.P. - Co-CEO*

In Japan?

Patrick Davitt - *Autonomous Research - Analyst*

Yes.

Bill Conway - *The Carlyle Group L.P. - Co-CEO*

Well, this is Bill. I'd say that we have a great team in Japan. We've been there a long time, I think we've got about 20 investment professionals.

Actually we tend to raise a lot of money for the Japanese fund in Japan, typically more than half the money for the Japanese fund comes from Japanese investors. We've had excellent deal flow there. I'd say that's one of the parts of our business that's reporting that their pipeline is strong and we see good transactions coming there.

We were happy for example last year at the end of the year to get the IPO of Tsubaki Makashima done in the Japanese markets. I don't really have a comment on their move to negative interest rates or the three arrows of the Japanese government or whatever.

I think the Japanese are a very determined group of people as a whole and certainly the Carlyle investment teams in Japan are very determined that group. I like what I see in our deal flow and I actually like the position we have which tends to be I think the most established firm in Japan and that helps us see pretty much every opportunity that's there.

I think also over time there's been a little bit of a I'd say more growing acceptance of private equity in Japan. In the early days you saw this second and third largest economy in the world, $5 trillion economy you thought with all the great attributes they had you thought there'd be a lot more business to be done in Japan.

I'd say in the last couple of years more acceptance by the big Japanese companies, the big global firms to dealing with private equity and using private equity as a partial solution to their attempts to refocus the business. I like our position in Japan and I think there's some question about how much bigger can it really get than it is. I'd like to think over the next few years it could double in size but we'll see if we can do that.

Patrick Davitt - *Autonomous Research - Analyst*

Great, thanks.

Operator

Michael Kim, Sandler O'Neill.

Michael Kim - *Sandler O'Neill - Analyst*

Hey guys, good morning. So just coming back to the buyback if I've got the math right it looks like the authorization represents north of 20% of the stock's public float.

So just wondering if your thinking may have changed in terms of longer-term goal of improving the stock's liquidity? And then as it relates to the $200 million just curious the thinking behind that amount, particularly as it relates to still earmarking capital for ongoing GP commitments, investment spending and maybe potential M&A opportunities.

David Rubenstein - *The Carlyle Group L.P. - Co-CEO*

Two points. First we thought we could readily afford the $200 million out of available cash and therefore we felt comfortable with that amount. We do not feel it will crimp our ability to start new initiatives.

We wouldn't have pursued it at that level if we thought it would have. So we're comfortable with our ability to fund it. We didn't say how long it would take to invest it.

We don't know yet. It will be opportunistic. We'll see what opportunities come up to buy the shares of units at these prices and clearly we're ready to implement this.

We haven't announced a formula by internal versus external as some of our peers did. But as I mentioned in my prepared remarks, we expect the majority of this would go for external units. We are always sensitive to our float.

We probably have a smaller float than some of our peers. And so we're not particularly interested in reducing our float.

However, the price of the units was so low and so appealingly low as investor that we just really couldn't resist buying it at these prices that we currently see. But we are sensitive to the float issue and we do think in time that this will not materially affect our ability to have a reasonable and a very attractive float.

Michael Kim - *Sandler O'Neill - Analyst*

Okay, thanks for taking my question.

Operator

Mike Carrier, Bank of America Merrill Lynch.

Mike Carrier - *BofA Merrill Lynch - Analyst*

Thanks a lot. Maybe a question just focusing on distributable earnings in the distribution, so I think when I looked at what Brent said in terms of the FRE outlook it looks like there should be some more consistency for 2016 based on what you guys can see.

I guess on the portfolio you've locked in a few things up front but just wanted to get a gauge of when you have more volatility like this can you still pursue some exits given the seasoning of the portfolio? And then lastly just given the buyback, does the payout ratio change?

And I guess what I'm trying to get at is there any way to put a wide range out there given what you did in 2015 on the low-end around FRE and then on the high-end a pretty good environment where that could come out? And obviously I know it's a bit of a challenge given the moving parts.

Bill Conway - *The Carlyle Group L.P. - Co-CEO*

Let me start with that but I think both David and Curt may jump in as well. So to answer some direct questions in there, there's no anticipation this will cause us to adjust the payout ratio.

We still expect that will stay as is. We look at (inaudible) and we're not really going to be in a position to forecast what's going to happen with DE.

And I think in terms of accumulated earnings Curt made the comment in his remarks about the rough level of those earnings. Maybe let me turn it over to Curt.

Curt Buser - *The Carlyle Group L.P. - CFO*

So Mike, as I said in my remarks we're expecting next year from a fee-related earnings standpoint to look on awful lot like the current quarter, the gives and takes and whatnot. But kind of think 40th to mid 40s per quarter (technical difficulty) FRE on average.

From looking at our exit pace in terms of total distributable earnings, it's really hard to call a number so that one's just difficult. That said, think about the $4 billion of exits we have under contract already and those are essentially private deals, no public block sales are anything like that.

If you think about what we have done historically $17 billion to $20 billion per year return to our investors over the last five years. We're returning cash of $6 or $6.04 over the last three years in distributions to our unitholders.

So we have consistently performed. As everybody knows each quarter can be some can be really high and some can be a little low but each quarter over the last five years we've performed well in good times and in bad. I don't see any reason why that should really fundamentally change.

Mike Carrier - *BofA Merrill Lynch - Analyst*

Okay, thanks a lot.

Operator

Alex Blostein, Goldman Sachs.

Alex Blostein - *Goldman Sachs - Analyst*

Thanks. Good morning everybody.

Bill, I want to go back to the point you made earlier around financing availability. So credit markets are clearly a little tighter as you mentioned but your ability to execute was that a quote, unquote good deals is still there.

I was hoping you could extrapolate on that a little bit. What is a good deal in today's environment whether geographies or sectors or size or any of the financing terms, so kind of leverage, etc., would be helpful.

Bill Conway - *The Carlyle Group L.P. - Co-CEO*

Sure. Well you know as you and I both know each deal is unique. So a generalization should be treated as just a generalization that I've given, I'll make that obvious point.

I would say that in terms of what will be doable today, for the last couple of quarters total leverage of six times EBITDA was kind of pretty profitable across sectors. However, I would say I expect that to go down in the near future. Not maybe for the best deals, maybe not for a media deal or a cable deal or a tower deal, they might still get a pretty good-sized leverage ratio but I expect others will go down.

I expect that the caps that banks ask for and the extra let's say leeway they might have in pricing a deal I expect those to broaden out as well. And it's hard to blame the lenders for that given the extent to which they have been burned or could be burned in the future by existing inventory they may have.

I would say that the US market is substantially tighter so far than the European market, in terms of quanta mainly I would say and in terms of you can do bigger deals in the United States but in terms of the ratio of EBITDA. You know people can say well the European banks haven't faced their past problems or this or that but generally in the European market we're finding that it's a little easier to get things financed there.

I think Mr. Draghi is probably going to be very, very committed to loosening in Europe. It's hard for me to believe that the euro is back at $1.15 and I would think that there'd be attempts to drive that down which would be pretty good for financing.

I would say that energy-related credits which I touched on before, the mineral and mining credits, those are going to be tough to finance. Different banks may have different allocations to cross their platform, how much energy exposure they are willing to take, whatever.

I think energy financing is going to be very tough I've got to say as a general rule and that will just lead to even more equity financing or fewer deals to be done. I think it's a good opportunity for our energy mezzanine business.

Some of the statistics that are currently available rates and financing are a little bit outdated. Somebody agreed to a deal some time ago, there was a pricing, there was a spread, there was a quanta, there were covenants or there weren't covenants.

I think that those deals are now coming to market or they were locked in. And so I expect that they will be for example I also expect a bigger push on covenants.

For the last year or so about 70% of all the transactions done had effectively no covenants. I think that the banks will begin to push back and insist on covenants for a lot of deals going forward.

David Rubenstein - *The Carlyle Group L.P. - Co-CEO*

Let me add two points to that, Bill. There were a lot of discussion about covenant-light deals before the Great Recession but actually before the Great Recession only about 20% to 25% of loans, leveraged loans had covenant-light provisions.

It rose up, as Bill said, to about 70% now and that could change I think in the future. In addition, I would say that one other thing you're likely to see is greater equity contribution requirements.

In 2015 the average equity contribution to a buyout was about 42%, up from about 39% in 2014 and up from 37% in 2013. I think, therefore, in leveraged buyouts you're likely to see probably in the low to mid 40s as the average equity requirement now to get a buyout financed by the banks.

Curt Buser - *The Carlyle Group L.P. - CFO*

One thing just to pile on, just remind everybody our investment track record is very good. We have not changed our underwriting criteria. We have 700 investment professionals around the globe looking to deploy capital.

In the fourth quarter we deployed $4 billion. That was in over 40 transactions with no single deal at the end really above 10% or 11% of that number.

So as I look at the real thing can we deploy capital and can we generate performance? I think we can and then as we continue to look at the credit markets just keep in mind that it's not just a US-only focus, credit markets in Europe are open right now and a lot of our activity has been both in Europe and in Asia.

Alex Blostein - *Goldman Sachs - Analyst*

Got it. Lots of very helpful color there guys. Thank you very much.

Operator

Chris Kotowski, Oppenheimer.

Chris Kotowski - *Oppenheimer - Analyst*

Yes, I guess my question if financing markets are constrained and especially obviously in resource, I guess isn't the obvious next move then to do leverage in place transactions where you either equitize an overlevered company or distressed for control? And I'm curious what is your appetite and experience with that? It is not what I would think of as a typical Carlyle deal.

Bill Conway - *The Carlyle Group L.P. - Co-CEO*

This is Bill. I think we have done deals like that in the past, where we would inject equity into a company, a so-called PIPE, a private investment in public equity.

Might do that if it could be transformative or perhaps it would help facilitate an acquisition. An example of that at least where it was facilitated, not so much where there's too much debt on the Company, was a couple of years ago when we did Genesee & Wyoming Railroad where we were able to make a large investment into the equity of the company.

It facilitated a big acquisition that Genesee & Wyoming did. We ended up making a lot of money on the transaction. So there are examples of willingness to do that and I wouldn't be surprised if there will be more going forward.

Chris Kotowski - *Oppenheimer - Analyst*

Okay, and would that be typically a credit fund investment or a private equity type fund investment?

Bill Conway - *The Carlyle Group L.P. - Co-CEO*

I would say it could be either. The private equity funds did it in the case of Genesee & Wyoming. They tend to be bigger than our credit funds.

So that's a factor as well. But our credit funds also invest throughout the capital structure usually so they'll do some of that as well. Often that's when they do it, though, I would say they can sometimes do either loan to control or equity to control a business and let's say a distressed businesses.

Chris Kotowski - *Oppenheimer - Analyst*

Okay, thank you.

Operator

Bill Katz, Citi.

Bill Katz - *Citigroup - Analyst*

Okay, thanks very much. Just coming back to the buyback discussion, and thanks for the earlier color, could you talk a little bit about how you sort of weighed in your mind, I think one of your peers announced sort of a Dutch tender, if you thought about that?

Because on one hand you're sort of suggesting the stock price is rather cheap, on the other hand you're sort of monitoring the flow dynamics here and sound opportunistic. So I guess with the stock where it is A, why would you be opportunistic now and why not really drive the accretion by doing this upfront? And I guess underneath that, how do you think about just the mix between internal versus external shares?

Curt Buser - *The Carlyle Group L.P. - CFO*

So it's Curt. Thanks for the question. So we've been frustrated with our unit price for some time now.

And so concerns around float and everything else was a reason for not acting sooner. And now just where the price has moved to it's time to put our money where our mouth is and step up. And we think this is a good move for the Company.

It's accretive for all of the existing investors. So I think this is a smart move at this point in time.

In terms of the actual mechanics, I fully expect that the vast majority of this is going to be purchased in the open market from the public over time. And we're working on the exact type grids and the like that we'll put in place but really don't see a big splash right up front.

We'll do that more over time. But as you can see by the $200 million it's a sizable amount.

Bill Katz - *Citigroup - Analyst*

I'll follow-up later. Thank you very much.

Operator

Michael Cyprys, Morgan Stanley.

Michael Cyprys - *Morgan Stanley - Analyst*

Hi, good morning. Just following up on your remarks earlier about that you committed to operational efficiency across the firm and focused on raising larger scale funds, can you just talk to how this is a change from what you've been doing in the past and what sort of efficiencies can we expect?

And then just on the fee-related earnings margin, what sort of FRE margin can we expect over the next few years relative to the 15% that you hit in the quarter?

David Rubenstein - *The Carlyle Group L.P. - Co-CEO*

On the fund apart let me just address that part first. Our business model over many, many years has been to see if we could fund an investment area that we can find some expertise in and raise money for and invest well in.

Some of those areas have been appealing in terms of an internal rate of return investment operations. But they haven't been scale. So we have some funds that let's say we have an Ireland fund, a very good fund, they are doing quite well, but it hasn't scaled yet and maybe because of the size of Ireland it may not scale.

But I think in the future we're more likely to look for new products where we think in the first fund we can scale it at a pretty good size, but the second and third fund are likely to scale much more. And so we'll probably be more judicious in looking for scalable products in the beginning. That's what we were trying to talk about there. Curt?

Curt Buser - *The Carlyle Group L.P. - CFO*

Michael just in terms of operational efficiency, it's an area that we've been focused on, a lot of it comes to investment in technology and data management. This is something that we've been focused on for a while.

Early on it was with basic things, in terms of basic accounting systems really to drive both reporting as a public Company but also then providing the types of information that our fund investors need and quite frankly expect. But beyond that it really gets to how you set that up and really have a very good data management and having that draw, that can do a lot in terms of taking people, cost out of the equation and that's where we've been very focused.

The second point along that is how you think about issues and you've got to think about issues front to back in terms of how they affect cost. So you can't just think about it from a siloed perspective within the organization, you've got to think about holistically and we continue to make progress on that front to be able to think about cost front to back and able to get better efficiency out of it.

Then as David said it's scale, it's how do we get the right scale in each of the businesses. Don't think that you're going to see over time big movements in our margins, in part because our DNA is growth.

And so we're going to continue to invest in new products and new opportunities. And so that's going to always come with a lower margin or essentially an investment period of expenses upfront and that will mask really the profitability of the higher performing products and the higher-margin products. So overall I mean that's the model that we've set out but we are clearly focused on driving better efficiency and fortunately that's proven true in the past 12 months.

David Rubenstein - *The Carlyle Group L.P. - Co-CEO*

I would add that as we run the firm we've always said we run the firm for the investors in our funds and they are quite happy with what we're doing in terms of rates of returns and multiples on invested capital and so forth. And we think that's the lifeblood of the firm is making certain that we continue to raise money on a growing basis from our investors around the world.

We think in time as our business matures a bit in certain areas the margins will perhaps get better. but we always want to make certain we're doing the right thing for our fund investors and giving them new products and making sure the returns are good are what we really are all about.

Michael Cyprys - *Morgan Stanley - Analyst*

Great, thank you.

Operator

Brian Bedell, Deutsche Bank.

Brian Bedell - *Deutsche Bank - Analyst*

Great, thanks for taking my question. Just back to the realization backdrop, obviously the markets remain volatile and tricky, Bill, can you comment a little bit more about what you see is the potential for M&A pipelines for your portfolio companies and sort of contrast that with your willingness to stay patient and get better valuations down the road for exits?

Bill Conway - *The Carlyle Group L.P. - Co-CEO*

Thanks. That's a great question. I would say that I have not seen yet a dramatic increase in the M&A opportunities I've seen from our portfolio companies. There's been maybe a little bit more activity in the US there but not a dramatic growth.

You would think that some of those companies are in very good shape. Some of them are public. They have lots of sources of cash and they would be looking at getting growth through acquisition but I'd say no torrent of activity there at this point in time.

Brian Bedell - *Deutsche Bank - Analyst*

And so your preference I guess in these valuations given current valuations and the potential for the market getting a little worse, you'd rather remain patient for exits over time I would assume, is that fair --

Bill Conway - *The Carlyle Group L.P. - Co-CEO*

I would say on exits or on new deals?

Brian Bedell - *Deutsche Bank - Analyst*

On exits.

Bill Conway - *The Carlyle Group L.P. - Co-CEO*

Well, without doing your work for you we had at December 31 a public portfolio of about $14 billion. And obviously we're not immune to what happens in the public markets and some of those shares in that public portfolio have fallen in value.

And I'm anxious to exit those investments and I think there could be some reduction in block trade activity if prices stay low. But who knows what will happen and what the attractive price will be. So I'm going to be patient there.

Private market prices haven't dropped yet and so we've had a significant number of private transactions in the pipeline and in terms of private exits, I referenced in my remarks $4 billion but let me tell you some of the names that are in there and the types of companies that are there they are all over the world. There is a hotel company in Europe called B&B that has hundreds of hotels in France, Germany and Italy that we have agreed to sell to a fellow competitor in that business I would say, certainly a strategic buyer.

We sold Landmark which is a big FPO in the United States and around the world to one of its competitors and people that are strategic buyers. We sold Kbro last year, we've agreed to sell EVC this year. They are both Taiwanese cable TV businesses in a private transaction.

So WorldStrides which is a company in our mid-market fund which we've agreed to sell. And finally we agreed to sell RAC to CVC, which is RAC is kind of the AAA of the UK. And we've sold half of it about a year or so ago, we're selling another half now to CVC at what we think is an attractive price.

So the private pipeline so far continues to be pretty active. I think you can't have a situation where you have lousy credit markets and you have equity markets plummeting where people and they will undoubtedly if those continue which I hope they won't but where there will be some diminution in the number of transactions. But we are off to a great start.

Curt Buser - *The Carlyle Group L.P. - CFO*

And I'll add that our US real estate platform, which was a nice contributor to realize performance fees in 2015, most of its exits are on a private basis in individual properties. And so that's a very good pipeline of continued exits.

Bill Conway - *The Carlyle Group L.P. - Co-CEO*

I would say also on the energy side of things I don't think we're a seller of many energy assets at this price. Certainly the E&P side we're not.

On the downstream we've got a lot of investments in that sector that people want exposure to us and are willing to pay us a big number. They know our phone number.

Brian Bedell - *Deutsche Bank - Analyst*

Right. Thanks. That's great color. Thanks very much.

Operator

Patrick Davitt, Autonomous.

Patrick Davitt - *Autonomous Research - Analyst*

Thanks for the follow-up. On the commentary about having to put more than 40% equity in, and then I guess you've got the Veritas deal done with having to put a little bit more equity in, how do we think about --

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Bill Conway - *The Carlyle Group L.P. - Co-CEO*

I'm sorry, those were generic numbers. We start with industry wide number but okay, go ahead.

Patrick Davitt - *Autonomous Research - Analyst*

No, no, I realize that. But you did have to put more equity into Veritas, right? So I guess the question is --

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Bill Conway - *The Carlyle Group L.P. - Co-CEO*

No, no.

Patrick Davitt - *Autonomous Research - Analyst*

You didn't?

Bill Conway - *The Carlyle Group L.P. - Co-CEO*

That's not correct. But I would say that the ratio went up. The deal all along had $2.6 billion of equity from Carlyle and our co-investors in GIC in connection with doing the deal.

When the price went down, the equity component stayed the same. So we didn't put more equity in except we put more equity in as a percentage of the deal.

Patrick Davitt - *Autonomous Research - Analyst*

Right, okay. That makes sense. Then the spirit of the question really, though, is how do we think about returns? And I know in the past you and your comparables have all said that leverage has become less and less of a factor and what your expected returns are. Would you still say that's the case and do we need to start worrying about having to put a higher percentage of equity and lowering the IRR expectations for these deals?

Bill Conway - *The Carlyle Group L.P. - Co-CEO*

I would say I would expect will not put a higher percentage of equity in. But I do not expect it will lower the IRR.

David Rubenstein - *The Carlyle Group L.P. - Co-CEO*

I would also say that in a zero interest rate environment investors around the world that I talk to all the time they are seeing no other asset class that can get rates of return close to what private equity can get. And therefore while we don't expect our rates of return will come down, I think investors are actually willing to accept somewhat lower rates of return because everything else they find is just so much lower.

Curt Buser - *The Carlyle Group L.P. - CFO*

The final point is if you look at the portfolio and how we drive values, three basic levers you pull is can you grow profitability, it's leverage or a debt paydown and then it's multiple expansion. And two-thirds of what we've done historically really is coming from improving profitability and improving cash flow.

So the amount that you lever, yes, it's a component but it's by far not the largest component. The largest component is driving profitability.

Patrick Davitt - *Autonomous Research - Analyst*

Makes sense. Thanks a lot.

Operator

Michael Kim, Sandler O'Neill.

Michael Kim - *Sandler O'Neill - Analyst*

Hey guys, thanks for taking my follow-up. Curt I know you talked about the outlook for fee-related earnings this year but I think I heard you also mentioned expectations for lower fee revenues this year.

Is that mostly a function of lower catch-up management fees and maybe lower hedge fund related fees? Just trying to get a sense of that dynamic, particularly in the context of the three new funds turning on at the end of last quarter. Thanks.

Curt Buser - *The Carlyle Group L.P. - CFO*

Michael, that's spot on correct. If you look at the press release we had about $73 million of catch-up management fees in 2015. That number is not going to recur at anywhere near that number and that's going to be the majority of the decrease in revenues.

But you'll see some decrease also in the [World Bank] in terms of the decrease in fees from the hedge funds. But that doesn't contribute anywhere near the same amount of profitability. So it's mostly the catch-up management fees that's really driving the top-line number.

Michael Kim - *Sandler O'Neill - Analyst*

Got it, okay, thanks for clearing that up.

Operator

Bill Katz, Citi.

Bill Katz - *Citigroup - Analyst*

Yes, thanks. This is a two-part unrelated question I guess.

The first one in the press release you sort of noted that just given the uncertainty around the reserve you built whether or not that would flow through distributable earnings. So if in fact that were to be an adverse outcome, should we assume that at some point that that would be a hit to the distribution.

And so unrelated question just on the GMS side, thanks for providing the redemption dynamic, but can you step back and talk about how the rest of the business might be pairing? You mentioned a high-water mark.

Can you help maybe clarify what kind of return is needed so you get back into the carry on that part of the business? Thank you.

Curt Buser - *The Carlyle Group L.P. - CFO*

Sure, Bill. So on the first part of the question on the reserve, if I knew it exact timing of when it would happen we probably would have run it through DE. But I don't know when or exactly how this will play out.

So obviously end up paying something or it'll go through distributable earnings. Second item on GMS, we have spent a lot of money this year in terms of building out our energy mezzanine team, both on a global basis and then on raising that $2.7 billion of capital that's already been raised. That fee number now turns on, so I'm expecting much higher fees from that product line especially as we continue to raise it.

We'll also be raising our fourth distressed fund. That too will generate fees and the BDC and the CLO continue, the CLO business continues to grow as of the BDC, also contributors.

And then offsetting that a little bit is some of the runoff on the hedge funds. But I will point out that they contributed $8 million of performance fees in the last quarter and their performance is getting better.

Bill Conway - *The Carlyle Group L.P. - Co-CEO*

I might just add a little more. This is Bill. I might add a little more to that.

And obviously our biggest hedge fund at one time is Claren Road. That no longer is. The emerging sovereign group funds, [carry] funds was bigger than Claren Road.

The Claren Road performance lately has been good but the funds remain well below their high-water mark on the order of 15% to 20%. I would say that most of that money, though, now has been, a lot of that money anyway, that remains in the Claren Road funds people have agreed to lock ups on the order of a year.

So we have a chance to really continue to perform there. And in ESG the funds there, they vary from at or above their high-water mark if I call it that or approximately or in some cases they might be well below as well. But it's got a bunch of niche strategies that have worked out pretty well in the current environment.

David Rubenstein - *The Carlyle Group L.P. - Co-CEO*

Bill, I am disappointed you haven't asked my fee question. I prepared all week for this so --

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Bill Conway - *The Carlyle Group L.P. - Co-CEO*

Answer it anyway, David.

David Rubenstein - *The Carlyle Group L.P. - Co-CEO*

So I'm going to answer it. I did make a speech in London and I was asked at a student group about innovation in private equity.

And I said that it may be the case that somebody might come along and try to disrupt the models that the established firms have. Maybe if they were going to get started they might change the construct that we have.

But it is not my view that the major firms, the type that you're talking to and a firm like ours, needs to change our basic business model for our core products. So I don't see any pressure on the basic management fee right now and I don't see any pressure at all on the carried interest of 20% on our basic products.

I do think that after the Great Recession there was more leverage by the limited partners on general partners more than there had been. As a result of that you did see deal fees go away largely, you saw preferred returns stay reasonably high and fees or carries on coinvestment largely went away.

But today I think we're at an equilibrium with the limited partners. I think it's generally recognized that we have a product that gets pretty good rates of return. So when we're now raising funds we're not really dealing with the basic management fee issue or the carried interest issue and I don't think we will in the future either.

Bill Katz - *Citigroup - Analyst*

Okay thanks for that, David. I appreciate it.

Operator

I'm not showing any further questions at this time. I would now like to turn the call back to Mr. Daniel Harris for closing remarks.

Daniel Harris - *The Carlyle Group L.P. - Head of IR*

Thank you for your time today and your interest in The Carlyle Group. If you have any further questions feel free to reach out to me or investor relations. And we look forward to talking to you next quarter.

Operator

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