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William E. Conway – Co-Chief Executive Officer, Co-founder Washington, DC
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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to The Carlyle Group Second Quarter 2012 Results Conference Call. [Operator Instructions] As a reminder, today's call is being recorded.

I would now like to turn the conference over to your host, Mr. Daniel Harris. Sir, you may begin.

Daniel Harris, Managing Director, Head of Public Market, The Carlyle Group

Thank you. Good morning and welcome to Carlyle's second quarter 2012 earnings call. My name is Dan Harris and I'm the Head of Public Market Investor Relations at Carlyle. With me on the call today are our Co-Chief Executive Officers, Bill Conway and David Rubenstein; and our Chief Financial Officer, Adena Friedman.

If you have not received or seen the earnings release, which we published this morning detailing our second quarter results, it's available on the Investor Relations portion of our website or on Form 8-K filed with the Securities and Exchange Commission. Following our prepared remarks, we will hold the question-and-answer session for analysts and institutional unit holders. This call is being webcast and a replay will be available on our website immediately following the conclusion of today's call. We closed our initial public offering on May 8. Including in our results, are both GAAP as well as pro forma results which assume we had been a public entity during the second quarter, which concluded on June 30.

We will refer to certain non-GAAP financial measures in today's remarks including distributable earnings, economic net income and fee-related earnings. These measures should not be considered in isolation from or as a substitute for measures prepared in accordance with generally accepted accounting principles. Reconciliation of these non-GAAP financial measures to the most comparable measures calculated and presented in accordance with GAAP are included in our earnings release.

Please note that any forward-looking statements provided today do not guarantee future performance and undue reliance should not be placed on them. These statements are based on current management expectations and involve inherent risks and uncertainties that could cause actual results to differ materially from those indicated including those identified in the risk factor section of our registration statements on Form-S1 filed with the SEC and available on our website as such factors may be updated from time to time in our SEC filings. Carlyle assumes no obligation to update forward-looking statements.

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

David M. Rubenstein, Co-Chief Executive Officer, Co-founder Washington, DC

Good morning and thank you for joining Carlyle's second quarter 2012 public earnings call. The second quarter was marked by significant moves in capital markets, uncertainty in Europe and signs of slowing growth in key markets around the world. Yet, even with that choppiness, we continue to produce results for our investors. And since the quarter ended, we have announced a number of investments and realizations, which will benefit our fund investors and our unit holders. As we will discuss with you, our portfolio, our funds and the firm itself are in very good shape.

Throughout this call, as we have done and will continue to do, we will focus on the underlying activity metrics that drive distributable earnings, which we view as one of the most important metrics to evaluate the strength of our business. It is how we have always managed our business, and is the key driver of the distributions that you as our unit holders will benefit from going forward.

You will also continuously hear from us, that we focus on a long-term outlook for our business. Most of our carry funds have 10-year terms. Our corporate and real estate investments generally range from three to seven years. We don't plan by the quarter, and we have only limited control over whether a deal or a fund commitment is signed just before or just after a quarter ends. With that caveat, our fundraising this quarter was strong, realizations were solid, valuations were slightly down, and our investment teams were exceptionally busy finding good investments, many of which we announced during the quarter and several of which have been announced since the quarter ended.

We are quite pleased with the second quarter results especially in light of global macroeconomic events and we're cautiously optimistic about the second half of the year. And we believe the first few weeks of the second half of the year illustrate the basis of this cautious optimism.

Let me turn to a few highlights from the second quarter. First, as we discussed and anticipated in last quarter's call, fundraising picked up in the second quarter with a total of $3.9 billion in new commitments, bringing our year-end total to date to $6 billion of new capital raised. And for the rolling 12 months, we have raised $10.3 billion of new capital commitments.

Second, we invested $1.4 billion across our carry funds in the second quarter and have invested $7.9 billion over the past 12 months. Third, as previously disclosed, our overall carry fund portfolio value declined 2% in the quarter. Of course, we never want to see negative numbers, but in the context of the overall market, we believe our portfolio performed well.

Overall, our carry portfolio is up by 8% in the first half of the year as compared to year-end 2011. Fourth, we realized $3 billion in net proceeds from our fund investors – for our fund investors during the quarter arising from 98 investments across 32 carry funds and have now realized a solid $6.8 billion in year-to-date proceeds from 160 investments. Fifth, we generated $115 million in pre-tax distributable earnings in the quarter compared to $89 million in total segment distributable earnings in the second quarter 2011.

Sixth, we're pleased to announce our first quarterly distribution of $0.11 per unit, which reflects a prorated portion of our targeted quarterly distribution of $0.16 per common unit, based on the pricing of our IPO on May 2. Year-to-date, our pro forma six-month distributable earnings for common unit is $0.89. To my earlier point, over the past six weeks, we have announced six pending investments in our Corporate Private Equity and GMS carry funds committing a minimum of $1.6 billion in equity in the U.S. and Europe. In most of these cases, the investments reflect work that our investment professionals undertook in the past six to nine months to identify, negotiate and structure investments.

We continue to see attractive opportunities across our entire investment platform and we believe at the right price and on the right terms attractive investment opportunities are available in the U.S. and in many key markets around the world. We also continue to be active in our Real Assets business, which we invested – where we invested nearly $1 billion across our real estate and Energy Funds during the quarter.

We've made real estate investments in the U.S., Asia, and Europe and the funds we co-manage with Riverstone continue to produce distributions for our fund investors. Our Global Market Strategies business continues to grow. Investors are clearly hungry for yield and our GMS products provide fund investors with opportunities to achieve attractive yields.

We closed our second $500 million CLO this year during the second quarter and depending on market conditions, we'll continue to pursue additional new issued CLOs. Our hedge fund partnerships continue to attract capital. Our energy mezzanine business is thriving with interesting new investment opportunities and our distress funds are making attractive new investments and producing realizations on prior investments.

Switching to fundraising, in the second quarter, we raised $3.9 billion, the highest amount we've raised in any quarter since 2008. For the first half of 2012, we raised $6 billion. While fundraising is fundamentally driven by which funds we have in the market at any given time, in the first half of this year, we raised almost as much capital as we did in all of 2011. Let me repeat that, in the first half of this year, we raised almost as much capital as we did in all of 2011.

But let me step back for a moment and put these figures in perspective. When Carlyle was well recognized for its fundraising capabilities, we are not immune from industry-wide fundraising challenges. Fundraising for the private equity industry peaked in 2007. Five years later, fundraising for private equity is still less than half of what it was in that peak year. However, we do not believe this lower level of fundraising reflects a diminished interest in private equity investing. What it does reflect is the fact that some investors, particularly U.S. public pension funds might already be at their allocation limits for private equity. Furthermore, it also reflects the reality that it now takes investors a longer time period to reach an investment decision. The average private equity fund now takes about 17 months to raise compared to nine months in 2004.

I point out these metrics and trends as a way of saying that the fundraising challenges on timing or terms are not completely behind us or the industry, but we are beginning to see improving environment and we believe our ability to attract new capital this quarter makes a statement about that trend. There is no doubt that investors continue to feel that private equity as with many alternative asset classes can provide a cost effective way to achieve attractive returns. And that is particularly the case when interest rates are low and other types of investment offer less than acceptable returns.

Now more than ever, we believe large institutional investors, particularly U.S. pension funds are in search of attractive returns. In this 12 months ending December 31, 2011, the median U.S. public pension fund earned a return of 0.8%, well short of their long-term targets of just below 8%, according to the National Association of State Retirement Administrators. Returns below expectations caused ratio of assets to liabilities to fall to 75% as of May 2012, down from 87% in 2007 and 103% in 2000 according to the Boston College Center for Retirement Research.

With the average yield on investment grade corporate debt at the lowest level since 1965, and stock returns essentially at zero for the past 13 years, we believe pension fund managers will continue to increase allocations to alternative asset managers. In the 12 months ending December 31, 2011, the average private equity fund earned 10.8% on a net to LP basis according to Cambridge Associates. As is well understood, a top-tier private equity fund can generally earn higher returns on the average with top – with an average for top quarter returns being nearly 550 basis points above the average.

Investors recognize this reality. Thus, we believe the best performing funds and firms will attract a disproportionate share of new fundraising dollars. Importantly, we had a first closing of $2 billion in our latest U.S. buyout fund and a well positioned preferred that closes in the second half of 2012. We are pleased with the strong investor response to our hedge funds, where we had more than $650 million in new net subscriptions in the quarter.

Our energy mezzanine group continues to attract strong investor interest as European banks have increasingly withdrawn from energy financing markets. We also had closes on a few newer private equity funds, but for some of those funds and a few of our successor funds, raising capital is taking somewhat longer than once anticipated.

In the second half of 2012, we expect to attract capital in our fourth Asian buyout fund and are optimistic about the broad investor interest in our range of Global Market Strategies products where year-to-date we've raised $2.8 billion, a 23% annualized growth rate based on year-end 2011 assets. In summary, we are executing against our goals and believe our firm is in quite solid shape.

Let me now turn it over to Bill Conway. Bill?

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

Thank you, David. To begin, I'd like to quickly convey a few important points about our business. We are not index investors. We are not trying to beat the S&P 500. Furthermore, we're not short-term investors in our carry funds. We are however, focused on delivering high absolute and risk adjusted returns over a sustained period of time. And while the short-term outlook is cloudy, I'd argue that we've historically made some of our best investments during times like these.

One of the key differentiators of Carlyle is the size of our portfolio. We aggregate and analyze data from over 200 portfolio companies across the globe. This data provides valuable insight into what's happening into our economy. Sometimes this insight supports official data, sometimes it contradicts it. We've learned to trust our data. In the United States, we saw real weakness during the second quarter. Household spending in particular, weakened substantially relative to the first quarter and business appending remained weak particularly relative to cash positions. This was offset somewhat by residential investment spending, which grew rapidly and continues to be a net contributor to growth, a notable change from the previous four years.

In spite of this weakness, we continue to believe that the U.S. economy is likely to grow faster over the medium term than it did in the second quarter, but we're watching very closely to see how our data evolve. Our data also suggests that the euro zone contracted at the fastest rate since 2009 in the second quarter, and that the Japanese economy appears to be roughly flat after a strong start to the year. As a whole, developing countries continue to grow more rapidly than developed countries, although growth is much slower than last year. This slower growth has not come as a surprise. We began to see significant weakening in China in September 2011.

During the first several months of 2012, our internal data suggested a more rapid slowdown in China than reported by their official data. We worried about this disparity as our indicators had previously tracked official data quite closely. Recent downward revisions to the official data had significantly narrowed the disparity and our most recent data suggest China's growth has stabilized. However, the economic environment is not the same as the investment environment.

Great investments can be made in a bad economy and lousy investments can be made in a vibrant economy. For example, our Chief Economist Jason Thomas recently produced a paper that concluded that European Corporate Assets are now selling at a 30% discount to the average of the rest of the world on the basis of operating cash flow.

Notwithstanding weaker global economic conditions, we see good investing opportunities across our platform, a multi-fund platform that provides us with the flexibility to invest up and down the capital structure with varying risk levels and across multiple asset classes, geographies and industries.

We invested about $1.4 billion in the second quarter through 20 different carry funds. Approximately $1 billion of this amount was invested in Real Assets with about 70% of the balance in Corporate Private Equity. For the first half, we have invested about $2.9 billion through our carry funds. Our new investments in the second quarter reflected the diversity of our platform. We invested in a leading hotel chain in China, a media software company in Europe, and several real estate properties in China, Europe and United States. In total, 60% of our investments were in the Americas, 18% in Asia and 22% in Europe.

The investment pace in our carry funds was relatively slow in the quarter. But as we mentioned last quarter, we don't measure success or failure based upon any particular quarter, but over a longer period of time and since the end of the quarter, we have announced a number of investment transactions that should close in the second half of the year including our U.S. equity opportunity and energy mezzanine funds agreed to invest in the Sunoco Philadelphia refinery, our European buyout group invested in the Italian fashion company that operates the brand Twin Set, our U.S. buyout fund committed to invest in Genesee & Wyoming, the top short-line rail operator in the United States helping them to acquire RailAmerica.

In the U.S. buyout fund, we also announced the acquisition of the Hamilton Sundstrand, a manufacturer of industrial pumps and compressor from United Technologies. In our South America buyout fund, we made a follow-on investment into Brazilian toy retailer Ri-Happy to help it acquire a competitor.

Finally, our U.S. equity opportunity and strategic partner's funds acquired a leading Texas-based automotive collision repair company called Service King. We expect to invest at least $1.6 billion in these transactions alone. So although our investment pace was relatively slow in the second quarter, the second half of the year is off to a strong start.

In terms of the value of our investments, our overall portfolio depreciated by 2% in the second quarter, but is up 8% year-to-date. In the second quarter, our Corporate Private Equity portfolio declined 2%, our GMS carry funds appreciated by 3% and our Real Assets portfolio declined 3%. Finally, in terms of exits and distributions to our investors, we realized proceeds of $3 billion for the quarter, bringing total realized proceeds to $6.8 billion year-to-date.

I would like to reiterate the importance of realization; they are fact, not opinion. Anyone can have an opinion about the global economy or whether or not a transaction is a great one. But realizations are a fact and they are the drivers of distributable earnings. We have continued to have impressive facts, even after the record distributions to our fund investors in 2011. Our second quarter realization activity reflects the diversity of our platform with proceeds from 98 investments and 32 carry funds.

Our second quarter exit activity included in Corporate Private Equity, a number of block sales of publicly traded stock including $268 million in proceeds from our remaining interest in Triumph

Group and Carlyle Partners II and III; $834 million from the sale Kinder Morgan stock in Carlyle Partners IV and our Energy Funds; and $345 million from the sale of Quality Corp in Carlyle Partners V and the South America Buyout Fund.

We also announced the sale of a number of buyout and growth companies including Insight Communications and eScreen. In Real Assets, we had over $1.4 billion of realized proceeds with realizations in each of our energy, real estate, and infrastructure areas. In addition to Kinder Morgan, we received a combined $790 million from the sales of seajacks and dynamic offshore resources.

Looking forward, we have some important realizations that we have closed in July or expect to close in the second half of the year. These include first, shortly after the quarter ended, our Carlyle Europe buyout fund sold Talaris, a manufacturer of cash machines to GLORY, a large Japanese company for £650 million.

We expect the sale of AMC Theaters from Carlyle Partners V to Wanda Group of China to close in the third quarter. We've already completed several block sales and our dividends including a block of $720 million of China Pacific Life and $170 million from SS&C. And we expect to receive approximately $600 million from the announced dividend from Booz Allen later this month.

Our US growth fund completed the sale of Gemcom Software to Disso Systems for a sale price of $360 million. And, we have a number of contracts for a number of real estate assets including our interest in one of the premier retail properties in the United States, 666 Fifth Avenue in New York City.

We feel very good about our portfolio, which now stands at $62 billion and fair value of capital working carry funds. Of this $62 billion, $17 billion is held in publicly traded equities and $34 billion represents investments originally made in 2008 or earlier. As we said last quarter, we have a maturing portfolio that is ripe for monetization putting us in a position to potentially generate significant realizations.

I'll now turn to Adena to discuss our financial results.

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

Thank you, Bill. For the quarter, on a pro forma basis, taking into consideration changes related to our IPO, Carlyle generated $117 million in distributable earnings or $0.32 per unit in after-tax distributable earnings, an economic net loss of $59 million or $0.19 per unit after tax.

As alluded earlier, Carlyle declared a prorated quarterly distribution per unit of $0.11 based on the timing of our IPO in May. Our pro forma distributable earnings per common unit of $0.32 as compared to our quarterly distribution starts to build the foundation for our year-end trip distribution.

Generally, our distribution to unit holders under our distribution policy will be determined based on the earnings that we achieve as a public company. However, if we were to apply the policy for the full year-to-date on a pro forma basis with the year-to-date pro forma distributable earnings of $0.89 per unit, under our current distribution policy, we would have expected to distribute $0.32 per unit over the first two quarters. Therefore, our pro forma distributable earnings are well outpacing our pro forma quarterly distribution thus far in 2012.

Comparing our results to prior periods and not including the pro forma adjustments, we posted pre-tax distributable earnings of $115 million, compared to $89 million in the second quarter of 2011. Carlyle's second quarter economic net loss at $57 million compares to income of $237 million in the second quarter of 2011. The negative comparison is largely attributable to the portfolio declines driving negative unrealized performance fees.

On a last 12-month basis, distributable earnings of $785 million are up 38% compared to the prior 12-month period or ENI of $398 million is lower versus the prior-year period of $1.6 billion. I would like to give an example of how our ENI differed substantially from our distributable earnings even within a single fund.

Carlyle Partners IV, a 2004 vintage fund is in its harvesting period. The fund has significant accrued performance fees and high percentage of public companies, because the investment teams have taken several portfolio companies public to prepare for eventual access.

Due to high volatility in the public markets this quarter, the valuation of Carlyle Partners IV was negatively impacted and therefore, its unrealized performance fees declined. However, with the Kinder Morgan block sales as Will mentioned, the fund of returned substantial capital to fund investors and was a significant contributor to our realized performance fees for the quarter.

Because ENI is heavily influenced by quarter-end mark-to-market movements in our public portfolio, the funding contributed significantly to our drop in unrealized earnings in the quarter with volatile public markets. The Carlyle Partners IV was a major contributor to our financial success in the quarter as its realized performance fees delivered cash earnings and helped drive our distributable earnings.

Now getting back to our fund-level results. As of quarter end, our AUM and carry ratio was 65% on our $62 billion in assets under management for our carry funds excluding dry powder of $24 billion. This metric refers to assets that are in carry funds eligible to generate performance fees. Of the $62 billion of remaining fair value of capital on the ground, 55% was invested in assets from 2008 or earlier and 27% of these assets are in publicly traded securities. We realized proceeds of $3 billion in the second quarter across our carry funds. By segment, we've realized $1.5 billion in Corporate Private Equity, $1.4 billion in Real Assets and $32 million in Global Market Strategies. Our realized proceeds this quarter was the driver of the $75 million in the net realized performance fees.

Turning to our firm's four segments, our Corporate Private Equity segment produced an economic net loss of $65 million compared to economic net income of $153 million in the second quarter of 2011, largely due to portfolio depreciation of the carry funds. The segment produced $61 million in distributable earnings, which accounted for 53% of firm-wide distributable earnings and compared to $39 million in the second quarter of 2011, positively impacting distributable earnings for the block sales and the Triumph Group from Carlyle Partners II and III and Kinder Morgan for Carlyle Partners IV.

Total assets under management in Corporate Private Equity declined 1% sequentially to $52 billion, while fee-earning AUM of $37 billion was down 2% sequentially. It is important to note, that while we have reached a first close on our next U.S. buyout fund, these assets will not add fee-earning AUM until the prior fund has significantly done investing, which we expect to occur sometime in the first half of 2011, I'm sorry, 2013. Overall, as David mentioned, we expect our fundraising in Corporate Private Equity in particular to gain its momentum in the second half of the year.

Our fastest-growing segment, Global Market Strategies or GMS ended the second quarter with $28 billion of fee-earning AUM, up 3% versus the first quarter and $29 billion in total AUM also up 3% sequentially. Distributable earnings for $23 million and accounted for 20% of Carlyle's overall distributable earnings. On an LTM basis, distributable earnings were $178 million, compared to the prior 12 months of $84 million.

Recall that our GMS business has three areas, structured credit, carry funds and hedge funds. Starting with structure credits, during the second quarter, we've raised our second CLO of 2012 with $510 million in new assets and a raise over $1 billion in new CLO assets year-to-date.

Next, our GMS carry funds appreciated 3% in the quarter; our best-performing carry fund asset class in the quarter. We continue to see opportunities to raise new capital and invest our energy mezzanine fund, and the team has been active in deploying capital announcing one deal during the second quarter and already another in the third quarter. The last area of GMS is our hedge fund partnership. Net subscriptions into our hedge funds were $659 million. Our hedge funds [ph] ended (28:22) the quarter with $9.6 billion in total assets under management, up from $8.8 billion in the first quarter of the year.

Moving on to Real Assets, distributable earnings for the quarter were $28 million, 24% of the firm's total and up 282% compared to the second quarter of 2011. The increase versus the second quarter of last year urged a higher net realized performance fees and lower compensation in the segment. The most recent vintage Energy fund, Energy IV moved out of the investment period in the second quarter and thus management fees stepped down to a lower rate. However, there is $16.4 billion of remaining assets under management in these Energy funds and Carlyle benefit from any appreciation and realization to that portfolio for several more years. In the meantime, we continue to evaluate opportunities to grow and expand our real estate and energy platforms.

Our last segment is the Fund of Fund Solutions business. Distributable earnings of $3 million were down from $6 million in the first quarter, driven by higher G&A expenses, where its fee revenue remains largely flat. While the Solutions segment is our smallest segment today with only 3% of consolidated distributable earnings, we believe it provides a strategic opportunity to bring new volumes to our limited partners over time.

Now moving on to expenses, excluding performance fee-related compensation expenses, our operating expenses were $213 million, an increase of 2% year-over-year. Base compensation of $142 million is up 7% year-over-year and G&A expenses of $64 million were also up 7% as we continue to build out firm-related infrastructure and pursue growth opportunities.

Interest expense of $6 million declined 61% versus the second quarter of 2011 as we pay down debt in the quarter with proceeds from the IPO. As we highlighted last quarter, when fundraising increases in a quarter, we see – we will see a tick up in non-performance related expenses as fundraising costs are expensed in a quarter of fund closing and we expect this trend to continue when new fund closings occur.

Lastly our non-GAAP expenses in future quarters will include equity compensation related to future employee equity grants and amortization. But for Q2, this number was less than $1 million. Moving to the balance sheet, we used $639 million from proceeds raised from IPO to optimize our balance sheet during the quarter.

At quarter-end, we had $450 million in cash and $500 million in loan payable. We had $2 billion in accrued performance fees net of giveback obligation. After taking into consideration accrued performance fee compensation and accrued performance fees attributable to non-controlled entities, our net accrued performance fees were approximately $970 million as of quarter-end.

Investments attributable to Carlyle Holdings were $217 million at quarter-end after completing the IPO reorganization that removed partner investments from our consolidated results. In summary, Carlyle produced $115 million in distributable earnings in a challenging market environment. We ended the quarter with a strong balance sheet, a strong pipeline of investment opportunities, and continued momentum – fundraising momentum.

Now, I'll turn it back over to David for a few last remarks.

David M. Rubenstein, Co-Chief Executive Officer, Co-founder Washington, DC

Once again, I would like to reiterate that we feel very good about where our business and portfolio currently stands, as well as the pace of activity that we've seen here today. We appreciate all of you listening to this call and we would like to now turn it back to the operator to begin the question-and-answer process.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question is from Howard Chen with Credit Suisse. You may begin.

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

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

<Q – Howard Chen – Credit Suisse Securities (USA) LLC (Broker)>: Thanks for taking the questions. David, you provided a lot of helpful commentary on the fundraising front, but just given how active the firm has been on fundraising, I was hoping you could share maybe what you are hearing from clients that's perhaps new and different than a year ago? And just given the zero interest rate environment then the weak returns of other asset classes like equities that you noted, have return expectations by your LPs evolved in any way in something like more traditional U.S. buyout strategy?

<A – David Rubenstein – The Carlyle Group>: On the first part of your question, I believe that fundraising has picked up a little bit, but it's picked up a little bit because of the change in the mix of fundraising – people who are investing. In other words, it used to be that public pension funds were by far the biggest source of capital for people like us and the comparable firms. While today, they are still significant, we have seen much more money coming in from sovereign wealth funds and much more money from so-called feeder funds, where large financial organizations or private wealth managers round up investors and then package them up into one partnership, and then they invest with us.

So, I would say that clearly the world is different than it was in 2007. In 2007, we raised $30 billion at one year, that was a record probably for any private equity firm in any one year in terms of [ph] front (34:02) money raised. It's difficult for anybody probably to get back to 2007 levels for a year or so or maybe beyond that, but I'd say that nobody is saying to us, "You know what? I really don't like private equity, or you know what, I really think that you guys don't produce the kind of returns that I expect."

And drifting into the second part of your question, I think investors are interested in private equity and at the different mix of people coming in, because they still think that with everything else going on in the world, private equity through thick and thin times, through good and bad times, does yield pretty good rates of return. Now I think their expectations are lower. I think in the heyday of private equity, perhaps in the 80s or 90s, when there was maybe less competition, when other factors and GDP growth were greater, people expected probably to get 20% net internal rates of return or higher.

Now, I think that investors are quite happy with net internal rates of return in the high-to-mid teens, actually from some of these kinds of investments, because the alternatives are so much less attractive. When interest rates are essentially at zero, if you can get a 15% or 16%, 17% net internal rate of return while that won't seem attractive compared to what it was 10 years ago in terms of rates of return for private equity, is still very attractive. So, yes, investors are slower to make decisions. There are – there is a change in the mix of who the investors are, but still, I think, there is an appetite for it and return expectations are probably somewhat lower and I think they probably should be somewhat lower. I don't know if that answers your question, but...

<Q – Howard Chen – Credit Suisse Securities (USA) LLC (Broker)>: It does, thanks, David. That's very helpful. And switching gears, Bill, you gave a lot of helpful details on the pace of deployment. We can certainly see that acceleration during and after this – the quarter, but it sounds like you have fairly broad conservative growth expectations for the overall global economy, so what's changing the environment that's finally getting these deals over the finish line?

<A – William Conway – The Carlyle Group>: Well, I think, a couple of things, Howard. First of all, we are fortunate that we've got 500, more than 500 investment professionals all over the world trying to find good deals to do. And so, things could be good or bad in one particular market or another, but it doesn't mean that the global platform isn't trying to work together to make deals happen somewhere. So, I think, that's a – that's a big factor.

The second thing, I would say is that whether a deal closes on July 5 or June 25, it makes a big difference to the accountants. But, it isn't actually making that big a difference to the investment professionals. Many of these deals that we closed particularly the six, let's say that we – I mentioned in my remarks that closed in – where we've already announced in July, we've been working on those deals, some of them for more than a year and it happened to close now. So, I wouldn't say there was anything particular in the environment that changed in the last – little time that made deals more likely or less likely to close.

I think it's the pace of 500 people around the world trying to find good deals to do. But I might also say that as I look at, let's say, our U.S. buyout fund that's been particularly active in the recent times, that fund typically it's got a five-year investment period. And what typically happens, you invest between 20% and 25% of the fund each year on average. But of course, the years aren't average and nor the months of the quarters are average, and I would say that the recent activity roughly puts Carlyle Partners V on that same pace as one would expect it to be.

<Q – Howard Chen – Credit Suisse Securities (USA) LLC (Broker)>: Great. Thanks Bill. That makes a lot of sense and just finally from me, with respect to the exit environment, we are seeing Carlyle very active on strategic sales, public offerings and dividend announcements. But just going forward, could you just provide a little bit more flavor for your thoughts on the mindset of a strategic buyer versus a potential exit in terms of coming to the market or announcing a dividend? Thanks.

<A – William Conway – The Carlyle Group>: Sure. I think that – first of all, some of these exits – one has to understand that when you have a portfolio of a size of ours and you have the – some of the size of the stock positions, be it on a Dunkin' or a Kinder Morgan or a SS&C and China Pacific Life, the size of our position is so big that sometimes it takes three, four, five block sales to exit the position.

As an aside, I might also say that the recent SEC rules make for the frequent issuers block sales much easier than they used to be. They can typically be done in 24 or 48 hours. So, we've had a strategy of trying to get the portfolio companies public so that then we can time our block sales when we think that the market is attractive. Remember anytime you do a block sale, then you've got to usually wait three months or six months before you can do another sale because you are locked up.

In terms of strategic buyers versus financial buyers, I think it's somewhat surprising to me to that given the cash on the balance sheet of the strategic buyers and the fact that we're in kind of a zero interest rate environment generally, it's stunning to me that these corporates are not really far more competitive in buying assets, because I think that the strategic buyers are – maybe they've returned a little more than they were a year or two ago, but they are not nearly as active as one would think given low interest rates and the size of their cash piles.

<Q – Howard Chen – Credit Suisse Securities (USA) LLC (Broker)>: Very helpful, thanks very much for taking all the questions.

Operator: Thank you. Our next question is from Bill Katz with Citigroup. You may begin.

<Q – William Katz – Citigroup Global Markets (United States)>: Thank you, good morning. Can you just help me reconcile between on the cover and your AUM roll forward, the difference between $3.9 billion of commitments versus the $2.7 billion in the roll forward? And then the big question, just – as you look at the opportunity for sort of better environment into the second half of this year, just sort of curious where geographically or where by business segment you see the best lift? Thank you.

<A – David Rubenstein – The Carlyle Group>: [indiscernible] (40:43).

<A – Adena Friedman – The Carlyle Group>: Sure. On the AUM roll forward, I just need to pull it up really quickly Bill. I think that the $2.6 billion in commitments versus a $3.9 billion raise is purely probably an issue of timing in terms of the fact that it could be that we brought it in the door, but it may not [indiscernible] (41:04) raised right at that moment. And also – there is also the $600 million – you also have to include the $659 million in the net subscriptions and generally there is more than that in total subscriptions, that's net subscription, net of redemption. So, you've got kind of a combination of probably a little bit more in total subscriptions there plus maybe a little bit of timing in terms of the June 31 – June 30 number versus what has been coming in the door and both on – in terms of the funds raised.

<A – William Conway – The Carlyle Group>: And Bill in terms of the investment opportunities and where we think they exist, partly it's a function of where Carlyle's strengths are and partly it's a function of where the investment opportunities are. I would say that we've been pretty active in Brazil, we have a good team there and we like the investment environment in Brazil. I think United States is in very good share as well, certainly versus the rest of the world and obviously with very low energy prices and the relative strengths of the dollar. I think the U.S. economies and the U.S. investment environment, let me say, is a pretty good investment environment.

<Q – William Katz – Citigroup Global Markets (United States)>: Okay, just a follow-up question. Maybe David, just curious, you mentioned that allocations are continuing to move up for alternative managers, I was sort of wondering where you are seeing that growth opportunity coming from?

<A – David Rubenstein – The Carlyle Group>: Well it's – well, first of all, we see it around the world and you should probably know, we have about 65 people on our fundraising group, so we do cover most of the world. And I just got back, for example, from Australia and New Zealand where there is a lot of interest in alternatives there, that there are relatively small economies there compared to the rest of the world. So, they invest a lot of money outside of Australia and they are interested in alternatives.

I'd say, China has a fair amount of money to invest in private equity. The sovereign wealth funds there have a fair amount of cash. We have seen a pickup in investment activity from Japan. In Brazil, Chile, Columbia, Peru the pension funds there now have the right to invest in private equity outside of those countries, which they didn't really have up until relatively recently. So, now those groups are becoming more active in investing in private equity abroad. In the Middle East, there is a fair amount of cash. There is no doubt that in the GCC countries, Saudi Arabia, Turkey – I'm sorry, Saudi Arabia, Kuwait, UAE, Qatar, there is a fair amount of cash. So, we're seeing money coming from there.

And despite everything you hear about Europe being on its back economically and the GDP there is obviously negative in many of those countries, there is money from the pension funds in those countries, the Netherlands pension funds, fair amount of money in Switzerland and other European countries. We also see some money from the U.K. institution. So, I wouldn't say that any area and I shouldn't exclude Scandinavia because their pension funds have a fair amount of money as well.

I wouldn't say it's in any one area, but I would say probably as a percentage for our fundraising, higher percentage is now coming from outside United States than probably five years ago, maybe even three years ago. I would say historically, we got probably two-thirds of our money from the United States, one-third outside, now I suspect it's probably 50-50 something like that and probably trending more towards foreign capital.

<Q – William Katz – Citigroup Global Markets (United States)>: Thank you very much for taking my questions.

<A – Adena Friedman – The Carlyle Group>: Sure, thanks Bill.

Operator: Thank you. Our next question is from Ken Worthington with JPMorgan. You may begin.

<Q – Kenneth Worthington – JPMorgan Securities LLC>: Hi, good morning. Continuing the [ph] statement (44:54) for David, you mentioned in the prepared remarks you're seeing indications of improvement in the fundraising environment. I think you attributed it to the public pension plans. Are you seeing signs of improvement from the other investment segments as well, is there any reason or anything that you've seen in the past to indicate that when the public pension plans start to move, they're lead indicators for the other customer segments or is it really just pensions – there are very idiosyncratic reasons why they are improving right now?

<A – David Rubenstein – The Carlyle Group>: Well, public pension funds and you thought those remarks were prepared, you didn't think I was doing that off the top of my head? Public pension funds have had what I would call a denominator problem. Because many of them were at their full allocation levels for a while, let's suppose, CalPERS has a 14% allocation for private equity. When CalPERS had $260 billion in assets and they were 14% already fully allocated. When their overall assets went from $260 billion down to $160 billion, now they are probably $230 billion, they were over their allocations limit and therefore, couldn't commit additional money and they didn't – did not increase their allocations. So, now that the overall amount of the money managed by these public pension funds is coming up through the force of the market getting back to somewhere closer to where it was before the bubble burst, they are now either below their allocation limits.

In some cases, some places are increasing their allocations, because they believe that private equity is better than other things are doing. So, as they are now increasing their commitments because they are now below allocation limits or they are increasing allocation limits, it's giving us more capital from those sources. And say, it's – I haven't done a correlation study to see when public pension funds are increasing by X%, whether that means that other investors are increasing as well.

But generally I think, there is a sense now that we see the post-recession era. It's an era of lower growth, it's an era of where there is going to be higher growth in the emerging markets and lower growth in developed markets. There is a stabilization in terms of what people feel their net worth is or what their value of the assets they own are. And therefore, the people are beginning to put money to work more than they were before.

I also think that, that – it's my observation that after the U.S. elections, people will have a greater sense of where the economy might be and then therefore you might see some freeing up no matter who wins the election. Just the uncertainty about who the next leader is going to be and what the administration would do might produce some more money coming into the market because people now have a sense of where the government is going to be in the next four years. So generally, I would say public pension funds when they invest more, they might have some impact on others, but generally they are a little, I suspect uncorrelated, just the unique factors that public pension funds have.

<Q – Kenneth Worthington – JPMorgan Securities LLC>: Thank you. And maybe for Adena, can you update us where you are standing on the new energy investment capability to replace Riverstone? You said in your either prepared or off-the-cuff remarks about evaluating options, but is there forward momentum here and as we think about when you might reach a solution, might it be in the next year or would you expect it to be a longer-term development?

<A – David Rubenstein – The Carlyle Group>: Let me address – this is David, let me address that and obviously Bill and Adena could add to it. First, I just want to remind everybody that we are realizing a fair amount of money from our existing energy platform. Riverstone has done quite well and those funds are ones that we co-managed in most cases. Secondly, we do have an energy mezzanine fund that's doing quite well right now and we're quite happy with that and that is investing in energy. And as you may have seen, our equity opportunities fund married up with our energy mezzanine fund to do the Sunoco deal, which was an energy-related deal. So we have capabilities in our equity opportunities fund and our large buyout fund capabilities are still present in energy. We did the Kinder Morgan deal through that. We do – I would like to have something maybe, that's the locust of our energy efforts and we have been working on that for quite some time. We just don't have anything ready to announce yet and I just don't want to give a timetable, but it's something that we are focused on for sure. Bill?

<Q – Kenneth Worthington – JPMorgan Securities LLC>: And you would say, you are making positive – there is positive forward momentum here in that regard?

<A – David Rubenstein – The Carlyle Group>: Well, I always get nervous about saying anything that somebody will misinterpret, but I'm optimistic that we will come to a solution that everybody in our firm will be happy with and I think our investors will be happy with, and I just don't want to be more specific in that because I don't want to get in trouble.

<Q – Kenneth Worthington – JPMorgan Securities LLC>: Okay, fair enough.

<A – David Rubenstein – The Carlyle Group>: Bill do you want to...?

<A – William Conway – The Carlyle Group>: David I don't want to get in trouble either.

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

<A – Adena Friedman – The Carlyle Group>: Okay, thanks Ken.

Operator: Thank you. Our next question is from Math Kelly with Morgan Stanley. You may begin.

<Q – Matthew Kelley – Morgan Stanley & Co. LLC>: Good morning, guys. Thanks for taking my question.

<A – Adena Friedman – The Carlyle Group>: Sure, good morning.

<Q – Matthew Kelley – Morgan Stanley & Co. LLC>: I wanted to touch on a little bit different of your LP segments. On the high net worth segment, what's sort of traction have you guys seen there, how much of your recent allocations have come from them and what solutions are they looking for?

<A – David Rubenstein – The Carlyle Group>: High net worth investors, what they are I think, really focused on is just getting a better return than they think they can get in their cash accounts and banks or in the public market related investment funds or in fixed income funds. And clearly, even non-top quartile private equity funds will probably be attractive to many of these investors, top quartile funds even more so. The thing that's surprising – not surprising, but that's different and for what I saw years ago and we all saw years ago is this, a few years ago, let's say, three years or four years ago, we might have three or four so-called feeder funds under negotiation either in the market or being negotiated with the various people who do that. Now we probably have about 23 or 24 either in negotiation or in the marketplace.

And that's quantum leap, and I think it's probably two of our competitors as well. All of us are seeing high net worth individuals who are frustrated and that they aren't getting the kind of returns they want otherwise from other investments. And when I talk about high net worth individuals, let me put it into – into three categories. There are some people who are wealthy enough to invest $5 million or $10 million or more, and they can come directly into our funds. Those are obviously, people probably have net worths of $100 million or more. People with net worths of less than that might feel comfortable putting anywhere from a $0.5 million to $2 million, $3 million in a feeder fund, that's where there is enormous growth in activity.
But you are also seeing, what is called the mass affluent market, where people might have a net worth – these are accredited investors, but might have a net worth of $10 million or $20 million and they feel comfortable putting a $100,000 in or something like that, and we are seeing money from investors like that coming into the market. There are certain vehicles that capture the mass affluent market. Our main focus as of late has been the people that are putting in, I would say, $0.5 million, to $1 million, $2 million in the feeder funds, but the mass affluent market is something that we are focused on as well and you will see more activity there from people like us in the future.

<Q – Matthew Kelley – Morgan Stanley & Co. LLC>: And one quick follow-up on that, can you describe how much effort it takes for you to raise funds from the various buckets of this segment you just laid out versus traditionally U.S. public pension for example?

<A – David Rubenstein – The Carlyle Group>: Well, on the old days, it was a little easier to raise the money from the public pension funds because I think they maybe had more money to allocate or the system worked differently or whatever. I would say a lot of my gray hair has come from working with public pension funds in recent years, but there is no doubt that putting together a high net worth feeder fund has pluses and minuses. With a public pension fund, you make a presentation and typically two or three of them, you might make a presentation to a board. But once you have done two or three or four presentations and they go forward, it's done and then in that new quarterly calls and other kinds of things to keep them informed.

With the feeder funds, it does take time to get it done because they typically, the feeder fund organization typically ask us to actually make the presentations. They make some, but we have to go on the road to do them. So, a large feeder fund might involve people in our organization making 20 or 30 presentations, so it takes a fair amount of time. But typically, once you have the feeder fund done, I would say the post closing of it probably entails less – I won't say hand holding, but less feedback perhaps to some extent, because you've got fewer questions probably from the sponsor of it than you might from the public pension funds. But on the whole, I can't say which is easier or which is harder to do, I would say nothing is easy these days.

<Q – Matthew Kelley – Morgan Stanley & Co. LLC>: Okay, and then final one from me if I may. Just on your platform build-out, curious on – what's your current view on fund of hedge funds and also curious to see how many opportunities you've already seen in the market and if any of them have been very attractive or you're just waiting for the right one to come along?

<A – David Rubenstein – The Carlyle Group>: Well, on fund of hedge funds, I don't know that we can really say anything there that's going to be productive for anybody. I would just say that we're very pleased that we have a private equity fund of funds, and we are familiar with what's in the market, but beyond that again, I think I best not comment.

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

<A – William Conway – The Carlyle Group>: And David, I think I would add that of course, we've been extremely pleased with our existing hedge fund as opposed to the fund of hedge funds both Claren Road and Emerging Sovereign Group.

<Q – Matthew Kelley – Morgan Stanley & Co. LLC>: Thank you guys.

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

Operator: Thank you. Our next question is from Jacob Troutman with KBW. You may begin.

<Q – Jacob Troutman – Keefe, Bruyette & Woods, Inc.>: Hi guys, thanks for taking my questions. My first question relates to the deal environment and the competitive landscape. So, it seems like you and a lot of your other large competitors are out in the market raising their next vintage North American PE fund. I was wondering if you could just talk a little bit about maybe what you see the competition and sourcing new North American PE deals in this cycle?

<A – William Conway – The Carlyle Group>: David, let me take that one, I think. In terms of the deal environment and let's call it, its impact if any, on the next vintage fund and the fundraising and the like, I would say we would never do a deal just because we are coming to the end of a fund. The world doesn't work that way. Our reputation is such that if we say we're going to try and find – we don't get paid to do deals, we get paid to do good deals. And so, I don't think that there's an impact in terms of people feeling the need to put money to work. Carlyle Partners V runs through May of 2013 and then each of these funds has an extension period after that data, I think it's either six or 12 months in the case of Carlyle Partners V that would say, if you're working on a deal prior to May of 2013, you can still use Carlyle Partners V to close into that fund.

In terms of the deal environment, in many ways, the deal environment is actually pretty good now. In one way, as I mentioned before, I have been surprised that the strategics, the corporate buyers are not nearly as active as I thought they would be. And so, they were a little less active in the market. Secondly, I'd say that although financing is not as easy as it was in 2008, but financing markets are really extremely attractive as well, because although spreads have gone up, weights have gone down so much that financing is extremely attractive for the deals that we do.

I'd say the multiples of debt available aren't as high as they were at the peak, but they're still plenty satisfactory for us. I think in terms of the targeted rates of return that we're trying to earn on our funds that although they are down from the last five or ten years, there are still pretty attractive returns particularly in a world of what I call – we used to have kind of risk-free return, now we have return free risk. And I think that – right now, I think that the environment is really pretty good.

I look at the deals that we did in the United States, we did the Philadelphia refinery. We've been working on that for well over a year. We put our position where we were kind of the preferred buyer and the first one in it. We had a management team that was with us. We built a good relationship with the City of Philadelphia to try and do that transaction. After we got excited about it, a few other people were interested. But I think, we had big lead in time and knowledge on that. And buying a refinery is not – is not for the faint of heart I would say as well.

In terms of the Genesee & Wyoming deal, I think that was interesting because it first of all, there were two things that had happened. One, Genesee & Wyoming had to be successful in buying RailAmerica, and second Genesee & Wyoming had to pick Carlyle as their partner for helping them finance that transaction and fortunately, they bought RailAmerica or agreed to and we have agreed to finance that purchase in part. I think there we saw railroad is less, is kind of immune if you will, not to economic impacts, but it's kind of immune to global economic impacts.

In the Hamilton Sundstrand Industrial deal, well it's kind of an interesting deal because although it's – people think of it as in the U.S. markets because it's owned by United Technologies and that's being bought for about $3.4 billion, $3.5 billion. And United Technologies was the seller – a giant percentage of its business comes from outside of the United States as a global business as opposed to an American business and it's obviously got great market positions. So, in terms of the U.S. market, there were a number of things, a number of factors on each deal that made them unique. But I would say, don't let the timing of the deal tell you that today's market is different than the market of a few months ago.

<Q – Jacob Troutman – Keefe, Bruyette & Woods, Inc.>: Yeah. Thank you for the very good color on that. And maybe – one follow-up maybe for Adena. Just on the Energy fund, that was moving out of its investment period and the corresponding drop and fee-paying AUM, that's just because the fund is now paying on fees on the remaining cost, is that right?

<A – Adena Friedman – The Carlyle Group>: That's right, so it went from charging fees on the committed capital versus charging fees on the invested capital of cost. And that occurred – it essentially had an impact on the second quarter and will have an impact going forward.

<Q – Jacob Troutman – Keefe, Bruyette & Woods, Inc.>: Are there any other funds that we should be aware of that besides CP VI coming on in mid 2013 that might cross over from paying on committed capital to remaining cost?

<A – Adena Friedman – The Carlyle Group>: There are additional funds that will – we have a lot of carry funds. So, our carry funds – as we start the fundraising efforts for a new fund that usually means that the predecessor fund is nearing the end of its investment – its investments period. So, as we said that with CP V and CP VI, we've got – CP V has an investment period through sometime in middle of next year and then CP VI will take on into its commitment period and we will turn the fees on and the same would go for other funds that were – that we're in the market for. So CP IV, CP III will come out its investment period as we close on the commitments and start to charge fees on – I'm sorry CP III will come out as we start to charge fees on CP IV. So, that happens as we are in an active and fundraising period generally.

<Q – Jacob Troutman – Keefe, Bruyette & Woods, Inc.>: Okay, thanks for taking my questions.

Operator: Thank you. Our next question is from Marc Irizarry with Goldman Sachs. You may begin.

<Q – Marc Irizarry – Goldman Sachs & Co.>: Great thanks. Just want to go back to the platform build-out and your appetite in Real Assets for taking General Partner stake in an entity versus lifting in a team or maybe looking at a whole business and maybe carving out an energy platform from that. Can you just give some perspective on how you're thinking about further building out the other real estate, the Real Asset platform relative to taking a GP stake versus sort of buying in whole group?

<A – David Rubenstein – The Carlyle Group>: First, in Real Assets we have three parts of that. We have real estate; we have our U.S., European, and Asian funds; we have our infrastructure fund; and we have energy. In terms of energy, we have looked at many different things. There's nothing that is conceivable that could be looked at that we haven't looked at. As a general proposition, I'd say we probably like things to be part of Carlyle, rather than be not part of Carlyle. But beyond that, I don't know there is anything I can say that's not going to either mislead somebody or get expectations ahead of where they should be. So, I don't know that I can comment on that and give you anything that you really want. I am not sure you expect that I could, but Bill, do you have more to say on that?

<A – William Conway – The Carlyle Group>: No.

<A – David Rubenstein – The Carlyle Group>: But, it's a good try.

<Q – Marc Irizarry – Goldman Sachs & Co.>: Okay. Let me ask just one. Just on fundraising, David, the pace of distributions, what impact if at all, when you are out there raising funds does the distribution environment have on sort of the LP's appetite to commit near term? So, if we enter a slower pace of harvesting, is it safe to expect that fundraiser could [ph] slow down LP (01:04:49) as well?

<A – David Rubenstein – The Carlyle Group>: Well, remember, if you're raising a successor fund from which you – and you were then talking to investors who were in the predecessor fund and you are giving money back, obviously you give their money back up to them, they will give you money back. Sometimes you're raising initial funds, so there is no money coming back where sometimes you are raising money from people who are not in the predecessor fund.

So in those cases, people are happy to see distributions coming back, but it doesn't have quite the effect of giving distributions back to the very person you're asking money from. But overall, the commonsense view that giving money back is helpful to fundraising is probably accurate. I think, not giving money back is probably not as helpful, but I don't really think that we in raising funds prematurely sell something or do something that's going to get the distribution back on the hope that it will help our fundraising. They are just completely unrelated activities and fundraising just goes on its own and people either come into the funds or don't because they expect that they will in the new fund, get good returns, good distribution and not because they've just been given some money back.

<A – William Conway – The Carlyle Group>: David, I might just add that it's – [ph] Marc (01:06:02) it's interesting to me that I think people will probably look at our business and say what they want to do is buy low and sell high. And so, the time when we're making new investments is going to be very different from the time that we're making a lot of distributions. I think that's logical, it just isn't the way it works. Many times we were doing – it seems that the pace of distribution activity and the pace of investment activity are actually pretty closely correlated as opposed to exactly uncorrelated.

<Q – Marc Irizarry – Goldman Sachs & Co.>: Great. And then can you just give us a little color on European LPs, in particular, I guess, that flows in the Fund of Funds business, are you seeing sort of a tightening up in Europe in terms of allocations from LPs in Europe?

<A – David Rubenstein – The Carlyle Group>: I would say, LPs in Europe have been investing outside of Europe for a very, very long time. American LPs probably spend more of their money in the U.S. than European LPs spend their money in Europe. And therefore, when you're raising money from European LPs, they have a long history of investing outside of Europe and they have a fair amount of money there.

They have in Europe as many of you may know, something we don't really quite have in United States. They have pension systems that actually have money in them in some sense. For example, they have a social security system. In the Netherlands, that is largely fully funded. We have our social security system in this country as it's unfunded, it's pay as you go. So, they have a fair amount of large public pension funds that are in pretty good shape and they tend to invest a large amount of that outside of Europe.

So, the fact that Europe isn't doing that well in terms of GDP doesn't that much affect their willingness to invest outside of Europe. They've recognized they probably should. So I would say, we found Europe to be fairly fertile as a place to invest. But that would counter to what you might expect, but the pension funds seemed to operate somewhat independently of the GDP in some these countries.

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

Operator: Thank you. Our next question is from Glenn Schorr with Nomura. You may begin.

<Q – Glenn Schorr – Nomura Securities International, Inc.>: Hi, thanks very much. Just curious on, you've been putting a lot of money to work, curious about the availability of financing and what kind of terms you're seeing relative to last couple of years?

<A – William Conway – The Carlyle Group>: Okay, I would say – first of all, there has generally been – money has generally been available. I think Europe is tougher to raise debt financing than is America. And in fact, I think you'll begin to see and you've already begun to see a lot of European companies raising money in America, so they can create some kind of nexus for that. I would say though that generally, that multiples are maybe down one turn from the peak of what they might have been in 2008. I would say that spreads are up from what they were in 2008. In 2008, many deals were down at say, an average of 250 over LIBOR.

And today that the spreads tend to be higher than that. But remember LIBOR has gone from 3% or thereabouts without saying a specific date there down to about zero. So, the actual rate being paid hasn't really moved very much. In our business, frankly, if a deal works at a 6 percentage rate and it doesn't work at 7 percentage rate, it's probably not a deal worth doing.

I think one thing that has happened is that it hasn't yet affected the rates that much, but there is less competition today than there used to be. Five years ago, if you wanted to raise $1 billion of financing, there would be 10 or 20 people raising their hands saying, I'll take it all. Now that number is more than cut in half and people generally, they want to partner if it's going to be $1 billion.

So it's just – there is less competition and it's natural I think that there is less competition. In Europe, we find when we do a transaction there frequently, we have to put together the bank syndicate ourselves. And we did one financing in Europe and needed €200 million of financing. I think we put together a syndicate of either seven or eight European banks at €25 million apiece. So, Europe is tougher to raise the financing than in America, but America it's reasonably available and it's reasonably priced.

<Q – Glenn Schorr – Nomura Securities International, Inc.>: So I'm very much on the same page as you with the lower competition. What's interesting is that in not the greatest environment, multiples are only down one turn from the peak, is that a function of just a ton of cash on the sidelines?

<A – William Conway – The Carlyle Group>: Well, there is a lot of cash on the sidelines. I think it's interesting if you look at a lot of the banking systems around the world other than the European banking system. But in the U.S. banking system and the Japanese banking system, the loan to deposit ratio is way down from what it was at one time. And so, people are, just like everybody else, is seeking new. Somebody says, well, gee if I can finance a Carlyle buyout, they're going to put a ton of equity underneath me and generally they know what they're doing. I am willing to finance that at five or six times multiple and I will – I'm going to earn LIBOR plus 400 or whatever it might be. I think that's reasonably attractive for them to do when the alternative is sitting on the cash and earning LIBOR, which is about zero.

<Q – Glenn Schorr – Nomura Securities International, Inc.>: Okay, that makes sense. When you spoke about the money that you've put to work recently, I didn't hear the name of an asset manager that you've been quoting lately. I guess the question is, is that for the financial fund or is that to be part of the Carlyle Group and have you considered the asset management division as part of the Carlyle Group?

<A – David Rubenstein – The Carlyle Group>: I'd say that, first of all, we can't comment on any particular transaction. There are two reasons for that. One is, we don't do it generally. And secondly is that, in any situation there's always – there are always confidentiality agreements that you've signed and you are bound by. So, we couldn't comment on any particular situation including that rumor situation that you didn't name.

<Q – Glenn Schorr – Nomura Securities International, Inc.>: That maybe – just different tack, for the future of the Carlyle Group, could you envision asset management being another business line, meaning more traditional – more traditional asset manager?

<A – David Rubenstein – The Carlyle Group>: Well, we like to be an alternative asset manager. We are one of the largest in that and we think we have a major role in the alternative asset management business around the world. Nobody can predict five or 10 years down the road, maybe even a few years down the road, but right now we would like to be in the alternative asset management business. That's our business we know it well. We've been in it for 25 years and we are a leader in it and so I think that's the thing that we're most focused on, alternative asset management.

<Q – Glenn Schorr – Nomura Securities International, Inc.>: Excellent. Thank you very much.

<A – Adena Friedman – The Carlyle Group>: Before we go to the next caller, I just want to make sure I circle back on Bill Katz's question on AUM just to make sure that we give you an accurate answer. Bill, on that you have to take into consideration the commitments into the carry funds, which is in the commitments line, the net subscriptions and it is – we do show that net. So, the fundraising number of $3.9 million is including the net subscriptions of the hedge funds, but you also have to incorporate the CLOs, the $510 million you raised in the CLO for the quarter. So those things combined give you what you're looking for in total. Okay, next question.

<A – David Rubenstein – The Carlyle Group>: Operator, is there anyone left in the queue?

Operator: I'm showing no further questions at this time.

David M. Rubenstein, Co-Chief Executive Officer, Co-founder Washington, DC

Well, I want to thank everybody for participating and asking very good questions and [indiscernible] (01:14:24) very clever trying to get us to say things that probably we shouldn't say, but I think we did a good job in not saying things we weren't supposed to say. But I appreciate everybody's interest and obviously you're familiar with the company. So, we appreciate the work you've done in getting to know the company and if you have additional questions beyond this obviously, Dan or Adena can address them. Thank you all very much for participating.

Operator: Ladies and gentlemen, this concludes today's conference. Thank you for your participation and have a wonderful day.