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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the Carlyle Group Fourth Quarter 2017 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time. [Operator Instructions]

I would now like to turn the call over to Daniel Harris, Head of Investor Relations. Please go ahead.

Daniel F. Harris

Managing Director & Head-Public Investor Relations, The Carlyle Group LP

Thank you, Ella. Good morning and welcome to Carlyle's fourth quarter 2017 earnings call. With me on the call today, our Co-Chief Executive Officers, Kewsong Lee and Glenn Youngkin; and our Chief Financial Officer, Curt Buser. Earlier this morning, we issued a press release and detailed earnings presentation with our fourth quarter results, a copy of which is available on our Investor Relations 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. 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 is a substitute for measures prepared in accordance with generally accepted accounting principles.

We have provided reconciliations of these measures to GAAP in our earnings release. Any forward looking statements made today do not guarantee future performance and undue reliance should not be placed on them. These statements are based on current management expectations and involved inherent risks and uncertainties including those identified in the risk factor section of our annual report on Form 10-K that could cause actual results to differ materially from those indicated.

Carlyle assumes no obligation to update any forward-looking statements at any time. During today's call, Curt will begin with comments on our financial results. Following that, Glenn, will provide additional context on where the firm is today, and Kew will conclude with the discussion of longer term focus areas for Carlyle. I would also like to call your attention to three changes you'll see in this quarter's release. We changed our presentation of fee-related earnings to exclude net interest expense from FRE and better conform to industry peers. We have posted a presentation on our website that contains details of this change. We also renamed economic net income to economic income. Economic income represents a pre-tax earnings measure, while economic net income now represents earnings after tax and after preferred equity expense. Lastly, we renamed Global Market Strategies to Global Credit, better aligning the segment name with the underlying strategies it is pursuing today.

And with that, let me turn the call over to Curt.

Curtis L. Buser

Chief Financial Officer, The Carlyle Group LP

Thanks, Dan. Carlyle's results for the fourth quarter and 2017 reflect strong value creation, while also position the firm for continued growth. Our carry fund portfolio appreciated 20% in the past year, including 32% appreciation on our Corporate Private Equity funds, driving net accrued carry to $1.7 billion, higher by 60% during 2017.

We invested a record $22 billion during 2017 from our carry funds. We raised a record $43 billion in new capital with $25 billion of that in the fourth quarter. This annual total eclipsed our previous fundraising record by almost 40%.

We had another solid year of exit activity across the carry funds with $26 billion in realized proceeds, our sixth consecutive year with more than $25 billion. Economic income in the fourth quarter was $366 million or after tax ENI per unit of $1.01. For the year, economic income of nearly $1.3 billion increased more than fourfold compared to 2016, and resulted in ENI per unit of $3.47.

The distributable earnings were $156 million in the fourth quarter and $670 million for 2017. Full year distributable earnings was lower than the prior few years due to lower carry fund realizations, as well as a growing percentage of realizations coming from newer funds, not yet taking cash carry. DE per common unit after taxes and the preferred distribution was $0.44, and we have announced a distribution to common unitholders of $0.33 for the quarter and $1.41 for the year.

Fee-related earnings were $27 million in the fourth quarter and $124 million for 2017, exclusive of $68 million in net insurance recoveries in Global Credit. Fourth quarter FRE included $34 million in fundraising expenses, $19 million higher than last year's fourth quarter.

Pending fee-earning assets under management reached $22 billion as of year-end, a level that will increase management fees as we turn on fees for our new funds. Accordingly, we currently expect quarterly fee-related earnings to be significantly higher in the second half of 2018, compared to the first half, with quarterly fee-related earnings ramping to a run rate of more than $75 million by Q4.

Fee-earning assets under management increased to $125 billion, up $3 billion from last quarter, a figure that does not yet reflect the $22 billion in pending fee-earning AUM. Total AUM increased to $195 billion, a level that reflects the new capital raise, as well as appreciation across the portfolio. Our available capital for investment now sits at $70 billion, up from $50 billion at the end of 2016.

Following the passage of the Tax Cuts and Jobs Act, we revalued our net deferred tax assets and the tax receivable agreement liability. This resulted in a net charge in our GAAP earnings of $42 million. We exclude this non-cash charge in both economic income and distributable earnings. Now, let's turn to a review of our business segments.

Corporate Private Equity invested a record $11.1 billion during 2017, realized proceeds for fund investors of $11.2 billion and raised $20.5 billion of new capital. Economic income was $249 million in the quarter and $896 million for the year. With this quarter's appreciation, all of our large current generation buyout funds are now in accrued carry.

That said, I would be remiss if I did not flag that funds can title in and out of accrued carry. Distributable earnings were $73 million in the fourth quarter with $85 million in net realized performance fees, partially offset by a $17 million loss in fee-related earnings resulting from the $31 million of Corporate Private Equity fund raising expenses.

Net realized performance declined in 2017 relative to prior periods on a lower level of realized proceeds. In addition, as previously mentioned, a lower proportion of exits produced cash carry versus recent periods. We are at a point in time where prior generations of carry funds have exited substantial parts of their portfolios and newer funds while accruing carry are not yet taking cash carry.

We expect this trend to continue into 2018, and as a result, net realized performance fees in Corporate Private Equity and for the firm overall are likely to be lower in 2018 than 2017. That said, we currently expect net realized performance fees to increase for several years following the short term debt.

Turning to Real Assets. We raised over $10 billion in new capital in 2017 in the segment. Invested $4.4 billion and Real Assets carry funds appreciated 19%. Fee related earnings and Real Assets improved to $34 million for the quarter compared to [ph] $13 million (08:13) in the fourth quarter last year as management fees increased $19 million to the new capital raised. Fourth quarter 2017 cash compensation was lower versus Q4 2016 due to a year-end drop in compensation expense. But for real assets and across all of our segments, investors should focus on full-year compensation levels as opposed to levels in any individual quarter to compare run rates.

Economic income was $98 million in the quarter and $250 million for the year or $280 million exclusive of the Urbplan charge in the third quarter of 2017. This was the second consecutive year Real Assets generated more than $200 million in Economic Income. Distributable Earnings were $50 million in the quarter and $90 million for 2017 excluding the Urbplan charge. Net performance fees of $243 million, highlights Real Assets, improving fund performance and future cash earnings potential.

Now, turning to Global Credit, formerly Global Market Strategies. During 2017, we raised $6.6 billion in new capital and invested over $2 billion in our carry funds. We also issued or reset $4.3 billion in CLOs and originated $2 billion in new loans and direct lending. Fee related earnings were just above breakeven in the fourth quarter and we're $14 million for 2017, exclusive of $68 million in insurance recoveries net of related commodities charges. Base management fees in Global Credit were up 20% year-over-year in the fourth quarter of 2017, excluding both the impact of our former hedge funds and catch-up management fees.

Fourth quarter cash compensation was lower compared to the fourth quarter of 2016, due to the exit of our hedge fund partnerships, but we expect Global Credit compensation cost to increase as we continue to invest in growing this business.

Economic income was $2 million in the quarter and $39 million for all of 2017, exclusive of the net insurance recoveries, substantially ahead of the loss in the segment in 2016. We expect Global Credit to produce better results as we build out the business.

Lastly, turning to Investment Solutions. We had another strong quarter to end a solid year. In 2017, Investment Solutions raised a record $6 billion, generated realized proceeds of $9.6 billion and invested $4.4 billion.

Fee-related earnings were $9 million in the fourth quarter and $32 million for 2017, up 38% compared to 2016. Fund depreciation was 3% in the quarter and net performance fees of $11 million capped a year in which Investment Solutions generated over $25 million in net performance fees. Economic income was a record $51 million in 2017 and more than double the level in 2016. In sum, we are pleased with Carlyle's financial results and activity in 2017.

With that, let me turn it over to Glenn.

Glenn A. Youngkin
Co-Chief Executive Officer, The Carlyle Group LP

Thank you, Curt, and good morning, everyone. The strong results that Curt just detailed reflect our real momentum as we enter 2018. While we are capitalizing on the industry's strong fundamentals, there were also a number of important Carlyle-specific trends reflected in these results. I'd like to focus you on three: Our growing earnings capacity, our fundraising momentum, and our increasing level of earnings diversification.

First, our growing earnings capacity. Curt discussed our expectation for higher fee-related earnings as we move through 2018 and continue into 2019. In addition to fee-related earnings growth, we are occurring substantial performance fees across the platform. This drove 2017's ENI per unit of $3.47 and should translate into growing cash performance fees over time.

What's most notable is the strong performance in the current generation of funds, funds that have recently reached or nearing the end of their investment periods. Funds like U.S. Buyout, U.S. Realty VII, NGP XI. This generation represents roughly $50 billion of capital commitments or nearly 40% more than its predecessor family of funds.

Importantly, the largest funds in this current generation are all now accruing carry. And, therefore, we are at the front end of a generational carry transition. As the older fund family passes the performance fee baton to this larger current generation. To give you a sense of scale, during 2017, our net accrued performance fees increased approximately $650 million, despite withdrawing from our carry balance, $550 million in net realized performance fees.

So, at a different way, our carry funds created for the firm after all related expenses, $1.2 billion in performance fees during the year. Assuming we continue to perform, this scaling effect should set the stage for a growing level of future accrued and realized performance fees. Although, the conversion of accrued performance fees to realized performance fees will occur over several years.

We also see the scaling effect in the total fair value of our carry fund investments, which increased approximately 30% over the past year to $71 billion, well north of our previous peak. These indicators, when combined with the growing fee-related earnings contribution, highlight our increasing earnings capacity.

The second key trend is our fundraising momentum. We have made great progress towards raising a $100 billion by the end of 2019, having already raised $57 billion. Our latest vintage U.S. buyout, Asia buyout and U.S. real estate funds are already larger than their predecessor funds, with additional capacity remaining. We still have meaningful work to do in 2018 as we continue to have a large array of funds in the market.

However, our investors continue to be supportive. The fundraising environment continues to be good and we currently expect to raise approximately $25 billion during 2018. Importantly, the fundraising success of this next generation of larger funds such as U.S. Buyout VII, Asia Buyout V and U.S. Realty VIII, underpins the next stage of future earnings growth.

Third, we are making progress towards diversifying our earnings stream across our segments. Corporate Private Equity has been our main driver of earnings. And with our continued great performance, that will not change in the near term. However, a higher percentage of our future earnings should arise from non-Corporate Private Equity businesses.

In 2017, our Real Assets segment contributed, exclusive of the Urbplan charge, $280 million in economic income. Investment Solutions contributed over $50 million; and Global Credit, whose progress is not yet fully reflected in our financial results, is expected to be a significant contributor over time.

The activity levels in these other segments continue to increase. Over the past few years, we have raised and invested more than half of our capital outside of corporate private equity. In fact, Real Assets, Global Credit and Investment Solutions have combined to account for 57% of fundraising and 55% of invested capital over the last three years. Assuming our funds perform as we expect, we should see an increasingly diversified earnings stream.

Now, before I hand it over to Q, let me address the impact of the tax cuts and JOBS Act on our business. We are frequently asked whether Carlyle will convert its public partnership to a C corp. It is very early days as to fully understanding the new tax laws impact. Our extensive analysis suggests that ENI and DE, in C corp structure, would be reduced by approximately 15%, similar to what you have already heard from others in the industry.

Further, as you know, converting to a C corp is a, no going back, kind of decision. So, while we are comfortable with our partnership structure today, we will revisit this topic, when appropriate, as the certainty related to both the drawbacks and benefits of a possible conversion become more clear.

The new tax law is a pro-growth, pro-business package. We do see a strong economy both in the U.S. and globally and expect the tax changes to further support this growth. For the majority of our portfolio companies, the benefit of a lower corporate tax rate outweighs the cost associated with potential limitations on interest expense deductibility.

Most of our portfolio companies have reasonable capital structures, are growing earnings and benefit from low interest rates. And while we are in the early days of assessing the tax plan, we do think it should provide an overall positive impact on our portfolio.

We had a good year in 2017, not only was our performance strong, we are also successfully

resolving or have resolved the legacy issues that required meaningful attention and costs over the past few years. We entered 2018 focused, with great momentum, and looking forward to the opportunities in front of us.

And with that, let me pass it over to Kew.

Kewsong Lee

Co-Chief Executive Officer, Head of the Global Credit segment & Chairman of the Executive Group, The Carlyle Group LP

Thanks, Glenn. Curt kicked off the call with a review of our results and Glenn highlighted several takeaways regarding our current positioning. At this point, I'd like to provide perspective on three particular areas of focus for our firm moving forward.

First, strengthening our investment platform. Maintaining investment excellence has been and will always remain our top priority. To this end, we are proud of the strong investment performance our teams have been able to deliver this past year. For example, Corporate Private Equity's 32% appreciation in 2017 was substantially higher than all relevant public market indices.

Our natural resources and real estate funds increased in value to 30% and 17% respectively. And as of year-end, our direct lending portfolio was generating approximately an 8.5% asset level yield with exceptional credit performance.

As we sit here today, the investment environment is challenging, with market valuation levels recently at all-time high, increasing volatility that we are all witnessing in real time, and the potential for upward movement in interest rates. It will be difficult for us to generate the same level of appreciation across our platform in 2018, as we delivered in 2017.

However, it's important to highlight that our underwriting approach does not rely on robust equity markets or excessive leverage to generate attractive returns for our fund investors, although strong markets are always a welcome tailwind. Rather, we rely on deep industry expertise, creative deal sourcing and active portfolio management to create value at our portfolio companies.

An internal analysis of our historical buyout deal suggest that on average over 70% of the returns of any particular deal are a result of incremental earnings growth at the portfolio company, as opposed to the impact of financial deleveraging or multiple expansion at exit. Combined with superior deal selection, this fundamental approach to value-creation is a major reason why we believe our global private equity investment platform is capable of generating 500 basis points to 1,000 basis points of annual outperformance relative to comparable public equity markets through an investment cycle.

Generating significant returns, however, is not the only attribute our fund investors require. Increasingly, our investors need attractive returns and the ability for us to invest responsibly larger and larger amounts of capital as their own inflows and obligations keep growing. Last year, we invested a record $22 billion across the firm, up from $18 billion in 2016. Looking back over a longer period of time, we invested $69 billion in carry fund capital for the past four years, a 40% increase from the four-year period before that.

Approximately half of this increase was from scaling and accelerating the deployment pace for existing funds, with the other half from investing new fund strategies, such as our long data private equity fund, NGP Energy and core-plus real estate just to name a few. And as we look forward from here, we expect many of our flagship funds to have 30% to 40% more committed capital than their predecessors, further enabling our growth potential in the future.

While our investment pace has been terrific in light of the current challenging deal and investment environment. It is appropriate to caution that our pace could move up or down due to M&A activity, market conditions, and/or the general economic environment. We currently expect and are planning for the investment environment to remain very competitive with high asset prices. And while it is difficult to predict what our actual level of deployment will be in any given year, we have confidence that our global platform of 650 investment professionals across 31 offices will allow us to invest wisely and deploy responsibly across cycles.

Moving on to the second thought I'd like to highlight. We are emphasizing and increasing the organization's orientation on growing fee-related earnings. Diversifying and growing FRE is important to help us manage the firm effectively throughout cycles, and ultimately, we expect it will improve Carlyle's valuation for our unitholders.

FRE is positioned to grow for several reasons. First, as I mentioned, we are raising larger funds and scaling up existing established strategies across our segments to leverage our broad investment platform. Second, we are not experiencing net fee compression on our larger funds. Third, we are focused on leveraging our fixed expense base as we grow. And finally, the growth of our Global Credit business, while still early, should materially bolster and diversify FRE, albeit over time.

Now, just having mentioned Global Credit, let me conclude with thoughts on this business, which is the third priority worth highlighting as an area of organizational focus. With $33 billion in AUM and over $200 million in annual run rate management fees already in place, we are well on our way to achieving our goal of building a large, balanced platform, capable of executing against a broad array of credit mandates that our LPs require.

Private credit as an asset class continues to accelerate as the search for yield intensifies for many investors. Assets in the private credit industry to-date total more than $600 billion, up about six fold since the year 2000. But even at this level, private credit is only about a quarter of the more than $2.5 trillion in private equity AUM. The private credit market today appears strikingly similar to where private equity was approximately 20 years ago and this market segment appears positioned to grow significantly over the next decade.

We have considerable white space to launch new products and expand the investment mandate's managed by our credit platform. In addition, we have already put in place teams capable of managing significantly higher AUM than they do today. Meaningfully growing Global Credit's assets and improving financial performance over time will not only further diversify our segment earnings composition, which Glenn touched on earlier, but also help us emphasize FRE growth as a key focus area.

Global credits growth will require hard work, time and patience; both on our part and yours, but we are confident that we are on the right track. With that, thank you for listening today. We enter 2018 with significant momentum across all areas of the firm and Carlyle is poised for future substantial growth. We are now ready to take your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question is from Craig Siegenthaler with Credit Suisse. Your line is now open.

Craig Siegenthaler
Analyst, Credit Suisse Securities (USA) LLC Q

Thanks. Good morning, everyone.

Glenn A. Youngkin
Co-Chief Executive Officer, The Carlyle Group LP A

Good morning.

Kewsong Lee
Co-Chief Executive Officer, Head of the Global Credit segment & Chairman of the Executive Group, The Carlyle Group LP A

Good morning.

Curtis L. Buser
Chief Financial Officer, The Carlyle Group LP A

Good morning.

Craig Siegenthaler
Analyst, Credit Suisse Securities (USA) LLC Q

So, two of your competitors have been active in building out their insurance business, leveraging permanent capital to grow their credit business and to ramp FRE. I'm just wondering, what is your appetite to compete in this space? And also, maybe remind us of your own permanent capital strategy, which includes your BDC business, too?

Kewsong Lee

Co-Chief Executive Officer, Head of the Global Credit segment & Chairman of the Executive Group, The Carlyle Group LP

A

Sure. Good morning, Craig. Thanks for the question. This is Kew. We have a significant amount of work going on, studying the insurance space as you just described. And so, there is a keen interest on our part to see how we can extend our asset management franchise into that very large opportunity set.

I think it's fair to say a lot of work has been going on and more to come on that front. With respect to permanent capital, clearly this is an area of strategic focus for us. We do have a lot of work streams going on here as well. Just to recap, we have about 4%, maybe 5% of our AUM in permanent capital vehicles, which include not only the BDC, but versions two and three of that BDC, as well as our long data private equity fund and a permanent capital vehicle in our real assets area, notably Carlyle Property Investors.

Finally, we do have [indiscernible] (26:52) that we formed within some of our portfolio companies, within the business segments to take advantage of that at the segment level. So, hopefully, that answers your question but it gives you a sense that we are very focused on these areas of opportunity and you'll hear more on these areas in days to come.

Craig Siegenthaler

Analyst, Credit Suisse Securities (USA) LLC

Q

Thank you, Kew.

Operator: Our next question is from Mike Carrier with Bank of America Merrill Lynch. Your line is now open.

Michael Carrier

Analyst, Bank of America Merrill Lynch

Q

Thanks, guys. Maybe just a question and maybe Curt, just you were talking about the realized proceeds in terms of the outlook for 2018, and then, how that would likely accelerate in 2019 and even beyond. Just wanted to get a sense, given the net accrued performance fee, like the build up there, and given the funds that it's included in, when we think about timing of when that's likely to hit distributable earnings, like what's the average time or has anything changed, I mean, in the funds today versus if we look at past cycles and what that delay is in terms of it hitting the DE?

Curtis L. Buser

Chief Financial Officer, The Carlyle Group LP

A

Thanks, Mike, for your question. Look, Carlyle, I think as you all know, we've had a very good history of generating a lot of cash carry. And that's really been driven off a very strong realized proceeds returned to our LPs, over $25 billion in each of the last six years. There's nothing fundamentally that's changing our realization curve as we see it today. Ex FX, expect it to remain strong.

The thing that – in terms of realized performance fees as opposed to realized proceeds, realized performance fees really is more a factor of mix and timing. And so, what we wanted to point out here was that the timing in 2018 was such that the exits that we'll be having, those exits will become an out of funds that are not yet taking cash carry to the same extent as in the prior periods. We see some of that obviously coming right back in 2019. But we wanted to kind of give you color based in terms of what we see today.

Long-term, really no different. And actually, long-term, I'm feeling really optimistic because you can see the growth in our accrued carry to $1.7 billion to strengthen the appreciation of portfolio. That sets us up nicely for continued strong cash earnings.

Michael Carrier
Analyst, Bank of America Merrill Lynch

Q

Okay. Makes sense. Thanks a lot.

Curtis L. Buser
Chief Financial Officer, The Carlyle Group LP

A

Thanks.

Operator: Our next question is from Bill Katz with Citigroup. Your line is now open.

Brian Wu
Analyst, Citigroup Global Markets, Inc. (Broker)

Q

Good morning. This is Brian Wu, filling in for Bill Katz. Thank you for taking my question. I'm wondering if you could provide some color on what you're seeing in terms of allocations to alternatives from your clients, if there has been any capital re-balancing trends worth noting? Thanks.

Glenn A. Youngkin
Co-Chief Executive Officer, The Carlyle Group LP

A

Great. Thanks, Brian. This is Glenn. I think we continue to see our global client base allocate more and more capital to alternatives, and it is a trend that started years ago and is continuing. We see that client base desire both a greater access to private equity, but also, to private credit, private energy, private infrastructure, and private real estate across the board.

And what these clients are doing is, in fact, recognizing that what they need is risk exposure as opposed to private investing and public investing. And what they're seeing is greater returns out of their private portfolios and, therefore, across the board, from sovereign wealth funds, to the large pension plans, through insurance companies and, of course, high net worth individuals, we continue to see increasing allocations.

One last thematic note is that the global sovereign wealth funds just continue to take a larger share of overall commitments and we continue to see strength in the private client base as well.

Brian Wu
Analyst, Citigroup Global Markets, Inc. (Broker)

Q

Great. Thank you.

Operator: Our next question is from Patrick Davitt with Autonomous Research. Your line is now open.

Patrick Davitt
Analyst, Autonomous Research US LP

Q

Hey. Good morning, guys. On the FRE comments, just historically, you always kind of noted that the operating margin on your fee earnings is probably structurally going to be much lower than the comps. Should we take this view today as maybe a shift in that view that you could – that you're going to take more of a view to trying to close that gap between your operating margin on fee earnings in the comps?

Glenn A. Youngkin
Co-Chief Executive Officer, The Carlyle Group LP

A

Patrick, thanks for the question. First, I think the real important message here is we're only going to see the $22 billion of pending AUM turn into higher management fees as we activate that capital during 2018. So, you're going to see our FRE ramp during the year, most significantly in the second half of the year and then achieving $75 million or more on a quarterly basis in the fourth quarter. And then, we expect that really to be more of a sustainable kind of run rate.

And so, we're actually very pleased with that from an actual margin perspective, which is the heart of your question. Not yet ready to comment on that. We have more work we want to do around that. But FRE is in terms of for you to build model things out. I think I've given you a pretty good data for 2018.

Patrick Davitt
Analyst, Autonomous Research US LP

Q

Thank you.

Our next question is from Michael Cyprys with Morgan Stanley. Your line is now open.

Michael J. Cyprys
Analyst, Morgan Stanley & Co. LLC

Q

Hi. Good morning. Thanks for taking the question. I just wanted to circle back to the cash carry point. Can you just remind us of your policy around taking cash carry? What needs to happen in order for you to be able to take cash carry? What sort of flexibility is there? What metrics can we track to kind of see the progress there when we might be out to see a fund begin taking cash carry?

Curtis L. Buser
Chief Financial Officer, The Carlyle Group LP

A

Sure. So, Michael, this is Curt, so we are very prudent about when we take cash carry. So, as we've said before and as laid out in our filings, obviously you have to have an exit to exit profitably and generally we're looking for funds to either no longer be in the investment period or be a very substantial investment because you still have a lot of dry powder to invest. Obviously, there is risk with respect to the performance of that.

We're looking, obviously, at the net IRR. And so, has the net IRR comfortably exceeded the hurdle rate for the fund. Another way of saying that is how deep is the fund really into accrued carry or is it at risk of paddling back into the accrued claw-back if you were to take carry on an exit that you will otherwise do?

Generally speaking, I would say, the things to look at is make sure that also that the funds returned a fair amount of its invested capital. It's hard to give a specific number on that, but often like, you see that numbers somewhere around half of the invested capital at cost, so that we've returned a fair amount. And, again, that way you know you've locked things in with respect to kind of the overall performance of the fund.

And then, you're looking at the remaining portfolio, and making sure that portfolio is in good shape and that you don't think that you're going to get surprised with respect to that outcome. So, I'd be looking at that net accrued carry number, where we are in the investment pace on it and how much we've returned to the investors.

Michael J. Cyprys
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thanks so much for the color.

Operator: Our next question is from Glenn Schorr with Evercore ISI. Your line is now open. [Operator Instructions]

Kaimon Chung
Analyst, Evercore Group LLC

A

Hi. This is Kaimon Chung in for Glenn Schorr. I just wanted to get your views on what happened in the markets lately and if that has changed how you're thinking about investing or harvesting? And also, maybe if you can provide an update on Q1 in terms of the pipeline for investments and exits? Thank you.

Glenn A. Youngkin
Co-Chief Executive Officer, The Carlyle Group LP

A

Okay. There are a lot of questions embedded in that question. Good morning. Yeah. Look, obviously, we've encountered a bit of spike in volatility in the markets. But taking a step back, first, I'd comment that from everything we see, the real economy continues to be strong. We are seeing broad-based growth, and while it's not accelerating, it's pretty steady and synchronous around the world. So, the global real economy seems to be okay.

Second, I've observed that the credit markets continue to function in an orderly fashion. The deals we have in the market haven't been negatively affected, the spreads haven't gapped out, and financings are getting done. And this is important because the credit markets are often a leading predictor of difficult times to come, and at least, as of right now that's not what we are seeing.

So, if you take all that and view it through the lens of what we are, which is a long-term investor with a focus on fundamentals and an approach of value-creation and operational improvement, the recent volatility feels more like a healthy correction after a long great run, as opposed to some sustained game-changing – a change. And our investment platform around the world across a wide variety of strategies is very much open for business.

But I think its early days on how the markets will really play out. So, we remain vigilant and probably the best thing to say is the recent volatility is just a really good reminder for all of us to avoid complacency in today's environment.

Curt, maybe you want to answer in terms of the second part of his question with respect to the shorter-term pipeline.

Curtis L. Buser
Chief Financial Officer, The Carlyle Group LP

A

Look, kind of as we've highlighted it before from a realization perspective, realization from an LP exit perspective, I do not really see fundamental change. Six consecutive quarters over $25 billion of exit activity. However, the mix of that from a yield in performance fees will decrease in 2018 based on what we currently see, but rebound strong in 2019. And that's really about the amount of forward-looking information I really want to provide.

Operator: Our next question is from Robert Lee with KBW. Your line is now open.

Robert Lee
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Great. Thank you. Good morning. Thanks for taking my question. I'm just curious, I mean, historically, the firm has always been very successful in having LPs invest across multiple funds. And given your robust fundraising cycle kind of across the platform, I'm just curious – I mean if you're seeing – starting to see more LPs, larger LPs, instead of, kind of, committing individually to the funds. If they're starting to come back to you and ask for more of a separate account structure, or something that's more flexible, that may allow you to kind of deploy the capital as you see more tactically.

Glenn A. Youngkin
Co-Chief Executive Officer, The Carlyle Group LP
A

Okay. Robert, it's Glenn. We'd lost you right at the end, but I think I got the gist of your question. So, the basic fundamental desire from our investors, to invest across Carlyle, has not changed at all and in fact it's increased. And we continue to see closing in on 70% of our capital come from investors that are invested in six or more of our funds. And so, what we frequently will see from our largest investors is a broad based conversation around things going on across the entire firm.

In the current fundraising environment, just given the demand for our funds, we have been quite successful in satisfying those investors' desire to be in those funds and in fact, introducing them to other parts of Carlyle. And so, one of the great benefits of the success that we're having in our private equity fundraising is in fact the opportunity to talk to all of those investors about energy and infrastructure and real estate and credit. And so, the other area, of course, that we continue to see real activity is some of the largest investors in the world who may not have fully formed private equity or private capital programs, are very interested in talking with our Solutions group. So, the whole firm when it comes to relationships with our largest investors really does benefit. Hope that answers your question.

Robert Lee
Analyst, Keefe, Bruyette & Woods, Inc.
Q

It does. Thank you very much.

Glenn A. Youngkin
Co-Chief Executive Officer, The Carlyle Group LP
A

Thank you.

Operator: [Operator Instructions] Our next question is from Gerald O'Hara with Jefferies. Your line is now open.

Gerald Edward O'Hara
Analyst, Jefferies LLC
Q

Great. Thanks for taking my question. Just looking here through the release, noted that there were 31 different investments in the Corporate Private Equity segment. Clearly, you've got a lot of dry powder or AUM kind of coming on board. Just kind of wondering if we can get your thoughts on sort of the sizing and what maybe kind of target deal that you might be looking for in the private equity segment with fairly significant capital. Thank you.

Kewsong Lee
Co-Chief Executive Officer, Head of the Global Credit segment & Chairman of the Executive Group, The Carlyle Group LP
A

Okay. Hi. It's Kew. First of all, let me just take a step back and say we did deploy a record amount of capital in the last quarter, but it's important to point out that that represents months, quarters, years of work. Deals take a long time to get done. And with our 650 folks across the world in every single industry and asset class looking for deals, it's basically, we're – it's the platform approach, which allows us to day in and day out have what we see right now, a fairly robust pipeline of deals.

Now, the other thing I'd point out is it's not – and I know your question was private equity-oriented, but it's just broader than private equity. About half of the amount of money we deployed last quarter was in private equity and the rest nicely spread out across our Real Assets, Credit and Solutions platform. That's the second thing I'd like to point out.

Now, in terms of target size of deals, in CPE, on average, last quarter we did about 14 deals, $3.6 billion in total, 17 follow-on. So, we're not really reliant on that one very large spiky deal, with respect to deployment.

Having said that, we have the capacity to deploy significant amounts of capital in deals, to the extent we think that they're attractive to do. And, of course, given the scale and the breadth of our funds, do have the ability in the market to do among the very largest deals that we can – that the market can – that are available to do. So, for us, it's more of a broad platform, day in, day out, looking up around the world in all industry sectors and as opposed to trying to find one very large spiky deal.

Gerald Edward O'Hara
Analyst, Jefferies LLC

Q

That's helpful. Thank you.

Operator: We have a follow-up question from Robert Lee with KBW. Your line is now open.

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

Q

Thanks. Thanks for taking my follow-up. I'm just curious, I mean, given the high level of fundraising out there. I mean, can you maybe update us when that's changing kind of Carlyle's own commitments to the funds? Has there been, I mean, a decision to maybe allocate more or less than you have historically? And just kind of curious how much of that is kind of off the Carlyle balance sheet versus kind of employee commitments?

Curtis L. Buser
Chief Financial Officer, The Carlyle Group LP

A

Hey, Robert. Thanks for your question. This is Curt. So, two big thoughts here; first, generally speaking, our commitments from the firm have not changed; generally running about 0.75% to 1% of the total fund.

More importantly though is what we – all of our partners and employees commit to the funds. Those numbers are pretty significant. So, in total, you'll see our aggregate commitment to our funds look more like 3% to 5% as we invest. And there's a substantial amount of that, obviously, it's being driven out of our people. That creates a great alignment of interest with our LPs, and we like that phenomenon.

You go back and you look at the balance sheet, you will see a nice growth in our investments on balance sheet. But that said, I would still say we run fundamentally an investment, a balance sheet-like model as you would think about it compared to others. Hopefully, that answers your question.

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

Q

It does. Thank you.

Operator: And I'm showing no further questions. I would now like to turn the call back to Daniel Harris for any further remarks.

Daniel F. Harris
Managing Director & Head-Public Investor Relations, The Carlyle Group LP

Thanks for listening and your attention today. If you do have any follow-ups, feel free to call Investor Relations or myself at any time, and we look forward to talking with you again next quarter.

Operator: Ladies and gentlemen, thank you for participating in today's conference. You may all disconnect. Everyone, have a great day.