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The Carlyle Group LP (CG)

Q4 2016 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen. Welcome to The Carlyle Group Fourth Quarter 2016 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 introduce your host for today's conference call, Mr. Daniel Harris. You may begin.

Daniel F. Harris

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

Thank you, Kevin. Good morning, and welcome to Carlyle's fourth quarter and full year 2016 earnings call. In the room with me today are our Co-Chief Executive Officers, David Rubenstein and Bill Conway; and our Chief Financial Officer, Curt Buser. Earlier this morning, we issued a press release and detailed earnings presentation, a copy of which is available on the Investor Relations portion of our website.

Following our remarks, we will hold a question-and-answer session for analysts and institutional investors. To ensure participation by all those on the call, please limit yourself to one question and one follow-up and return to the queue for additional questions. This call is being webcast, and a replay will be available on our website.

We will refer to certain non-GAAP financial measures during today's call. These measures should not be considered in isolation from or as a substitute for measures prepared in accordance with Generally Accepted Accounting Principles. We have provided reconciliations of these measures to GAAP in our earnings release.

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

Before I turn the call over to David, I would like to call your attention to a significant change in the presentation of our operating metrics. Beginning this quarter, and adjusted for prior periods, we now include activity within our Investment Solutions segment in invested capital, realized proceeds and fund depreciation. Investment Solutions had already been included in net funds raised.

Any metrics we discuss throughout the call will now include Investment Solutions activity unless specifically noted otherwise. During 2016, Investment Solutions invested \$4.3 billion in new capital, realized proceeds of \$8.6 billion for its investors, and produced fund depreciation of 12% across the platform, all of which are incremental to the results that would have otherwise previously been shown.

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

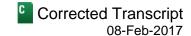
David M. Rubenstein

Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP

Thank you for joining our fourth quarter 2016 earnings call. Based on most of the metrics by which we measure ourselves, we have a very good year in 2016 and made progress on a number of important firm initiatives. We



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realized a record amount of proceeds for our investors of \$30 billion in 2016. We have averaged \$28 billion in annual realized proceeds for our fund investors for the past five years.

Our investment activity was robust. We invested a record of more than \$17 billion in 2016. Our carry funds appreciated 12% in 2016 compared to 6% to 7% for global indices, thus once again significantly outperforming public equity markets. Our underlying business performed well in 2016 despite difficult macro conditions, stock market volatility, persistent recession expectations, Brexit and obviously the uncertainty associated with the U.S. election.

Fortunately, we are operating in a very favorable environment for the alternatives industry and for Carlyle. For our fund investors, asset prices and significant levels of distributions have increased demand to allocate even more capital to leading alternative asset managers. We are certainly poised to benefit from this environment and the risk of a near-term recession seems to have dissipated.

Notwithstanding the strength of our underlying business and the favorable macro environment, our efforts to address some of the problems in one of our business segments, Global Market Strategies, impacted our unitholder distribution this quarter. Nevertheless, we declared a \$0.16 per common unit distribution for the fourth quarter, bringing our full-year distribution to \$1.55 per common unit for the year. Our decision to distribute \$0.16 to unitholders for the quarter broadly reflects a strong year that Carlyle had and are focused on providing strong returns for both our fund investors and our unitholders.

Over the four full-year since our IPO, we've averaged about \$850 million of annual distributable earnings and \$1.90 in common unitholder distributions per year. During 2016 and continuing this year, we have met head on some of the challenges to our business and we continue to pursue best-in-class personnel and financial resolutions for many of our business challenges.

We believe the result of these efforts will be a more focused firm moving forward to be more specific about the charges in the fourth quarter. Distributable earnings were negatively impacted by \$175 million in cash charges and our hedge fund businesses. Of that amount, our net \$150 million is attributable to losses from certain funds and vehicles associated with Vermillion Asset Management.

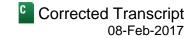
As you may recall, we took a \$1 million non-cash reserve last quarter related to these losses, which principally revolve around the misappropriation by third parties of oil owned by various Vermillion investment vehicles. We are actively pursuing remedies to recover some or all of these losses, but the amount and timing of recovery is uncertain.

In the fourth quarter, we repurchased investor interest in one of the Vermillion vehicles, thereby resolving potential claims and acquiring rights to be reimbursed from future recoveries. In addition to the commodities charge, we reached agreement during the fourth quarter with the founders of Claren Road Asset Management to sell our 63% stake back to them, and we incurred a \$25 million expense associated with that separation.

We have now fully separated ourselves from the hedge funds ESG, Claren Road and the hedge fund component of Vermillion, and we're now focusing our efforts in GMS away from liquid strategies and to our core and toward our core strengths in global credit. We are committed to growing that business and we are pleased with the new leadership enhancements in this business segment.

Now, let me make a few comments about the strategic positioning of Carlyle's business segments. We have an outstanding Corporate Private Equity business, which we believe is one of the largest, most global and most

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consistent performing in the world. We've been able to raise and deploy as much capital as we can responsibly manage and have developed a number of new scalable successful strategies in recent years.

Corporate Private Equity has also produced exceptional earnings for the firm and our unitholders, nearly \$3 billion in distributable earnings over the past four years. And as we invest larger amounts, assuming we continue to achieve attractive returns, we expect that Corporate Private Equity earnings will grow in the future.

Over the past four years, we have deployed \$25 billion across our CPE funds, nearly 30% higher than the prior full year period. Due in large part to our long-term track record and consistency, we are well-positioned for successful fundraisers for our major funds over the next few years.

Our Real Assets business is an emerging strength. We have built, we believe, the best global Natural Resources business of any diversified alternative investment firm in the world. We have more than \$15 billion of Natural Resource-focused AUM across three fund families, NGP, International Energy and Power.

Our performance relative to peers and broad-based market indices are strong, and that performance, specifically in U.S. energy, positions us well to embark on our next capital raising effort for NGP's 12th domestic energy-focused fund. NGP's current fund deployed \$2 billion in 2016 alone and is 91% invested or committed. In addition, we are preparing for a first close in our new global infrastructure fund, which will build yet another fund family within Real Assets.

Our U.S. real estate business continues to perform exceptionally well. Our opportunistic U.S. real estate funds with a combined \$10 billion in AUM, appreciated an average of 21% over the past year. Our latest vintage fund, Carlyle Realty Partners VII, is now 68% invested or committed in just under three years and is already in approved carry. And we have initiated fundraising for our next-generation opportunistic U.S. real estate fund. In addition, we have successfully launched our U.S.-focused Core Plus real estate fund, and we see substantial growth in this area.

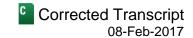
While we've had some legacy challenges in international real estate, we have put most of those behind us and we're now rebuilding our platform and working to raise new capital in Europe and Asia. We are confident we have positioned Real Assets for substantial earnings and asset growth.

We have successfully repositioned our Investment Solutions segment, focusing on our strengths and phasing out illiquid businesses that we did not believe would meet our investment standards. AlpInvest is almost finished raising its largest ever secondaries fund at over \$6 billion and is in the process of raising one of its largest co-investment programs ever. AlpInvest returns continue to be among the industry leaders.

Metropolitan's results and performance have also been solid and is about to embark on fundraising for its largest real estate secondaries fund ever. Over time, we expect the strong performance of the funds to translate into greater levels of earnings for Carlyle.

In GMS, as noted, we're aggressively working to address and eliminate problems, improve personnel and enhance our already strong global credit business. One of our highest strategic priorities is to grow the various components of our direct lending activities. We have recruited some exceptional new people to help grow this business.

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Over the past year, we generated \$14 billion in gross new commitments despite the fact that our largest funds were not in the market. More importantly, we are positioned to achieve much more substantial fundraising results over the next three years, given the mix of very large funds we expect to have in the market.

In sum, the vast majority of our businesses continue to operate well, and we believe that the continued strong investment results in these areas, when combined with a robust interest in our new funds from our large investor base, places us in a solid position for the future. Bill?

William Raymond Katz

Analyst, Citigroup Global Markets, Inc.

Thank you, David. I will begin by discussing our business activity for the year and the quarter and then address our goals for 2017.

For years, we've talked about our economic model, which consists of fund-raising, capital deployment, asset appreciation and realizations. When we perform well for our fund investors, this model creates a virtuous cycle that allows us to raise larger funds, generate more income and ultimately deliver higher distributions to our unit holders. During the year and the quarter, our business demonstrated strong performance by many metrics, which gives us great confidence in the long-term prospects for our business.

Our most important priority is finding great investments for our fund investors, and we were able to deliver on this during 2016, as we invested more than \$17 billion and we turned our prior investments into \$30 billion in realized proceeds for our investors.

One of our goals over the last several years has been to increase the capacity of Carlyle to invest more by raising larger funds, developing new funds and building on our natural resources, real estate and credit businesses. For example, this year, we invested approximately 50% more in our Real Asset segment than we have over the past few years.

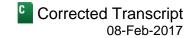
In Private Equity, we invested nearly \$8 billion in 36 transactions during the year, including \$2.6 billion in the fourth quarter. Remarkably, only five of our investments during the year were greater than \$300 million in size, which further demonstrates the value of our global platform. Even in a macro environment defined by high asset prices, we were able to find numerous attractive opportunities to invest around the world.

Among the larger investments in the fourth quarter were Novolex, a packaging company based in the United States; VXI, a global BPO business with operations in Asia and the U.S.; Schön Klinik, a healthcare clinic in Germany; ProKarma, a U.S.-based IT services company; and Logoplaste, a European packaging company based in Portugal. We also completed a number of small buyer investments in South Africa, Europe, Brazil, Peru, Japan and the United States.

In Real Assets, which includes natural resources, real estate and infrastructure, NGP continued its strategy of backing top-flight management teams in some of the most productive energy basins in the United States and deployed almost \$1 billion in the fourth quarter. Our real estate business, primarily in the United States, was also very active and invested more than \$500 million in the quarter in both new and follow-on investments.

Looking forward, we have announced a number of substantial investments, which have or will close in the first half of the year. Several of the most significant of these are Atotech, a global specialty chemicals business we acquired from Total Petroleum, which closed in late January; the China and Hong Kong-based McDonald's

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franchise, which we will acquire in partnership with CITIC; and WellDyneRx, a U.S. pharmaceutical benefits manager.

These and other already announced investments alone account for approximately \$3 billion in capital to be invested and obviously, we expect to be able to deploy significantly more capital throughout the year.

In addition to investing, we must create value and grow the value of the capital we've invested. In 2016, our carry fund portfolio appreciated 12% and appreciated by 5% in the quarter. Among the funds that showed particularly strong performance during 2016 were Carlyle Partners VI, which appreciated 29% in 2016, and Carlyle Asia Partners IV which appreciated 31% in 2016. NGP X and NGP XI both had exceptional performance during the year as well.

On the distribution side, we realized proceeds of \$30 billion for the full year 2016. For our Corporate Private Equity, Real Assets and GMS carry funds, we realized \$21 billion for our fund investors, our largest year ever. More than 60 Carlyle funds in these segments produced realization for our fund investors during the year.

And it isn't just our largest funds that are producing for our investors. For example, our Global Financial Services Funds have been very active on the exit front, fully or partially exiting six investments in 2016 for just over \$500 million in realized proceeds. During the fourth quarter, we produced \$8.7 billion in realized proceeds from exits too numerous to mention. We are active in most markets, block sales, recaps, M&A and IPOs of which there were three including PNB Housing in India.

To sum it up, 2016 was a strong year for many of the firm's operating metrics. We deployed a record amount of capital, grew the value of our portfolio substantially, and achieved record levels of realizations. This was great news for our fund investors who continue to trust us with large and growing pools of capital.

Looking to 2017, we have four key priorities. First, we need to continue to invest wisely, our most important job. With high prices and ample financing and market uncertainty, we believe that this is a difficult investment environment. The challenge for our over 600 investment professionals is to invest in those hard-to-find attractive deals and then help our portfolio companies create value.

Second, we need to make progress toward our goal of raising approximately \$100 billion from 2016 to 2019. We raised about \$14 billion in 2016 without many of the biggest funds in the market, and we have a lot of work in front of us. However, given our strong track record across many of the funds and strong indications of interest from fund investors, we feel confident about achieving this ambitious, but realistic goal.

Third, we need to build out our global credit business into a world-class powerhouse. With \$30 billion of AUM, an excellent team, and a solid track record across multiple strategies, we have a good platform to build on. However, that platform should be larger, more diverse, more global, and over time produce a larger share of earnings for our unitholders. And finally, as mentioned earlier, we need to clean up some of the issues that have negatively impacted us recently.

2017 is shaping up to be a year of transition as we complete the investment cycle for several major funds, eventually move these funds and others into carry, and raise the next generation of funds. As you have seen, our accrued carry balance and public portfolio have declined due to the robust exit activity, and we will work to build those back up during this period. During this transition year, we are focused on executing on our four key priorities. And if we can do so, and we believe we can, we're in a great position for substantial growth in 2018 and beyond.

Let me now turn it over to our Chief Financial Officer, Curt Buser.

Curtis L. Buser

Chief Financial Officer & Director, The Carlyle Group LP

Thank you, Bill. I will start with two comments. First, I want to comment on the \$175 million in 2016 charges in GMS. As David described, these charges relate to our commodities business and our separation agreement with Claren Road. As a result, our earnings for 2016 are \$175 million less than what they otherwise would have been.

Our third quarter results for GAAP and ENI included \$100 million of discharge, where as the full amount is included in the Fee-Related Earnings this quarter, as we have now resolved certain of these matters. We've attributed all of these losses to the GMS segment. I will discuss segment by segment results later, but we saw a meaningful progress in Corporate Private Equity, Real Assets and Investment Solutions in 2016 where our results met or exceeded our expectations.

Second, total assets under management dropped, in part, because of the disposition of the hedge funds. Total hedge fund AUM at the end of the third quarter was \$5.2 billion and was zero at year-end resulting in a decrease in assets under management. Our active realizations in the quarter largely drove the balance of the decrease in AUM, while new capital raised in the quarter was relatively light. Elimination of the hedge funds will have a positive impact on Fee-Related Earnings in 2017, while decreasing both management fees and expenses. Fee-earning assets under management is expected to grow again in 2018 after raising new capital and activating the related fees.

Moving on, across the firm, Fee-Related Earnings and Distributable Earnings for 2016 are lower relative to 2015 due primarily to the follow-up in earnings in GMS, as well as lower catch-up management fees in Corporate Private Equity and Real Assets. The lower catch-up management fees are consistent with what we said at the beginning of 2016, and reflect a few of the large funds we had in the market during 2016.

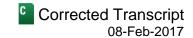
We continue to actively manage our operating expenses with cash compensation expenses 7% lower in 2016 than in 2015. Fundraising cost will increase in 2017 given the larger amount of capital that we expect to raise and this will put pressure on fee-related earnings in 2017 relative to 2016 since as you know we generally expense all fundraising costs upon raising new capital.

Economic net income would have been \$481 million in 2016 exclusive of the \$175 million in GMS charges as compared to \$397 million in 2015. Net accrued performance fees stood at \$1.1 billion at December 31, 2016 compared to \$1.3 billion at December 31, 2015.

Accrued performance fees have drifted lower as we have averaged net realized performance fees of over \$700 million annually for the past several years. We are encouraged by the early performance of our current vintage of carry funds and we believe that over time, we will rebuild our accrued carry balance. Finally, equity-based compensation was effectively the same between years.

Now, let's turn to a review of our business segments. Corporate Private Equity had another great year with record realized proceeds of nearly \$15 billion and distributable earnings of \$739 million. Fee-related earnings in Corporate Private Equity were \$91 million in 2016 down from \$106 million in 2015. This is largely due to a decline in management fees from 2015 from a fall-off in catch-up management fees as well as the effect of continued active realizations.

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In addition, cash compensation expense exclusive of performance fee related compensation decreased \$26 million in 2016, and lower fundraising cost resulted in lower G&A expense. For the fourth quarter, net realized performance fees in CPE were \$159 million, primarily from the final sales of public positions in Booz Allen Hamilton, CVC, and CommScope, as well as the sale of Zodiac Pools in our European buyout funds.

Net realized performance fees in 2017 will likely be driven more by M&A activity rather than block sales of securities in public companies. As a result, net realized performance fees in 2017 will likely fluctuate more on a quarterly basis than was the case in 2016.

Moving to Real Assets. Real Assets produced distributable earnings of \$49 million compared to \$73 million a year ago primarily due to a decrease in net realized performance fees. The decrease in 2016 is primarily due to realizing claw-back of \$36 million on two legacy energy funds during the fourth quarter.

In 2016, fee-related earnings were \$54 million in Real Assets compared to \$72 million a year ago when we earned \$15 million more in catch-up management fees. Realized investment income was negative \$21 million in 2016 due to realized losses from Urbplan.

As both David and Bill have discussed, Real Assets is well-positioned for meaningful growth, and this can already be seen in the increase in accrued carry from U.S. real estate and NGP, resulting in a substantial increase in economic net income for the segment in 2016.

Shifting to Global Market Strategies, distributable earnings in GMS was a loss of \$157 million for the year, reflecting the \$175 million in charges previously discussed. We expect growth in GMS fee-related earnings in 2017, as a result of turning on fees in two recently raised funds for the full year, Energy Mezzanine II and Carlyle Strategic Partners IV, both of which are substantially larger than their predecessor funds.

Our BDC continues to perform well, generating net realized performance fees of \$8 million in 2016. We will see cost reductions in 2017 related to the hedged funds, but expect to invest in people and infrastructure as we build our global credit business.

In Investment Solutions, we generated distributable earnings of \$20 million in 2016, up from \$13 million a year ago. Most of the earnings from this business have been from fee-related earnings with \$18 million generated in 2016, double the amount earned in 2015.

While Investment Solutions is a modest contributor to overall firm earnings today, we expect to see earnings growth in Investment Solutions this year and beyond as we raised incremental capital at market fee rates and as its funds produced greater net realized performance fees.

We expect Investment Solutions to continue to grow earnings both from raising AlpInvest's new secondary fund and additional products and over time from our increasing participation in their performance fees. As you may recall, we only participate in performance fees earned on investments made since our acquisitions, and the preponderance of those funds have carry waterfalls that are back-end loaded.

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

David M. Rubenstein

Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP



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Thank you. As we have outlined in our remarks, our core business had a very good year based on our key metrics. Obviously, we're disappointed that our efforts to address some of the challenges in our GMS segment resulted in losses in that segment. But by taking on these issues head on and investing to grow other parts of the firm, we're putting Carlyle in a good position to invest wisely, create value and create growing earnings for our unitholders.

We're now ready to take your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from William Katz of Citigroup.

William Raymond Katz

Analyst, Citigroup Global Markets, Inc.

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Thank you. Good morning. Thank you for taking my question this morning. I guess first question is, Dave, you mentioned that you still feel pretty – and Bill you mentioned that you feel pretty good about raising \$100 million over the next several years. Sort of wondering if you maybe fleshed it out a little bit in terms of where you see that opportunity? And just given the events of 2016, are there any incremental headwinds from investors to sort of taking a step back with all the noise going on with some of these other businesses?

William E. Conway, Jr.

Co-Founder, Co-Chief Executive Officer and Managing Director & Chief Investment Officer, The Carlyle Group LP



Well, we are confident that we can raise the money that we've set out to raise because the track record is pretty good at the things that we're going out for reloads of – and we have already been in the market talking to investors early this year and last year about some of these large fund raisers. And we've – the situation, I don't want to ever seem overconfident, because that's not a good thing to do. It's never appropriate.

But what we're finding now is that investors over the last year or so, in our funds and competitor funds that are good as well are saying that they are nervous that they're going to be squeezed out of funds and won't be able to get in them. And so, they want to know what do they have to do to get into the first closes of these funds and how much can they get in terms of the size.

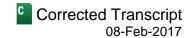
So it was different than a couple of years ago when people would wait till the end of the fund was raised and kind of come in at the end and maybe try to change the terms or somewhat. Now, what you're seeing is that people want to get in early. So I'm fairly confident. Obviously, the world can always change, but I'm fairly confident.

On the second point that you addressed, in all the years I've been doing this with fundraisers around the world and meeting with investors, virtually nobody ever asks about the performance of the parent organization. The people that go into the funds, they're interested in the deal teams, what those deal teams can do, and what they can generate for them. And they don't really tend to focus on the earnings per share of Carlyle, for a unit of Carlyle. This is not an issue.

So, the kinds of things that you have rightly been interested in, and the people in this call are interested in and we're interested in, are just not the concerns that we really pick up from the people who invest in our typical funds.

Does that answer your question?

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William Raymond Katz

Analyst, Citigroup Global Markets, Inc.

Yeah. That's very helpful. And then, just a follow-up would be on G&A, maybe Curt can give some perspective here. Could you help us just why moving parts in the fourth quarter, maybe level set with the fourth quarter look like? And how do you think about that into 2017 just given both the asset gathering what appears to be a bit of a pickup on the spend within credit?

Curtis L. Buser

Chief Financial Officer & Director, The Carlyle Group LP

Right. So, Bill, thanks for the question. So in the fourth quarter, if you look at, say, the total segment results for G&A, you'll see a number that's about \$157 million. That number includes \$75 million really coming through of the charges. That's really the \$75 million that hasn't been booked yet of the \$175 million, and then the net effect of the other two pieces, which is zero, so \$75 million.

So, if you think about the \$156 million net of \$75 million, that's about \$82 million in the quarter. The third quarter, if you pull out the \$100 million that we booked in the third quarter, that's \$74 million of expense and a year ago, it was \$74 million. Just as I've said before, we've generally been running in the low to mid-high 70s for G&A and that's really what I continue to see. We're very focused on, I'll say, core operating expenses, and we've been trying to manage that very carefully.

William Raymond Katz

Analyst, Citigroup Global Markets, Inc.

Okay. Thank you very much.

Operator: Our next question comes from Ken Worthington with JPMorgan.

Kenneth B. Worthington

Analyst, JPMorgan Securities LLC

Hi. Good morning. I wanted to focus on maybe some of the issues that Carlyle announced. I think there's been a disproportionate number of fund issues in recent years that have resulted in reserves and charges and some ongoing losses at Carlyle at levels we don't see at peers.

So in recent years, we've seen losses in Urbplan, there was a French tax issue. I think there was a \$50 million reserve at the end of last year. We've got the investment and exit of hedge funds in GMS and solutions as well, Vermillion this quarter. So we've had these sort of periodic and large losses.

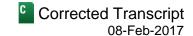
Can you help us identify what you think is maybe the underlying causes or reasons for the elevated level of special charges and losses? And are there steps that you can take to better protect unitholders from these sorts of charges or surprises in the future?

William E. Conway, Jr.

Co-Founder, Co-Chief Executive Officer and Managing Director & Chief Investment Officer, The Carlyle Group LP

Craig (sic) [Ken] (31:00), it's Bill. I'll take that question. I would say that Carlyle's – it's certainly a very fair question. Carlyle has, for years, been a business that is willing to try a lot of new things and do some experiments, and sometimes they work out great. I think the purchase of NGP or the partnership we have with

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them is an example. AlpInvest is an example. The business we built in Carlyle Global Partners is an example. Our International Energy business is an example.

On the other hand, it's certainly the fact that sometimes it does not work out the way we had hoped and we and our investors had hoped. Incidentally, our hedge funds for a number of years, three, four, five years ago, were making us an enormous amount of money, and obviously that has turned around recently.

I'd say in terms of what we can do to avoid these kind of pitfalls in the future, I think a couple of things. First of all, we're never going to stop experimenting. We're going to keep trying new things from time to time. And secondly, I would say that we believe we've put in some people in place who really can help us avoid these pitfalls going forward. I'm very pleased with the people we've put in at Global Market Strategies. There was an interesting article on The Wall Street Journal earlier this week about or last week about that. Some of the names were mentioned in that article, and I feel like we've really strengthened the team there dramatically. But we're, believe me, as the three largest holders of the units are in the room here, we take great – we spend a lot of time worrying about this as well.

I would say that, of course, we tend to focus on our core business, which is actually in good shape. And of course now we're thinking about the future as opposed to the past, but there's no doubt we've stumbled.

Kenneth B. Worthington

Analyst, JPMorgan Securities LLC

Right. And then, just as a follow-up question, you've got new leadership in credit. As you think more or about the plan to build out credit, can you just give us some more flavor on how you think that strategy will evolve? Are you leaning more or do you see the opportunity for lift-outs to kind of grow that business? I know you want to expand into related areas. Would acquisitions even be considered at this point? Just more flavor on how you plan on executing the build-out. Thank you.

William E. Conway, Jr.

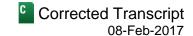
Co-Founder, Co-Chief Executive Officer and Managing Director & Chief Investment Officer, The Carlyle Group LP

Sure. Well, I think that some of the build-out is going to occur and is beginning to occur in some of the things we've already done. For example, our Carlyle Strategic Partners, which is our fourth distressed fund is three times the size of Carlyle Strategic Partners III. Our Energy Mezzanine business, which is very active, is more than twice the size of its predecessor fund as well. So, that's an example – I think that some of the strategies that we have in place will grow in size.

Secondly, I think some businesses will grow by, frankly, the demand. And I'll give you an example for that. That would be our CLO business. Despite the fact that it does have extensive capital requirements with the new risk retention rules that may or may not be repealed – they're part of Dodd-Frank – it's a business that we're very well-positioned. It's \$20 billion in assets. We probably have about 40 different CLO vehicles. They're the type of funds that went through the 2008, 2009, 2010 problems, which were problems for a lot of credit vehicles. Ours did very well during that time. I think the lowest had a return of 4%, and most of them were double digits. We have a great team running that business and I expect that that business can grow as well.

Thirdly, I think our BDC, a number of our competitors have much bigger BDCs than we do. We have been growing that, and I think we can continue to do that.

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There's some other places that we're looking at, expanding in European credit, maybe expanding in real estate credit. There's just some areas that we're still contemplating. But we have very high hopes and I think we have a very high team to implement that.

Kenneth B. Worthington

Analyst, JPMorgan Securities LLC

Thank you very much.

Operator: Our next question comes from Robert Lee with KBW.

Robert Lee

Analyst, Keefe, Bruyette & Woods, Inc.

Thank you. Good morning. I'm just curious, within PE, are you all rethinking, I mean, your long-term strategy of having kind of a broad range of sometimes smaller funds? And maybe in your fundraising to come, maybe moving away from maybe some smaller niche funds to really having just some bigger kind of more — whether it's North American or global funds that will do a wider variety of things and maybe that's one way of kind of helping FRE over time?

William E. Conway, Jr.

Co-Founder, Co-Chief Executive Officer and Managing Director & Chief Investment Officer, The Carlyle Group LP

Thanks for the question. This is Bill again. I'd say that, obviously we like to do funds that can really scale. Not every business can be a U.S. buyout, or Europe buyout, or an Asia buyout. But I think, generally, we like to see funds that we can get at least to \$1 billion in size, and ideally even multiples of that.

An example might be today, Africa. For example, I think we're early in Africa. I don't think there's another major fund that has an Africa business. I think our current fund is about \$700 million. Someday they'll be – 25% of the people on this planet will be in Africa, and so we're there, we're early, and we're working hard. We've done some pretty interesting deals there and we do it because we think we can grow it into a larger fund, multi-billion dollar fund over time.

On the other hand, as an example of, you're trying something didn't quite work out, we had a fund in the Middle East and it was – did business in Turkey, in the Levant and other areas. It was not that big. It actually did a wonderful job for our fund investors, made us a little carry. It was a good fund, good people. Given what happened with the Arab Spring and other things over time, maybe we thought we were just a little too early for that fund, and so we decided not to raise another fund at this time anywhere in the Middle East because we didn't think we could scale it.

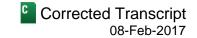
I think, we are a believer in feet on the ground. We have 30-plus offices around the world. I think we've learned that having people in the local market, speaking the local language, being native is critical. For example, we don't run our European business really out of London. We have five offices, London, Paris, Munich, Milan and Barcelona. So, we're not just kind of going to be in one market. It's the same thing with Asia where we have opened up 10 different offices. So, I think it's – our strategy is put people on the ground. I acknowledge we want to raise bigger funds that can be scalable. But we're still going to continue to do some experiments.

Robert Lee

Analyst, Keefe, Bruyette & Woods, Inc.



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Great. And then maybe just as a follow-up. Just kind of curious from an investing – current investing perspective, I mean there's obviously all kinds of uncertainty out there about future tax rates and border taxes and all kinds of things. I mean how is that – is that – how is that impacting your investment pace? Is it kind of – do you think it will actually slow it down for a while because on top of that you have high asset values and easy financing? So, how are you trying to adjust or do you think it will impact your pace of capital deployment?

William E. Conway, Jr.

Co-Founder, Co-Chief Executive Officer and Managing Director & Chief Investment Officer, The Carlyle Group LP

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Well, I have to say that it's – if I were to read the text of all my comments to you for the last 15 calls, I would tell you it's a difficult investment environment every single time. I haven't yet seen it, the occasion where I say, boy, this is really easy. We can make a lot of money here. So, it is always a difficult time.

I think you point out the issues that are affecting us today, and I'd add one to it. The issues of ample financing, very high asset prices, that's clear. The third one is really just the uncertainty. How's Brexit going to play out, what will President Trump – which of his plans will be approved, and the like. So, it's kind of one of those things where we are very sensitive to it. We're watching it all the time.

We are investors who invest frankly in what I'll call the micro. We're not really investing in the U.S. economy or the European economy or even the Spanish economy. We're investing in a particular company, a particular management team, a particular idea at a time. I think, right now, to phrase it a little differently, I don't think there's much room for error. That's because of the high asset prices, and the ample financing, and the competitive environment, and the uncertainty, you really have to be very, very focused. We have to have a real plan.

Today – maybe 20 years ago, in private equity, you make money on the first day. You've let these companies right, and you could grow the value a little bit. Now, everything you buy, you're not making money really on the first day. You have to really drill the value of those portfolio companies over time. We have far more operating executives. We have consistent 100-day plans that we implement on these portfolio companies once we buy it. It's one of the reasons why our appreciation tends to exceed the appreciation for the global indices, because we're really working the money very, very hard for our investors.

I guess, I have great belief in the ability of Carlyle to evolve. That – yes, the world would change. And yes, I don't know on exactly what kind of directions, but it will evolve and we will evolve and we will be ready to take advantage of those.

Certainly, in the current environment, there are some places where you have to perhaps be extra cautious. If you think that there's going to be a border-adjustment tax, then perhaps companies that are heavily relying on imports, maybe companies that you put with a – more time under the microscope, making sure you're paying fair value or the businesses have plans to deal with those kind of events. So far, I'd say it's added extra caution as opposed to cost us to not do an investment in any particular market.

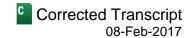
Curtis L. Buser

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Chief Financial Officer & Director, The Carlyle Group LP

Hey, Rob. It's Curt. Just to add on to that. This past year was the year of, I would say, a lot of uncertainty. But we invested almost \$18 billion even in the midst of that uncertainty. You can see on page three of the press release, it really came from the diversity of our platform. It really helped us achieve that even in kind of a hard investment environment.

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William E. Conway, Jr.

Co-Founder, Co-Chief Executive Officer and Managing Director & Chief Investment Officer, The Carlyle Group LP

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Yeah. And that showed up frankly in the pack that all the investments we did in Private Equity, only five of them were greater than \$300 million of which I think three were in the fourth quarter. So in some of these markets, you're going to actually build some businesses and grow the value that way too.

David M. Rubenstein

Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP

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Let me just add on the tax legislation that you alluded to. We sit here – we were talking from halfway between the Capital and the White House. So, I wish we had better insights as to what was going to go on there than people might be around the world, but maybe we do at some cases. But it's hard to really know what this Congress is going to do or this administration is going to do on the final tax legislation.

And I'd like to remind people that when we've had major tax legislations before significant, they usually take about 9 months to 10 months before they go through Congress. And so, as we sit here in February, it's very difficult for anybody to really know even for people based on Washington, what's going to happen. So, it's hard for us to think we're going to invest in this company or buy this company because we think the tax legislation will go one way or the other. I think it's very difficult for anybody to do that. I think we're cautious, as Bill said, but we're not depending on what Congress is going to do in this tax legislation before we make decisions.

Robert Lee

Analyst, Keefe, Bruyette & Woods, Inc.

Great. I appreciate all the color. Thank you.

Operator: Our next question comes from Mike Carrier with Bank of America Merrill Lynch.

Michael Anthony Needham

Analyst, Bank of America Merrill Lynch, Inc.



Hey. Good morning, everyone. This is Mike Needham in for Mike Carrier. First, just on the \$25 million insurance recovery for 4Q, can you confirm that's related to the petroleum loss? And is that the maximum possible insurance recovery? And then, are there any other outstanding items that we should look out for that can lead to additional charges related to petroleum or other items? Thanks.

Curtis L. Buser

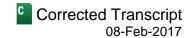
Chief Financial Officer & Director, The Carlyle Group LP



Thanks, Mike, for your questions. This is Curt. So, first, \$25 million of insurance recovery is really related to other legal matters that we had insurance recoveries for, but that was realized and recorded here in the quarter. Now, having said that, we are actively and aggressively pursuing recoveries on those commodity losses, both from the underlying cost issues, but also from insurance related to those positions. So, those are things that we're working on.

In the quarter, we put our best judgment together in terms of really thinking about how to fully reserve for this and fully address it based on the information that we have available. I can't tell you that there's not going to be anymore, but I can tell you that we've really put our best thinking around and came up with our best judgment based on what we know.

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Michael Anthony Needham

Analyst, Bank of America Merrill Lynch, Inc.

Okay. Thanks. And just a couple of questions on CPE. Performance looked pretty good for the quarter, but the carry was lighter. What drove the discrepancy. I think you guys called out CP VI as being a little bit weaker. And now on CP V, can you just update us on the percentage cash carry that you're taking? I think you're up to around 15% in the past. Just wondering if you're just taking a full carry.

Curtis L. Buser

Chief Financial Officer & Director, The Carlyle Group LP

Yeah. So, again, on CP V, that's right, that it's been about 15%, and we'll continue to look at that on with each deal we complete and exit at a profit. For CP VI, it had a great year, 29% appreciation in the year. In the third quarter, it went into accrued carry because of that fantastic appreciation. In the fourth quarter, we deployed almost \$1 billion in the fund. And generally, when we deploy new capital, it will get marked at a little bit below cost because the transaction fee that you incurred on the deal on certain cost are not fair value, and so you end up with a slight depreciation, if you will, on the fourth quarter.

Now, the interesting phenomenon is that because that fund is in the catch-up phase of carry, then the carry in the third quarter, it will toggle a whole lot here until it fully invest. And so, in the fourth quarter, on an accrued carry basis, you see the effect of Carlyle Partners VI offsetting a lot of the great appreciation elsewhere in Corporate Private Equity. And I'd be remised if I didn't point out, we had \$159 million in realized performance fees on a net basis in the fourth quarter. So that business is continuing to really kind of do a great job on all fronts.

Michael Anthony Needham

Analyst, Bank of America Merrill Lynch, Inc.

Okay. Thanks.

Operator: Our next question comes from Alex Blostein with Goldman Sachs.

Alexander Blostein

Analyst, Goldman Sachs & Co.

Hey, guys. Good morning, everybody. So, I wanted to touch on the outlook for FRE for 2017, and more importantly I guess 2018. You guys are about to embark on the kind of the \$100 billion fundraising initiative. It sounds like there's obviously going to be some lumpiness with that in terms of recognition of management fees, but also some upfront expenses. So help us understand, I guess, putting altogether what it sort of means for FRE run rate in 2017? And I guess, more importantly, some of that AUM comes in, in 2018. How should we think about the incremental margins on those revenues?

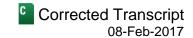
Curtis L. Buser

Chief Financial Officer & Director, The Carlyle Group LP

Alex, thanks for the question. It's Curt. So, I'm always careful about forward guidance. I don't like to do it, but I do like to kind of help you kind of think it through a little bit. So, the right place maybe to anchor on is how I think about what we've done in Q3 and in Q4 in terms of fee-related earnings, and when you pull out the noise, it's roughly \$30 million. So, I guess, it's the kind of the right place to start.

So we remain very focused on costs, and we're also in this process of raising a lot of capital. That capital, as we raise it, will have a fundraising charge as we close on those commitments. That will be front-end loaded. But once

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we didn't get the fees turned on, those back end closes, they have the benefit of catch-up management fees, which really hurt us this year because we didn't have any of our big funds in the marketplace. So we were lower on catch-up management fees.

I think we're going to cycle back into a period where we'll start to see catch-up management fees again, but that's probably not going to have a material effect until the back half of 2017 or 2018. I think, really, when you're going to see the lift again in Fee-earning AUM it is in 2018 after we have successfully raised a fair amount of capital, activated fees, and you'll then start to see uplift again in 2018.

Alexander Blostein

Analyst, Goldman Sachs & Co.

Got it. That's helpful. Thanks. And just a clarification issue, I guess. Are there any outstanding issues still remaining with respect to the legacy hedge fund businesses that might create any sort of contingent liabilities for you guys that could impact [indiscernible] (48:59)? Just want to make sure that this is it and it's been kind of cleaned up.

Curtis L. Buser

Chief Financial Officer & Director, The Carlyle Group LP

So, look, I mean, it's very hard to say no more or all done, but there's zero AUM in the hedge funds. The commodities business, we took this charge. It was our best judgment. I cannot tell you that it is all behind us, but we're doing our best to put it behind us. And more importantly, we're aggressively pursuing recovery avenues in this vehicle. So, it's a tough challenge, but we're taking it head on.

Alexander Blostein

Analyst, Goldman Sachs & Co.

Got it. Great. Thanks so much.

Operator: Our next question comes from Gerry O'Hara with Jefferies.

Gerald Edward O'Hara

Analyst, Jefferies LLC

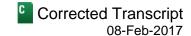
Okay. Maybe one more on the investment outlook, you mentioned being well-positioned in the U.S. real estate or I guess Real Assets in general. But I'm just kind of curious if you could perhaps elaborate a little bit on the U.S. real estate side of things, types of investments, geographies, and how you are positioning for or ahead of sort a rising rate environment? Thank you.

William E. Conway, Jr.

Co-Founder, Co-Chief Executive Officer and Managing Director & Chief Investment Officer, The Carlyle Group LP

Sure. This is Bill. The U.S. real estate business in United States is in two flavors, really. First is the opportunistic real estate business where we're investing now our seventh real estate fund. We tend to have a strategy that is very focused on demographics and discrete markets rather than GDP growth, and it is a strategy that served us very, very well. I think virtually all those funds, real estate funds, have gone to carry. It's been a great performance.

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They tend to do relatively smaller deals. It wouldn't be unusual in a Carlyle U.S. real estate fund to have \$5 billion of capital and have 100 different investments in that fund, so all different strategies than other people might employ. And as I said, our demographic focus is something I think that sets us apart.

And demographics mean, for example, other than me, almost everybody's getting older or maybe student education or storage or data centers or whatever it may be, are examples of places that perhaps are less dependent on GDP growth, like, for example, the office market would be one kind of example.

The second flavor of U.S. real estate is in our core real estate business that's different really. And most of the business we have, our historical business is opportunistic. In that business, we are trying to earn somewhat higher rates of return than we were in the core real estate business. We have been raising that fund now for a couple of years, well over \$1 billion. We continue to build it. It's able to use the talent and the track record that we've used in our other United States real estate business. And so far, the results there are encouraging as well.

Outside the United States, our real estate business is relatively small but actually it's become pretty active. In Asia, we're focused on businesses like data centers and logistics, done some interesting transactions there recently. And in Europe as well, I think, we're focused on rebuilding that business. We've been working on a couple of years, improved the talent there, and I'm very pleased with the recent developments there but not a meaningful contributor to our earnings at this time.

Gerald Edward O'Hara

Analyst, Jefferies LLC

That's helpful. Thank you. And then just, I guess, one follow-up within real estate. You mentioned – I guess, a follow on close here for the new core-plus real estate fund in the quarter, can you help us just maybe size where you think that fund could go just the total AUM? And actually, are the return kind of expectations, any – I guess, where are they relative to just to the core real estate? Thank you.

David M. Rubenstein

Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP

Okay. I would say, in terms of the core real estate fund, it's going to get bigger. Exactly how much bigger and how soon, I don't know. I see the progress. It's a business that frankly you have to face that business because it's an open-ended vehicle. So, your assets under management and your investment ideas, they're both growing at the same time. In most of our fund businesses, you raise the fund and you invest the fund. Here, as you fundraise, you invest and vice versa. You find deals to – that you think are attractive, then you will raise the money for those investments.

In terms of rates of return, they'd be lower in the core real estate area. At least, initially it looks like they will be and to be expected as they thought to be deals with lower risk.

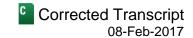
William E. Conway, Jr.

 $\hbox{\it Co-Founder, Co-Chief Executive Officer and Managing Director \& Chief Investment Officer, The \ Carlyle \ Group \ LP}$

The core-plus. On the core-plus, that's a public vehicle – or not a public vehicle, it's a open vehicle. So, it's a little bit different in the fundraising than a closed vehicle. So, when you get those certain size and we suspect it's probably around \$1 billion, when you get to that size, you then find the consultants that were advising a lot of people who want to invest in this are feeling more comfortable that it's going to be a very viable entity.



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So, we are approaching a size where we think we get – the consultants will begin to look favorably upon us – plus a track record of what they've invested in so far has been pretty well. So, I think it's one of these things where you get to a certain level and then it kind of – once they geometrically goes up, but it goes up fairly dramatically once you get to that level and I think we're getting close to that level.

Gerald Edward O'Hara

Analyst, Jefferies LLC

Great. Thank you.

Operator: The next question comes from Brian Bedell of Deutsche Bank.

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

Okay. Thanks. Good morning, folks. Bill, I know it's obviously very uncertain in terms of what type of reform we get out of Washington, but under the assumption that we do get some reduction in interest deductibility, the potential of expensing upfront capital expenditures and maybe your view on how cross border trade may contrast with potentially faster economic growth. I know there's a lot of things in there, but how do you think about the deployment environment under these types of scenarios and then in conjunction with that, the realization backdrop?

William E. Conway, Jr.

Co-Founder, Co-Chief Executive Officer and Managing Director & Chief Investment Officer, The Carlyle Group LP

Well, first, thanks. I appreciate the question. I hope you'll appreciate my answer as much as I appreciate your question. And the answer starts with a great big I don't know. But let me give you an example of some things that are going on.

For example, one might say that the inability to deduct interest expense would be a big negative for the Private Equity business, and for any particular transaction. Well, I think, looked at in isolation, that may be true, but of course it's not in isolation. One of the other key kind of pillars of the one of the current plans that's being proposed is immediate deductibility of capital spending.

So, imagine, one borrows \$100 million and puts \$100 million into capital as expenditures. We'd have a situation where you wouldn't be able to deduct the \$5 million a year, let's say, of interest expense on that \$100 million you borrowed. On the other hand, you would immediately be able to deduct the \$100 million that you spent for capital spending, which would obviously overwhelm the interest deductibility.

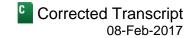
I use that very small and very simple example to just say, there's a lot of moving pieces here, and I don't know enough to give an answer as to how it's going to affect us. Obviously, I'm sensitive to all these different things. Located where we are and with the various experts we have, we are right on top of it, but I don't know how it's going to come out. And we're sensitive to it. We're watching every day. I think it affects our judgment a little bit right now, but more to come on that, I suspect. And I apologize for not giving a square answer that is as clear as your question was.

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

No worries. I know it's obviously difficult to completely assess, but that's a good color.

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And then, maybe just talk about – I think, Bill, also you talked about the four different strategies in 2017 or the four priorities. Maybe just two of those, the fundraising one, obviously, the \$100 billion through 2019 would augur for a pickup in that pace, kind of a doubling of the 2016 pace. Do you see that hitting stride in 2017 or more of a rampup as we get closer into 2018 and 2019? Then, you also did mention like cleaning up more of the issues; maybe if you can talk about what's left to do in that regard.

William E. Conway, Jr.

Co-Founder, Co-Chief Executive Officer and Managing Director & Chief Investment Officer, The Carlyle Group LP

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Well, in terms of the fundraising, actually I would maybe just answer a little different question. First of all, I'd be disappointed if we don't raise a lot more in 2017 than we did in 2016 without putting a number on it. I think that if you think about where we're going to raise it, well, funds like our U.S. buyout, Europe buyout, Asia buyout, Japan buyout, I expect those funds, those big successful funds over a long period of time, will each be bigger in the next generation than they were in the last generation. That is an example.

And I think the other thing that you'll do, if you can raise these bigger funds, can you invest them? As I said, we have 600 investment professionals around the world. Over the 25 or 30-year history of investing funds at Carlyle, I'd say that I think we've invested more than 90% of what we actually raised through our funds, and I think we'll continue to be able to invest in that kind of range.

I don't have anything more to add on the cleaning up, let's say, some of the other businesses. We're primarily there, of course, referring to our Vermillion commodities issues.

David M. Rubenstein

Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP



On the fundraising, I would add this that there are two large groups that I may have mentioned before are really dramatically increasing their amount of money that they're putting into private equity and other alternatives. That is the sovereign wealth funds which are dramatically growing in size, and they are coming in in very large amounts in our funds and other funds of our peers and also high net worth individuals through feeder funds or through family offices directly. And we continue to see an explosion of interest from those two groups, not that the other groups that normally invest with us aren't very interested as well.

We have also the fact that many people who invest in one of our buyout funds want to be in second one, which is to say I think they're in U.S., they might want to be in Europe, they might want to be in Asia. And we are talking to many of our investors about how they want to allocate their funds or what they would like to do in terms of all the funds that we have coming to the market, and they seem quite receptive to the idea of going into multiple funds that have different strategies even though they're all Carlyle funds.

Curtis L. Buser

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Chief Financial Officer & Director, The Carlyle Group LP

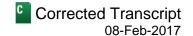
Yeah. I think the – I would just add, David, there because I think the pressure to invest from our LPs is very strong today. They see the relative historical track record of private equity versus other asset classes, and our investors really want us to invest. And I think they see what we've done in the past. Sometimes, I think that their standards are lower than ours in terms of their desire to get the money invested in our way that we think about what we consider the kind of performance that we want to generate.

William E. Conway, Jr.

Co-Founder, Co-Chief Executive Officer and Managing Director & Chief Investment Officer, The Carlyle Group LP

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If you look at general market projections from your organization that are on the phone, your people that do this kind of projections very often, you will see that, generally, over the next five years to 10 years, the projections for public market returns and/or public fixed income returns are fairly low compared to what the projections are for private equity returns. And that to some extent is fueling an interest by a lot of investors to get these much higher returns that are projected by others, not by us, to be likely to occur.

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

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All right. And just on the fund-raising, the Global Market Strategies and the buildup of that is that I would assume a big part of \$100 billion goal and do you intend to do basically all of that organically or most of it organically?

Curtis L. Buser

Chief Financial Officer & Director, The Carlyle Group LP

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I'd say, it is a big part of it, raising the money for Global Market Strategies. We occasionally have looked at some small tuck-in acquisitions in the Global Market Strategies area. An example would be in the CLO business. In the last few years, we purchased a number of CLO managers to really get – build additional scale in that business. We had big scaling before that. Some people wanted to exit the business because – partly, I think, because of the capital demand that it has. That's an example of what we've done. So, we look, but I think most of the growth will be organic.

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

Great. Thanks for taking my questions.

Operator: Our next question comes from Michael Cyprys with Morgan Stanley.

Michael J. Cyprys

Analyst, Morgan Stanley & Co. LLC

Hi, good morning. Thanks for taking the question. I just want to circle back to the legacy energy funds. Look like you had about a \$36 million clawback that weight on the net realized performance fees. So, just curious what the remaining exposure is and how we should think about the timing and likelihood for any additional headwind coming through there.

Curtis L. Buser

Chief Financial Officer & Director, The Carlyle Group LP

Hey, Mike. This is Curt. Thanks for your question. There are two remaining funds that we co-manage that we have not realized. They're full accrued from where they are on a clawback perspective. There's probably \$22 million or \$23 million net exposure to the firm at this point based on values as of year-end.

Michael J. Cyprys

Analyst, Morgan Stanley & Co. LLC

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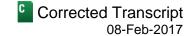
Okay. So, \$22 million to \$23 million exposure, max exposure left, is that on a max basis or...? Okay.

Curtis L. Buser

Chief Financial Officer & Director, The Carlyle Group LP

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Well, I mean, that's – based on – they are essential in close to full callback, that's the amount net of tax as of 12/31. That's on our books.

Michael J. Cyprys

Analyst, Morgan Stanley & Co. LLC

Okay, great. And then, just shifting back to the deal environment, definitely hear you in terms of the deployment environment being a bit more challenging, but just curious if you could talk a little about the competition for putting capital to work today. There's certainly a lot of dry powder out there in the industry, and you're surely not the only ones with a lot dry powder and raising more funds or...

So, just curious if you could talk a little bit about maybe how the competition for finding deals has evolved over the past year or two, and how are you adapting to that in today's environment relative to peers?

Curtis L. Buser

Chief Financial Officer & Director, The Carlyle Group LP

I think the competition is intense. I think that we have some tough competitors. It's interesting. When we look at our transaction that might come from one of our funds somewhere in the world, we look at some of the other people who're competing against, and sometimes I look at the people who are competing against us, and I say, geez, we're in the wrong place. This is not our kind of deal because the competition doesn't look right to me.

Years ago, sometimes there wasn't a kind of competition there is now, but I'd say for the last 5 or 10 years, the competition has been intense and continues to be so. I think sometimes in some markets, that's what I call, the usual suspects, the big U.S. global firms. Other times, because we're broad and global, we're competing with a lot of local firms. It might be in India or China or Japan. Some places of Europe where there are local competitors who are big strong tough competitors.

And it really goes back to and it really goes back to what you're going to do with this business once you've made the investment, how are you going to try to improve the company's operations. We're blessed, I think, generally with having some really great management teams in our portfolio companies. I think we're pretty dependent on having good people to do those jobs. And I hope we're going to continue to be able to count on them to do them.

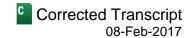
David M. Rubenstein

Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP

All right. Let me just add two points. One is that we are seeing some strategic competition. It's not only the private equity firms, strategics have a lot of cash and their stock price [indiscernible] (01:05:28) than they were five years ago.

Another point I wanted to make is that price is not only decider in these kind of situations. Very often firms like ours get around the same price with some of our competitors or even some strategics. What the seller often wants is certainty that you're going to close, you're not going to renegotiate the terms, that you're going to treat the employees well, and that you're really going to honor your promises. And on those scores, we actually do pretty well. So, we think when there's a tie on price, we actually come out pretty well, and that really gets to the reputation of our team and our firm. And we think that's one of greatest values. The reputation we have with CEOs around the world, many CEOs who run our companies after the company is sold, they often become, if not advisors to us, they become investors with us because they like the way we treat investors and they like the way that we handle ourselves. So, we actually are raising money sometimes from our former CEOs who are very happy with the organization that they've been part of.

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William E. Conway, Jr.

Co-Founder, Co-Chief Executive Officer and Managing Director & Chief Investment Officer, The Carlyle Group LP

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Yeah. And even – let me just give some examples here, if I can. In my prepared remarks, I mentioned Atotech and I mentioned McDonald's China and McDonald's Hong Kong. Those are both great businesses and they were competitive processes. And ideally when you win, you don't want to win because you just paid a lot more than everybody else, as David was saying. So, for example, in the case of McDonald's China and McDonald's Hong Kong, it's a business where McDonald's kept 20%. We and CITIC bought 80% of the company from McDonald's China. Obviously that we're a global firm with our track record was very helpful. We have a big long-term very successful business in China that has been good for us and good for our investors over time.

And CITIC was a great partner. CITIC is a state-owned enterprise in China, very well respected operating and financial company, and frankly I think when we had them as our partner plus Carlyle, I really thought we were going to win that process and win it at a good price, and hopefully that will turn out to be the case.

Similarly, in the case of Atotech, this is a company that we bought from Total. It was obviously a very high priced multi-billion-dollar acquisition. The business is about half in Asia and half outside of Asia, although Total is based in Paris, the business of Atotech was based in Germany. It's obviously big supplier in the U.S. market. So, there were a lot of things going on.

I think, the fact that we were well represented in a lot of different places, was very helpful to us, the geographic reach of Carlyle. We've got a pretty good reputation on some of the chemical deals we do, and so it was once again another set of circumstances where you try to say, well, do we really have an advantage in going after any particular idea?

I think if you're looking at a business and the business could be bought or sold on eBay, probably it's not the kind of deal that we're going to do. It just kind of go to the highest bidder, and there are going to be a 100 people in the process, and you're going to be wasting time and money to do it.

That's two examples of recent developments that maybe show kind of what we're looking for the kind of deals we do.

Michael J. Cyprys

Analyst, Morgan Stanley & Co. LLC

Great. Thank you. Appreciate all the color.

Operator: The next question comes from Glenn Schorr with Evercore ISI.

Glenn Schorr

Analyst, Evercore Group LLC

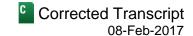
So, lots of talk about potential opportunities in infrastructure these days, rightfully so, I'm a believer. Curious if you have thoughts on timing and size of opportunity, and then what you're hearing from clients in terms of their interest and then what funds do you now have in motion to capture that opportunity. I know there's a lot there. Thanks.

David M. Rubenstein

Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP

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First, we would prefer not to tell everybody what we're going to be doing in infrastructure, and we hope nobody – anybody who's listening to this will not want to compete with us because it's a terrible business to be in. Please don't go into this business.

To be very serious, if you talk to any of the global pension funds or sovereign wealth funds, they now have taken infrastructure out of kind of a basket of maybe real estate and given its own category. So they all seem to have money available for infrastructure. And their view is that infrastructure is of two types. One, buying existing infrastructure often called brownfields where you're buying something existing, I would say, turnpike and you're going to make it more appealing as we've done once before in the United States or you're doing what's called greenfields where you're building something de novo.

We are raising a, what I'll call, OECD fund, which is to say we're going to focus on Europe and the United States and the developed markets, more or less, Australia, Canada. Things like that are fairly developed. And we're willing to do greenfields, but we're mostly focused, I would say, on some existing assets. We find a lot of interest in it. We've got a fairly good team together. We've been in the business for a while. We've added to the team and I would say there's more interest in this than I would have thought.

Now, what's being talked about in Washington obviously fuels interest as well what the Congress will allocate more money to infrastructure, we don't know. But just around the rest of the world, there's just a lot of interest in this now. And I think our ability to be a major player here among the large firms like ours, I think will be significant. So, we're very bullish on this area.

Glenn Schorr

Analyst, Evercore Group LLC

Okay. I appreciate that. Just one follow-up I had is, I think David spoke recently and talked about the U.S. dollar potentially being the greatest risk to the global economy this year, in 2017. And I don't disagree but I'm curious on how do you manage for that? How do you manage at the firm level? How do you manage at the portfolio company level or is that just stating a risk and...

David M. Rubenstein

Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP

Well, let me say what I think I said which was that it was a significant potential challenge because the dollar was getting stronger. Since then it has pulled back from where it was. But, Bill, you may want to comment on more than me.

William E. Conway, Jr.

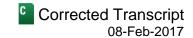
 $\hbox{\it Co-Founder, Co-Chief Executive Officer and Managing Director \& Chief Investment Officer, The \ Carlyle \ Group\ LP}$

Well, I think we're not currency experts. Most of our funds, for example, tend to be – are frequently denominated in local currency. For example, Japan fund is denominated in yen. We have a RMB fund in China and we have a number of big euro funds. So, those funds are investing in deals in their own markets, in their own currency. And while they have to be sensitive to the dollar, non-dollar funds actually have the chance to do very well if the dollar stays extremely strong because depending upon what happens, they may well have advantages to have relatively weaker currency. I think historically strong dollar has led to major problems for emerging markets because they tend to have a lot of dollar-denominated debt in those emerging markets.

I think it's a risk, it's a risk we actually managed. I think when you're making an investment in an American company of [indiscernible] (01:12:48) million dollars, there's no hedge that you can put on. It's just the sensitivity



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to the fact that if this business is an exporter and if the dollar stays very strong, then as a headwind – the headwind that has to be managed by those companies. If you've got a good manager, he or she will do what they need to do to manage around that problem or that – maybe they'll even turn it into opportunity.

Glenn Schorr

Analyst, Evercore Group LLC

Okay. Thanks very much.

Operator: And I'm not showing any further questions at this time. I would like to turn the call back over to our host.

David M. Rubenstein

Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP

Thank you for your time listening to the call today. If you have any follow-up questions, feel free to give Investor Relations a call. Otherwise, we look forward to speaking to you again next quarter.

Operator: Well, ladies and gentlemen, that concludes today's presentation. You may now disconnect. Have a wonderful day.

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