PARTICIPANTS

Corporate Participants

Glenn A. Youngkin – Chief Operating Officer, The Carlyle Group LP

Other Participants

Matthew Kelley – Analyst, Morgan Stanley & Co. LLC

MANAGEMENT DISCUSSION SECTION

Matthew Kelley, Analyst, Morgan Stanley & Co. LLC

Good morning, everyone. We're going to get started, so if everybody can take their seats. So I have the pleasure of introducing Glenn Youngkin, Chief Operating Officer, Managing Director for The Carlyle Group.

Glenn sits on Carlyle's Management Committee. Previously served in the roles of Interim Principal Chief Financial Officer, headed the UK buyout team, among others. So, Glenn, second year you've joined us, really appreciate it. Topical time for Carlyle, little bit more than a year out from the IPO now.

So thanks for joining us and I'll turn it over to you.

Glenn A. Youngkin, Chief Operating Officer

Great. Well, thank you. Thank you, all, for being here, and thanks to our friends at Morgan Stanley, in particularly you, Matt, for having us. I want to introduce my colleague, Dan Harris, down here in the front who runs all of our public company investor relations. He's happy to answer any questions you have if I can't.

So what I want to cover today are three main themes. The first one is that the Carlyle engine continues to run in a very consistent and steady way. The second one is that our portfolio has performed well and we have a number of funds that are accelerating towards carry. That's on top of the 23 funds that we already have in carry today.

And then third, I really want to share with you some of our strategic observations and plans on how we're growing. Carlyle from its inception has been an innovator and a grower. We continue to do so and I want to share with you what we're going to do on the growth side in order to increase and continue to increase our earnings power.

So first, just as a table setter. So we went public a year ago. We have a little bit over $8.4 billion market cap today. Our AUM is $176 billion. We have 114 funds and 76 fund-to-fund vehicles at work, just to repeat that. One thing distinctive about Carlyle is the construct of the firm; it is a multi-fund, multi-product family of investment vehicles. Each one is its own little economic engine. It has – some of them just have fees, some of them have fees and carry, and collectively they provide the earnings horsepower for the firm.

There's $46 billion of dry powder that's capital that's been committed to us that we have at our disposal to invest. One of the great things about our model in the carry fund side of our business is that capital gets committed and we get to start charging fees on it immediately even before we invest it.

We have a huge portfolio. It's a real advantage for us, 200 plus portfolio companies around the world, 250 plus real estate investments around the world. We have a deep team. We're one of the largest investment teams in our industry, 109 partners around the firm with 10-year average tenure at Carlyle.

And then finally, our global platform is a real advantage. We have a multi-office platform across 21 countries in six continents. So it gives us local presence in order to execute on transactions that we think provide our investors great outcomes.

We operate through four segments. First, Corporate Private Equity. And you'll see that Corporate Private Equity has 30 active funds in it. There's $55 billion of assets at work on our Corporate Private Equity platform. Specifically you'll see funds in U.S. buyout, Europe buyout, Asia buyout, Japan buyout, South America buyout, Africa buyout, Sub-Saharan African buyout, and financial services, U.S. growth, Europe growth, Asia growth. That kind of multi-fund platform is what we're talking about having multiple engines running at all the same time. Our realized and partially realized gross IRR from our inception has been 30%, so wonderful business.

Our second segment is our Real Assets segment. There's $40 billion of assets under management in energy, infrastructure, and real estate. 25 different funds at work, a 27% realized and partially realized gross IRR.

Third segment is the GMS segment or Global Market Strategies. That's the hedge fund complex, our CLO and structured credit complex, and our carry funds that focus on distressed investing and mezzanine investing. There's $33 billion of assets under management. It has been our fastest growing segment.

And finally, our Solutions segment, which is our fund to private equity funds business. There's $48 billion of assets under management there.

Now when I say that the engine has been running well, what I mean is that the things that Carlyle has to do in order to deliver for our investors have actually consistently been working well since the recovery. We recovered quickly. Our portfolio recovered quickly. Our relationship with our LPs has been positive ever since. And as a result the key things that we have to do, our key metrics, have all been running consistently strong.

First, fundraising. We had $4.9 billion of new commitments to funds in the first quarter. And on the latest 12 months it's been just under $17 billion. We have seen a tipping point in the investment cycle where LPs are comfortable committing to funds like ours. And we've had good strong performance.

On the investment side we've invested $2.5 billion in the first quarter and just under $9 billion in the latest 12 months. That's about on average what we've been doing for the last five years. Again finding good investments that will perform for our investors and drive future earnings.

Third, we work with the funds in order to create value. This is an incredibly important step. It is the hardest step. And we had 7% appreciation across our fund – our carry fund complex in the first quarter. We've averaged 21% annual appreciation over the last three years.

And then finally the very important step of realizing the embedded gains and returning that cash to our investors, which has two great impacts. One, it gives them liquidity to recommit to our funds.

But second of all, we get to then charge assuming the fund is in carry, our performance fees. We had $4 billion of realized proceeds that we were able to distribute back to our investors in the first quarter, over $19 billion in the latest 12 months. And that's a level we've been running since the beginning of 2011.

That engine is reasonably simple to describe, there's a lot of people around the world working hard in order to deliver that. But what comes out of that is a very high cash content earning stream. Our latest 12 months distributable earnings were $678 million. And you can see the economic net income, which is little bit more of an accounting measure, of $737 million. We have a very high cash content to our accounting earnings.

Distributable earnings is the metric we use internally to measure how we're doing, because it manage – it measures cash. And we think in our industry measuring cash is the best way to understand what we're doing.

Now a key element of this consistent performance has been the combination of the appreciation in our portfolio and the resulting build of an accrued performance fee bank coupled with the systematic realization of gains and turning those gains into realized cash performance fees. And you can see that during the period from 2011 up through the most recent quarter close in Q1, our accrued performance fee bank on our balance sheet has grown from just over $1 billion on a net basis to over $1.4 billion. Now again if the firm were liquidated today, which we don't plan on doing, then there would be $1.4 billion of net performance fees that would accrue to the benefit of the unitholders.

Now while we've been building that performance fee bank, we've been withdrawing from it systematically. And so the distribution profile that I discussed earlier has resulted in large realized cash performance fees along the way. It's this multi-product, multi-fund platform that allows us to systematically mine exits and realize cash performance fees, which translate into cash flow into the firm. Meanwhile the funds have been performing and growing the performance fee bank. What that translates to is cash flow.

And you can see on this next slide, on the left-hand side of this slide, that as I said from the beginning of 2011 all the way through this last quarter, we've been running at this kind of $18 billion a year of realized proceeds from exiting transactions. What that translates to is the strong realized cash performance fees. That underpins distributable earnings, which in the calendar year of 2012 were $688 million. That translates to $1.83 on a per unit basis.

And our distribution policy is to distribute 75% to 85% of the after tax distributable earnings back to the unitholders, both you and us. The Carlyle employees are the largest holder of Carlyle. That is the cash flow mechanic that we actually operate around every day.

So the strong consistent performance that we've experienced ever since the recovery has translated into a very large portfolio embedded with gains, but also a number of funds that are accelerating towards carry to add to the carry generating engines. And let me just give you a quick snapshot into that.

So first, at work today there's $75 billion in our portfolio. On the left-hand side of this slide, you'll see $62 billion of that $75 billion is in our carry funds. And the interesting thing about this slide is when you put a kind of a time date stamp on the transactions, which you'll see is just over 50% of that $62 billion, is tied to deals that were done in 2009 and earlier. We generally hold companies for four to five years. And it's this inventory that's providing the exit opportunities that we're systematically realizing driving the $18 billion-ish of realized proceeds that we've experienced over the last few years.

Specifically to that point, $13 billion of the $62 billion actually resides in companies that we have taken public or are public. Most of the businesses in this public portion of the portfolio come from the 23 different IPOs that we've done over the last number of years. Therefore we have a very large, mature, profitable, liquid portfolio. And it's from that portfolio that a number of the exit activity – or exit transactions that we've undertaken just in the past two months have come from. Just in the second quarter, we sold blocks of Hertz, Nielsen, SS&C, Cobalt and Wesco. And there's a big inventory there for us to seek good opportunities from.

On the right-hand size you'll see our hedge fund complex. There's $13 billion at work across three primary strategies: Claren Road in long/short credit, Emerging Sovereign Group in long/short emerging market equities, and Vermillion in the commodity space. That portfolio of $13 billion is at work every day.

Now very important to understanding the evolution of our earnings stream is understanding the evolution of our large funds. So as I said there's 23 funds that we're accruing carry in our complex. Interestingly we've grabbed five big ones here that are either currently accruing carry or on the road to accruing carry, and none of these contributed to the 2012 earnings interestingly enough.

So across these five funds there's $28 billion of committed capital. And Carlyle Partners V, which is our primary flagship U.S. buyout fund, has performed very well. It's comfortably into carry. You can see that the IRRs have consistently been improving. We've been accruing carry on a gross basis. There's $950 million of carry that we've accrued for this fund. Although we didn't take any carry last year, we had our first realized carry events in the first quarter. And that's a fund that we would expect to be realizing carry out of on a go-forward basis.

Our two Asia funds, Asia II and Asia III which aggregate to $4.4 billion, Asia II has clicked over through its hurdle, and we're now accruing carry, and Asia III has had solid improvement in its performance. And then Carlyle Europe Partners III and Carlyle Real Estate Partners V, both of which are funds that have performed well and are marching towards their hurdle rate.

So again $28 billion of committed capital that did not contribute to distributable earnings in 2012 that has had positive performance and is on the march.

I will say this is just five funds. There are a number of other funds in our portfolio in a similar circumstance, our financial services fund which has over $1 billion, has a 9% net IRR. It's accruing carry, we haven't taken it yet. So good fund performance really underpins, we think, continued growth in realized cash performance fees.

All of that is the foundation for this next slide, which is a hypothetical view of what the portfolio can translate to. On the left-hand side you'll see the $62 billion that's in the ground working. There's $25 billion of dry powder for a total of $87 billion of capital in this carry fund portfolio to put to work or at work. If you assume a 1.75 to 2 times invested capital multiple – by the way our historic multiple has been 2.6 times. So if you assume 1.75 to 2 times multiple, it generates on a net basis, net, net, net, net, net, to the firm which is really to the unitholders of the firm, $4.5 billion to $6 billion of cash performance fees. There's just a tremendous cash engine at work here.

That comes out over time. And you'll see in the bottom that translates to on a fully distributed common unit basis between $14 and $19 per unit.

On the right-hand side you'll see an annual picture, our hedge fund portfolio of $13 billion at a 2%, 4% and 7% net annual return generate between $25 million and $80 million a year in cash performance fees, which is $0.08 to $0.27 per unit on an annual basis.

Just a quick comment in the first quarter of 2013, we accrued performance fees of $66 million from the hedge fund complex. So a solid start to the year for the hedge fund complex.

So solid consistent performance, the portfolio's performing and funds are moving and accelerating towards carry. And let me just spend a few minutes just talking about how we're growing the platform in order to grow the earnings power.

So it's important to understand the psychology of Carlyle. From the beginning we have innovated. The firm never really started as a single-fund, single-investment idea. It's always been a multi-fund, multi-product firm. And you can see that over time, we've innovated, added, grown, expanded. It's just part of our normal course business.

The underpinning of that has really been provided by an extraordinarily loyal group of investors. We have 1,500 carry fund investors today. And they have supported this growth, one, because the performance has been really strong, but two, because they trust us.

And you can see in the left-hand side of this chart that the top three light blue stacks in the chart aggregate to 62%. What that means is 62% of our committed capital comes from investors who are invested in six or more of our funds.

90% of our capital comes from investors who are in at least two. And stunningly, 10% of our capital comes from folks who are in 20 or more of our funds. It's been this investor base that we take really good care of with 72 dedicated people to provide the services and the support that they need. But that has also facilitated our expansion, not only around the world, but also into other investment areas.

So what have we been up to? In the period of time before we went public, kind of 2009 and 2010, we laid out some very important growth areas for our firm. First, we wanted to build out the leading Global Market Strategy segment. Second, we wanted to develop the industry's broadest and most capable natural resources investment platform. Third, we knew we had to deepen our investor relations capabilities. And then finally, we were preparing to be the best public company that we could be. And we have been working hard against those four initiatives for the last few years. Many of the activity results you'll see in just a minute tie back to these four initiatives.

Currently we're continuing to focus on delivering those four goals, although we've made substantial progress against all of them. In addition to that we're scaling and expanding our emerging markets presence. We continue to expand the GMS platform by looking for new products that provide incremental investment capability to those investors.

Fourth, we're expanding the Solutions segment. We'll talk about that in a minute, but our fund of private equity business has historically been AlpInvest, which is very large. And we're going to systematically add capabilities to our Solutions segment.

And then finally, we're innovating to create the leading high net worth and mass affluent product set, really important. These aren't me-too products, these are specific products catering to that investor groups' needs that we think Carlyle is in a pretty unique position to offer.

So what have we been up to in Corporate Private Equity? We've launched new regional funds in Peru, in Ireland, in Sub-Saharan Africa, we have new fund – we have lots of funds as I said that are nearing realized and accrued carry and we've been really supported by this robust fundraising environment that is translated in to strong commitments to our fund base. It's also been helpful because we have our three largest vehicles in the market right now, U.S. buyout, Asia buyout, and Europe buyout.

In the GMS segment, we've added new hedge fund capabilities through our 55% partnership with Vermillion on the commodities front. We've scaled our energy mezzanine platform with the final close above our target last fall. We most recently launched a BDC in middle market finance, and we've been the leading global issuer of CLOs in 2012. And it followed on with two new issuances in the first quarter, and then in this quarter we've had a new issuance in the U.S. and a new one, which is our first issuance in quite a while in Europe; wonderful underpinning there to the reopening of the structured credit investment market.

On the Real Assets side, we have systematically been constructing that natural resource platform that I spoke about. We took a very large strategic stake in NGP Energy Capital resources which will provide the foundation for our U.S. energy investing. We've just launched an international energy team out of London and Brussels to invest on international basis. We acquired a new power team from Goldman Sachs, which gave us we think one of the leading power development investment capabilities and we're really excited about the developments on the energy and natural resources front.

And then finally as I said, the Solutions business continues to be a focus, we've just hired a new head to run that whole business and really engineer the construction of a much broader solutions capability.

Just touch a few minutes on the GMS business, as I said, it's been our fastest growing business from $13 billion to $33 billion since 2009. It used to be really just a structured credit business. And today, as I said, we have a very large hedge fund complex across long/short credit emerging markets and commodities. Our carry funds in mezzanine and distressed have continued to grow and our structured credit business, as I said, continues to be one of the leaders.

One of the key things in our growth prospects is our footprint. Our global footprint provides all kinds of infrastructure in place to chase behind with new product launches. So we've led with Corporate Private Equity around the world. As we establish brand and capabilities, we can chase behind it with the other segments. It's a wonderful way to grow and a much lower risk way than actually going de novo into markets.

So to conclude, we have a pretty positive outlook. We have a strong foundation, lots of capital underpinning what we're doing. We have a great investment team and fundraising team that takes super care of our investors in two fronts: one, investing well for them; and second of all, taking care of their investment needs to commit to new funds. The embedded portfolio is the key to the near term earnings. It's performing well. It's driving our cash flow and we have significant growth opportunities around the platform as we said across energy and natural resources, solutions, and emerging markets. And that will increase the overall investment capacity of the firm and will therefore increase our earnings power.

So with that, Matt?

Matthew Kelley, Analyst, Morgan Stanley & Co. LLC

Sure. So I'll ask a couple of questions then we'll turn it over to the audience to see if there are any questions out there. So I guess first, you recently bought the rest, the remaining 40% in AlpInvest. So can you, I mean, just talk about the growth opportunities in Solutions and that's a focus. But why buy the remaining 40%? What does that do for you as a firm and does it open any capabilities that we haven't seen already?

Glenn A. Youngkin, Chief Operating Officer

Right. So the original AlpInvest transaction was culminated in July of 2011, and we bought from two very large Dutch pension plans, their captive private equity fund-of-funds manager, AlpInvest. And we bought 60% of it, and management owned 40%. And like all things, at the time, it seemed like the right structure.

What we found over time as we were developing much more of a customized management or managed account approach to many of the new investors, what we found is that, that 40% oftentimes had the management team far more focused on AlpInvest than they did more broadly on delivering a packaged solution from all over Carlyle.

We also found when it came to picking who was going to hire people or where the expenses were going to go, there was always a discussion. And yet, on the other side of that, there's been a tremendous well of interest in having AlpInvest manage managed accounts on secondaries, co-investment, fund construction and finding ways to couple that with other things that Carlyle does.

So the reality is, we just felt like it was a facilitating move to provide more fluid access for those investors to Carlyle. We basically – consideration is about $90 million, it's almost entirely units. We didn't want to cash the guys out, we want them to continue to be deeply committed to Carlyle. So it's basically a unit exchange. And had we owned it in the first quarter, it would have added about $4 million of distributable earnings in the first quarter. So you can do the math on an annualized basis.

Matthew Kelley, Analyst, Morgan Stanley & Co. LLC

Okay. And then second question for me is you talked about high net worth and mass affluent being the key priority for the firm. When you look across your different product constructs, you're obviously a very diversified firm, lots of different funds. What segments and fund structures – how do you think about what's appropriate to offer first for those types of crowd?

Glenn A. Youngkin, Chief Operating Officer

Right. It is – to address the high net worth segment in a single sentence is nearly impossible, so I apologize for the length of this answer, Matt. But the high net worth segment has all kinds of participants in it. People who are really wealthy and people who are modestly wealthy and they want to actually get access to private equity in different formats.

So what we've tried to do is work to construct access in a variety of ways. So the first point is easiest which is to be able to provide this ready-made access for family offices to our funds. We've added fundraising capacity, people in the field calling on the family offices, which is really a group that we had taken before but not looked for before. And what we're finding is the family offices really do like our choice of funds.

Second thing that we've done is recognize that the private wealth platforms at the banks, predominantly, but also in a lot of the independent financial advisors, have wealthy clients who would like access to our product and actually do want to be a fund investor. They don't mind capital calls. They don't mind K-1s. They may just want to line up next to everybody else in the fund. However, they can't usually meet the fund minimums.

And so what our partners do at Morgan Stanley Wealth Management or at some of the other banks which I won't mention is they'll go out and collect a number of their investors, 50 or 100, and they will service one counterparty or LP for us and they'll make a commitment to one fund or a number of funds. That's called a feeder fund. And our partners deal with the investors every day from a reporting standpoint.

The third step however is, those investors who actually don't access through feeder funds and don't have family offices and yet want private equity, and access to other alternatives. And what that has required is an effort on behalf of the whole industry to develop new kinds of products that actually have features that cater to that investor set, but give them access to what we do. And of course, the easiest part of those are 40 Act funds that have liquidity and daily pricing and generally are focused on credit, and credit's easy. And as yield, it's got daily pricing, if somebody wants to redeem or they can do it very easily and you've seen a number of products from the industry come out in that set.

The more difficult stuff is how do you provide access to the private equity side of businesses which are locked up funds, and how do you provide people access to some of the more creative investing? And so, that's what we've been focusing. And so our first two initiatives into the market have been; one, as a sub-advisor to a group called the Central Park Group, which is a private equity 40 Act fund where people can invest $50,000 into the fund. They'll get a $10.99, not a K-1, they give all the money upfront. And then Central Park Group will select and choose from our family of funds in order to deploy the capital. So we're a sub-advisor. They manage it, but it is direct access to Carlyle's funds right alongside all of our big institutional investors, and it's pretty neat I have to say.

Second thing we've focused on is providing in our credit side of the business, access to some of our interesting lending products or finance products. And we've just launched this BDC. It's really focused on middle market finance, which is an area where you're investing in the spreads as opposed to the underlying absolute rate of the loans, and so it's much more exposure to spread bets. Although, the great thing about the BDC is it gets the best of our whole GMS platform, and if the investment committee of the BDC sees some other unique opportunities, it can invest directly in that.

So we continue to have a pipeline of similar types of products where we're trying to really play to the strength of Carlyle as opposed to just offering things that anybody else can offer this channel.

Matthew Kelley, Analyst, Morgan Stanley & Co. LLC

Got it. Any questions from the audience? I guess they want to ask you in the breakout session immediately after this.

Glenn A. Youngkin, Chief Operating Officer

It's fine. Again, thank you all for listening, and have a good lunch.

Matthew Kelley, Analyst, Morgan Stanley & Co. LLC

Thanks, everyone. Thanks, Glenn.