Corrected Transcript

31-Oct-2017

# The Carlyle Group LP (CG)

Q3 2017 Earnings Call

# CORPORATE PARTICIPANTS

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

William E. Conway, Jr.
*Co-Founder, Co-Chief Executive Officer and Managing Director & Chief Investment Officer, The Carlyle Group LP*

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

David M. Rubenstein
*Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP*

Daniel A. D'Aniello
*Chairman and Co-Founder, The Carlyle Group LP*

Glenn A. Youngkin
*President, Co-CEO, COO & Director, The Carlyle Group LP*

Kewsong Lee
*Managing Director, Deputy Chief Investment Officer-Corporate Private Equity & Head-Global Market Strategies, The Carlyle Group LP*

# OTHER PARTICIPANTS

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

Kenneth B. Worthington
*Analyst, JPMorgan Securities LLC*

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

Michael Carrier
*Analyst, Bank of America Merrill Lynch*

William Raymond Katz
*Analyst, Citigroup Global Markets, Inc.*

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

Patrick Davitt
*Analyst, Autonomous Research US LP*

Brian Bedell
*Analyst, Deutsche Bank Securities, Inc.*

Alexander Blostein
*Analyst, Goldman Sachs & Co. LLC*

Gerald Edward O'Hara
*Analyst, Jefferies LLC*

# MANAGEMENT DISCUSSION SECTION

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

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

## Daniel F. Harris

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

Thank you, Candace. Good morning and welcome to Carlyle's third quarter 2017 earnings call. With me on the call today are our Co-Chief Executive Officers, David Rubenstein and Bill Conway; along with Chief Financial Officer, Curt Buser. In addition, we have our Chairman and Co-Founder, Dan D'Aniello, along with Glenn Youngkin and Kewsong Lee also on the call.

Earlier this morning, we issued a press release and detailed earnings presentation, a copy of which is available on our Investor Relations website. Following our remarks, we will hold a question-and-answer session for analysts and institutional investors. To ensure participation by all those on the call, please limit yourself to one question and return to the queue for any follow ups.

This call is being webcast and a replay will be available on our website. We will refer to certain non-GAAP financial measures during today's call. These measures should not be considered in isolation from or 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.

With that, let me turn the call over to Bill Conway to begin our prepared remarks this quarter.

## William E. Conway, Jr.

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

Good morning, and thank you, Dan. For today's call, we are going to alter our typical speaking order in light of the transition plan we announced last week. Curt and I will discuss the firm's trends and quarterly results, David will talk about the overall state of the firm, and then we will have brief comments from our Co-Founder and Chairman, Dan D'Aniello, and in-coming Co-CEOs Glenn Youngkin and Kewsong Lee. For our next earnings call in February 2018, Kew, Glenn and Curt will be on point.

Our results for the third quarter of 2017 demonstrate the continued momentum in our business. We generated pre-tax distributable earnings of $260 million, and we'll distribute $0.56 per common unit to our unitholders.

Our investment portfolio continues to perform well. Our carry funds appreciated 3% for the quarter and 19% over the last 12 months. ENI was $203 million in the quarter and $903 million year-to-date. In addition, we're in the midst of one of our best fundraising years in the last decade, and 2017 could ultimately wind up as our best year ever.

We continue to focus on the four goals we have discussed all year, investing wisely and creating value, raising $100 billion of new capital, building a world-class credit platform, and resolving the legacy issues that we have faced in recent years. We have made substantial progress on each of these objectives.

With respect to the first goal, investing wisely and creating value, we invested $6.9 billion in the quarter, the highest quarterly level since our IPO, and $20.8 billion over the past 12 months. Despite a challenging investment environment, our investment pace remains robust as our teams are creatively finding good places to put money to work. A few of the notable CPE investments we made this quarter were Albany Molecular, a pharma company, and ZeroChaos, a workforce management company, both from our U.S. buyout fund; iNova Pharmaceuticals in Australia; and McDonald's China and Hong Kong from our Asia buyout fund; and IRCA, a bakery products company in our European buyout fund.

Turning to investment performance. Our CPE funds appreciated 4% in the quarter and 27% over the last 12 months with our U.S. and European buyout funds showing solid appreciation. Our real estate carry funds appreciated 3% in the quarter, and natural resources funds were up 5%. A notable outperformer this quarter was our international energy fund.

We had an active realization quarter, $8.4 billion in realized proceeds, our highest level in a year. Realized proceeds included the recapitalization of PPD and U.S. buyout, the sale of Nature's Bounty in U.S. and Europe buyout, Edgewood Partners in our financial services funds, BTI Studios in Europe Technology and Brintons Carpets in our distressed fund, as well as $1.7 billion of realized proceeds from real assets funds.

Our second priority is raising new capital to invest. During the third quarter, we've raised over $7 billion, bringing our year-to-date total to $18.5 billion. Importantly, these results do not include any closings related to our large buyout funds. We had the first close of our Asia buyout fund yesterday in excess of $4.5 billion, substantially larger than the total committed capital for the prior Asia buyout fund. And we expect to have our first close in our U.S. buyout fund later this quarter. With the first close of our Asia buyout fund as well as other closings, we have already raised approximately as much money in October as we did in the entire third quarter, further demonstrating that we are well on our way to meeting our $100 billion target.

Turning to our third priority, building a world-class credit platform. Where we already have approximately $32 billion of assets under management, our existing credit business continues to serve our investors well. Our distressed investing business has consistently produced excellent returns. We have priced five CLOs this year with almost $3 billion in assets, reinforcing our position as one of the largest CLO managers globally. And we substantially completed fundraising for our new CLO secondaries fund.

We took our BDC public in June, the first BDC IPO in nearly two years. We launched a new opportunistic credit strategy. We believe that our efforts, particularly the recruitment of new investment talent over the past year, had positioned us to take advantage of the growth we anticipate in the private credit markets.

And finally, our fourth priority of cleaning up some of our challenges. We believe the last of the material contingent liabilities that we have discussed on these calls many, many times before should be behind us. Specifically, after years of litigation, a trial court in Guernsey confirmed that Carlyle acted in a manner it believed to be in the best interest of Carlyle Capital Corporation and its shareholders during the global financial crisis. The judge's ruling demonstrated that even in the most difficult of circumstances, we put our investors' interests first.

We also reach resolution with respect to Urbplan, our consolidated Brazilian real estate entity, resulting in our disposal of Urbplan and its deconsolidation from Carlyle. We have worked hard to resolve other issues, which include our former hedge fund partnerships and commodity challenges. Collectively, these issues have been difficult, but we have found solutions to each of them, and we are giving our new CEOs a clean slate.

In closing, I'm grateful to all of you who participated on these calls for the past 21 quarters with me, and I'm excited to focus even more of my attention going forward investing on behalf of our limited partners.

Let me not turn it over to Curt Buser.

## Curtis L. Buser

*Chief Financial Officer, The Carlyle Group LP*

Thank you, Bill. As Bill mentioned, our business is in great shape and positioned for continued improved performance. Throughout the year, we have demonstrated Carlyle's growing earnings power through our improved production of economic net income. Year-to-date, we have generated $903 million in ENI or $2.46 per unit after tax, over three times the per-unit amount we earned in the first nine months of 2016.

We generated $260 million of Distributable Earnings in the quarter, up about $30 million from a year ago, and declared a $0.56 distribution. Fee-Related Earnings were $96 million for the quarter. FRE includes net incremental recoveries of $74 million under our insurance policies related to the commodities matter for which we recorded the related charges in FRE and Distributable Earnings in Q4 2016 and Q2 2017. FRE would have been $22 million in the quarter exclusive of these insurance recoveries.

Let me also spend a minute on the earnings impact associated with the resolution of the Carlyle Capital Corporation litigation. As a reminder, in 2015, we initiated a reserve related to the CCC litigation, negatively impacting ENI at that time, but not affecting FRE or DE as it was a non-cash charge. With the favorable CCC ruling this quarter, we have now reversed the reserve, increasing ENI by $25 million. Just as in 2015, the resolution does not affect FRE or DE.

Cash compensation expenses increased in the current quarter, reflecting the fact that we have outpaced our performance objectives for the year and, therefore, expected to incur a higher compensation expense. We will finalize the actual level of cash compensation during our normal year in process.

Equity-based compensation came in at $30 million in the quarter, down from $33 million a year ago. Otherwise, expenses were about the same as the third quarter of 2016. During the quarter, we disposed of all of our ownership interest in Urbplan, the Brazilian residential subdivision and land development company that we have consolidated into our results since 2013.

With this transaction, we deconsolidated Urbplan and recognized a pre-tax DE and an ENI loss of $65 million within investment income. For ENI, the loss net of the related $39 million tax benefit was $26 million.

Fee-Earning Assets Under Management increased to $122 billion from $116 billion. And total AUM increased to $174 billion, reflecting the new capital raise in the appreciation across the portfolio.

Another positive news, on September 13, 2017, we issued 16 million units of 5.875% Series A Preferred at $25 per unit for a total gross proceeds of $400 million. While the proceeds are designated for general corporate purposes, the capital enables us to fund various growth initiatives. Distributions on the Series A Preferred Units will reduce after-tax Distributable Earnings beginning in the fourth quarter.

Now, let's turn to a review of our business segments. The Corporate Private Equity segment continued to generate solid fund appreciation and significant realizations in the quarter. CPE fund appreciation of 4% supported the creation of $92 million in ENI for the current quarter. Corporate Private Equity generated Distributable Earnings of $207 million, the highest level since the third quarter of 2016. CPE produced $4 billion in realized proceeds this quarter compared to $4.8 billion last year, with a higher proportion of excess producing carried this quarter than a year ago.

Our investment pace remained active, with $3.6 billion in capital deployed. Over the last 12 months, the CPE investment pace was $10.1 billion, more than 25% higher than the prior LTM. Fee-Related Earnings in Corporate Private Equity was $3 million for the quarter. While, fundraising for CPE has been modest to the first three quarters of the year. As Bill mentioned, we just held a significant first close on our fifth Asia Buyout fund, and we expect to hold our first closing on our seventh U.S. Buyout fund during the fourth quarter.

As we've discussed in the past, we expensed fundraising costs in the quarter we raised the capital. So, we expect a significant increase in fundraising expenses in the fourth quarter that will materially affect our fourth quarter results. The benefit from raising this capital will begin in the middle of 2018, and we expect to turn on fees for these funds, which will result in a sharp uptick in Fee-Related Earnings, and we expect in future years to earn greater performance fees from these larger funds.

Moving on to Real Assets. We remain focused on raising capital for the latest generation of our Real Estate and NGP carry funds and continuing the momentum in our Core Plus Real Estate fund and new infrastructure offering.

Thus far, we're off to a great start. We raised $2.4 billion in new capital for Real Assets Carry Funds in the quarter and $7 billion in the first three quarters of the year. Fee-Related Earnings in this segment improved $13 million for the quarter, based on the initiation of fees on our 8th U.S. Real Estate fund and 12th NGP fund. We expect somewhat elevated expense levels over the next few quarters as we finalize fundraising for the larger funds.

Distributable Earnings was negative $41 million, a loss driven by the Urbplan charge in the quarter. Exclusive of this impact, DE in this segment would have been $24 million. The highest since last year second quarter due to a higher revenue from new funds.

Turning to Global Market Strategies. We continue to make significant progress in building our credit business. We raised capital for several new and next-generation credit strategies during the quarter. Our third quarter results include the positive impact of the commodity-related insurance recoveries on Fee-Related Earnings, ENI and Distributable Earnings.

We are excited about the new talent we are adding across our global credit business. And, as you know, as we invest in new talent, it drives upward pressure on compensation. However, as new, our growing strategies raising from our capital, the positive impact from additional fee revenue should more than offset increased expense levels.

For the third quarter, inclusive of the insurance recovery, Fee-Related Earnings were $75 million or breakeven excluding the recovery. ENI of $88 million and Distributable Earnings of $88 million also include the impact of the insurance recovery. Each of these metrics, with or without the insurance recovery, were significantly above the third quarter of 2016.

In Investment Solutions, we remain active raising capital for new funds. AlpInvest fundraising has gone very well this year and is exceeding our expectations, especially for our seventh AlpInvest Co-investment program where we are seeing demand in excess of the hard cap. Investment Solutions, which includes AlpInvest and Metropolitan Real Estate, raised $1.3 billion in the third quarter and $3.2 billion to the end of the third quarter.

Fee-Related Earnings were $6 million in the quarter, compared to $5 million a year ago. We posted $41 million of management fee revenue, the highest since the fourth quarter of 2014, partially attributable to a higher average fee rate on new capital raised. This positive mix shift should persist even as Fee-Earning assets under management likely declines over the next year or two, as low-yielding legacy AUM, in this segment, has returned to investors.

Fund performance remains solid. And third quarter net performance fees of $7 million with the highest level produced by Investment Solutions since we acquired AlpInvest in 2011. The funds launched subsequent to our acquisition are beginning to move into accrued carry. We remain optimistic about the prospects for Investment Solutions over the next few years.

Summing up, we continue to have good momentum across our businesses and in the firm overall. And we're building for the future. We're on track to deliver on the goals we discussed earlier this year and position the firm to deliver a more diversified earnings power in the future.

With that, let me turn it to David.

---

## David M. Rubenstein
*Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP*

Thank you, Curt. Because this is the final earnings call that Bill and I will lead, we both thought, it would be appropriate to provide a few parting thoughts about the private investment industry, this firm, our successors, and our ongoing roles.

Today, the world of private equity has more than $2.5 trillion under management, doubling in size over the last decade, while the world of private credit has quadrupled over the past 10 years to more than $600 billion under management. As the world's liquidity grows and as the constant search for returns intensifies, most independent observers believe that the private investment world will continue to grow quite significantly and we agree with that judgment.

As a result, a great many investment firms in the U.S. and abroad, small firms and large firms, can be expected to grow and to attract both significant amounts of funds to invest and talented individuals to invest and oversee these funds. Among the principal beneficiaries of this phenomenon will likely be the large global multi-product and publicly-traded firms for they are best positioned to attract capital and talent and, as a result to consistently achieve the returns desired by investors.

Carlyle illustrates its point quite well. Today, the firm manages $174 billion, and the ongoing effort to raise $100 billion of new capital is going more smoothly than even we had anticipated. No doubt the favorable fundraising environment is a plus, but we believe our fundraising success reflects a number of attributes associated with Carlyle, our 30-year track record, the quality of existing investment portfolio, the experience and focus of our 630 investment professionals, our truly global presence reflected in our 31 offices, the quality of our senior operating executives, our well-known global brand, and our culture of always placing investors first.

Indeed, we feel that at no point in Carlyle's 30-year history has the firm been financially stronger, more highly regarded or better equipped to be a leading private investment firm in the future. And for these reasons, we think this is the right time to have a leadership change.

To be sure, there is a natural human tendency to want to stay in any situation where everything seems to be going so well. Leading an organization to greater heights from a position of current strength clearly has an appeal for leaders of all kinds of organizations. But in our view, the best time to bring in new leadership is precisely when things are going well, and that is what we've decided to do.

Now, we are not going away nor are we slowing down. We are still as committed as ever to this firm. We are still deeply involved in the investment process. Indeed, Bill will now have more time to spend on investing. In my case, I will remain involved as a public presence for the firm and in the fundraising process. We will remain active in these and other aspects of the firm for the foreseeable future, and we will continue to serve as members of the firm's executive group and we'll assume the roles of co-executive chairs.

We also, currently with our other Co-Founder, Dan D'Aniello, the firm's largest unitholders and largest individual fund investors. We will remain sizable unitholders and fund investors and are now finalizing major new commitments to our flagship by our funds. Of course, a recognition that it might be an appropriate, indeed perhaps ideal time to give up the reins to successor's does not always coincide with an organization having the right successors available. But we have the good fortune to actually have individuals who are ready and able to succeed us and no doubt exceed us as well.

The new Co-CEOs, Glenn Youngkin and Kewsong Lee, who along with the new Co-CIO, Pete Clare, bring the right combination of leadership, entrepreneurial vision, managerial talent and investment experience to the roles they will be assuming. Glenn has been at Carlyle for 23 years, working our U.S. and European buyout groups and has recently served as our President and Chief Operating Officer. He knows the firm inside and out. He's an extraordinary culture carrier and has done an outstanding job leading in recent years our natural resources and investment solution businesses in addition to his other responsibilities.

Kewsong Lee who has 25 years of experience in the industry, joined the firm four years ago as Deputy CIO for private equity to Bill Conway. In that role and in additional roles as creator of our long-dated private equity business and recently as Head of our GMS business, he did a great job resolving some of the significant challenges we have faced in our GMS business. Kew, has brought outstanding investment judgment, creativity and leadership to those tasks.

Going forward, Glenn and Kew will clearly be able to work well together for they certainly recognize the other's talents and experience and they have complementary skills. Both of them have worked closely with and have enormous respect for Pete Clare, who will split the CIO role with Bill Conway, in addition to Pete's responsibilities as Co-Head of our U.S. Buyout business.

Since you'll be hearing from Glenn and Kew quarterly from this point forward, we thought that it would be appropriate for them to say a few words today. But before they do so, we would like you to hear briefly from the firm's third co-founder, out current board chair and the indispensable person who made this firm work so well for three decades, Dan D'Aniello.

## Daniel A. D'Aniello

*Chairman and Co-Founder, The Carlyle Group LP*

Thank you, David. I want to thank the Carlyle board of directors, a group that has been working closely with us since we went public five-and-a-half years ago. The board pursued a thoughtful and methodical approach to succession and concluded that the best choice for the future success and continuity of the firm was to promote the strong next generation leaders we had developed internally over the years.

Lawton Fitt, the Lead Independent Director of Carlyle's board lead this process with a subcommittee of independent directors, and we are grateful for their leadership and guidance. I enthusiastically share the excitement of this watershed event with my co-founders, David and Bill, as we all look forward to working closely together with Glenn, Kew and Pete on the firm's executive group and board while remaining substantial investors in Carlyle's funds and units. Glenn and Kew, would you like to say some words?

## Glenn A. Youngkin

*President, Co-CEO, COO & Director, The Carlyle Group LP*

Thanks, Dan. Kew, Pete and I deeply appreciate the trust that our founders and the board of directors are placing in us. As you heard this morning, the firm has strong momentum in all four segments. To put it simply, the funds are performing well, our investors are trusting us with increasing amounts of capital, and our financial results demonstrate those positive trends. It's this momentum and the continued support from our founders that underpins our excitement about Carlyle's future.

I've had the pleasure of working closely with our fund investors, our unitholders and the analyst community over the past five years, and I look forward to building those relationships further. Our public unitholder audience will now have the opportunity to interact more with Kew as well. He's already been on the front lines with our investment teams and the fund investors for several years. He's an exceptional investor and a terrific business builder, and I look forward to partnering with him for years to come.

Kew?

## Kewsong Lee

*Managing Director, Deputy Chief Investment Officer-Corporate Private Equity & Head-Global Market Strategies, The Carlyle Group LP*

Thanks, Glenn. Over the past 30 years, the founders have created a truly remarkable firm, built on integrity, collegiality and investment excellence. We're always striving to do the right thing and lead the industry in transparency. As an investment firm, we focus on delivering attractive returns to our limited partners across industry sectors, geographies and across economic cycles. Glenn and I intend to lead no differently, and we're very excited to work together to ensure Carlyle remains a well-positioned firm as we drive the firm to that next level.

Our priorities are quite simple. Namely, continue to build upon Carlyle's multi-decade track record of investment success, sustain and nurture the culture that our founders created, and always put our investors first. Carlyle is well-positioned to achieve the goals that Bill outlined in his opening comments, and I look forward to discussing our results and future direction with all of our constituents in the years to come.

Let me conclude with a simple statement of appreciation: that on behalf of Glenn and me, we're grateful for the confidence that our founders and the board have placed in us. Thank you.

Now, back to David.

## David M. Rubenstein

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

Thank you. A final word, many of you have been listening to us quarterly for five years. We thank you for working as hard as you have to learn our company. We know that Carlyle is complex and may not always be as easy to comprehend as might be desired. We appreciate your efforts to understand the firm. And to repeat, while we are disappearing from these calls, we are not disappearing from the firm. We will certainly miss our quarterly interaction with all of you. We look forward to working with Glenn, Kew and Pete and the rest of Carlyle and are convinced the best is yet to come for the firm.

Now, we are ready to take your questions.

# QUESTION AND ANSWER SECTION

**Operator**: [Operator Instructions] And our first question comes from Michael Cyprys of Morgan Stanley. Your line is now open.

## Michael J. Cyprys

*Analyst, Morgan Stanley & Co. LLC*

Q

Hi. Good morning. Thanks for taking the question. And Glenn and Kewsong congratulations on your new role. Just curious if you could talk to some of the metrics that you'll be evaluated on in terms of compensation, how that will be determined. And if you could also talk about how that ties into alignment with generating long-term shareholder value?

## William E. Conway, Jr.

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

A

This is Bill. Let me start on kind of as a member of the board, I think that the board will be evaluating their performance. First of all, we do have these goals that we've set for the for our business that we're in the middle of and are making great progress on that I think are going to be the relatively short run priority, for example, raising the $100 billion, investing wisely, building the credit business and making sure we don't have any future problems of the type we had in the past.

And I think that will be one of the ways that they will be evaluated. Their compensation package is structured really to align themselves both with the limited partners and with the unitholders. For example, their bonus will be only based upon the dividends that are paid, the distributions that are paid to the unitholders. There is a certain number of shares that they'll be allocated only it's the share equivalence and the dividend on those shares will constitute their bonus. So, as the unitholders profit, so will they from the standpoint of their short-term bonus.

In addition, the longer-term incentive plan is a combination of time vested and performance-vested units. The board each year will set the criteria for the performance vesting, but it's likely to be on such things as investment performance, DE, FRE fundraising.

## Michael J. Cyprys

*Analyst, Morgan Stanley & Co. LLC*

Q

Great. Thank you for the color there. And just as a follow-up, maybe you could talk a little bit about the credit business, hoping you could just share an update in terms of the build-out of that business. Give us a sense maybe of some of the people that you brought in, their expertise and what we can expect over the next year or two in terms of additional hires and where inorganic growth might fit into the mix?

---

William E. Conway, Jr.
*Co-Founder, Co-Chief Executive Officer and Managing Director & Chief Investment Officer, The Carlyle Group LP*

A

Okay. I'll start and I think Kew will maybe add a little bit of color afterwards. First of all, our credit business is already a pretty big successful business just, I think compared to some of our competitors frankly, it's not nearly as big or successful as their business is, and I think we can change that. It's about $32 billion in assets. A big part of that business is our CLO business where we've had a frankly a great track record for, I don't know, 15 years or so. The CLOs we have had, have performed fabulously even during, for example, the global financial crisis. All of them are in positive net rates of return. None of them went sideways or anything else.

We've issued five of them so far this year, and we – about $3 billion worth. And hopefully, we'll do more of those as we go forward. We have a great distressed business. We're on our fourth distressed fund now. The first three funds weren't only top quartile. I think they were all top decile funds. And that we're not as big or as well known as some of our competitors, but our performance has been wonderful.

Going forward, we're looking at some other businesses that we'd like to build around them. For example, a credit opportunities fund and we already have an energy mezzanine fund that has been – we're on our second fund there. And I would say that in terms of new talent maybe I'll let Kew talk a little bit about that starting with Mark Jenkins.

---

Kewsong Lee
*Managing Director, Deputy Chief Investment Officer-Corporate Private Equity & Head-Global Market Strategies, The Carlyle Group LP*

A

Yeah. Bill hit on the highlights which is we already have a world-class credit platform and now we need to do more with it. Mark, we brought in a little over a year ago from CPPIB is a top-notch investor and business builder. And behind Mark, we also brought in Alex Popov and other investment professionals and we're quite excited about the progress we've made and create opportunities which has recently closed a little bit less than $1 billion for a first time fund and is off to a very good start.

Obviously, you guys know about the BDC which just went public and we're in the midst of raising more money behind that direct lending team. And I think the key thing to understand though is, we are operating as a broad platform in the credit space. And that the brand of Carlyle just like in the PE business resonates quite well with our limited partnership base and we're quite optimistic about our future prospects.

Now, it's early days. There's a lot of hard work. We are investing behind people, behind teams and it's going to take a little time for all of that to pay off. But early days are quite positive with not only what we've had in place but with the new talent and leadership that we brought to the platform.

---

**Operator**: Thank you. And our next question comes from Ken Worthington of JPMorgan. Your line is now open.

---

Kenneth B. Worthington
*Analyst, JPMorgan Securities LLC*

Q

Hi. Good morning. In terms of compensation, there was a big increase in direct comp during the quarter. So, what drove the increase and as we think about 4Q, does it seem like a good base rate to think about for next quarter, as well as 2018 when you both have new CEO contracts kicking in as well as what we expect to be kind of an acceleration in fundraising? Thanks.

---

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

A

Ken, it's Curt. Hey, thanks for your question. Compensation expense in the third quarter really reflects the performance that we have been seeing. So, if you just think back $900 million of ENI thus far this year, appreciation has been really strong, 14% year-to-date, and Corporate Private Equity is 23% year-to-date.

Fundraising has been going really well. And equally important, we've really wrapped up a lot of our problems, as we've already talked about. Had that stuff not occurred, you would not see this increase in comp in the third quarter. But given that we're hitting the ball really, really well, it was appropriate to make the adjustment to reflect the improved performance of the firm.

Will we finalize all these numbers at year-end. Hard to say exactly where that will shape out. But, I don't expect a material change from baseline comp. What you will see in the fourth quarter is really fundraising. So, we're doing very well from a fundraising perspective and what can very well come through in the fourth quarter is much larger fundraising compensation, but that's really just reflective of the fact of a very strong expected fundraising for Q4.

Finally, let's just put all of the numbers in perspective. So, as I look at the nine months already, if you add up all the cash comp, year-to-date, it's $478 million. That compares to $453 million last year. That's a $25 million increase, but $18 million of that increase is fundraising. So, it's $7 million or less than 2% increase over last year. So, I really feel like we've managed it really well, especially as we're focused on performance.

Going forward, we've talked about really the increase in fundraising, and how that tees us up very nicely for an increase in Fee-Earning AUM, management fees and Fee-Related Earnings and performance fees in the longer term. Those are things we're focused on and as we manage that FRE uptick, that's how we'll be thinking about comp in 2018 and beyond. Hopefully that helps.

---

**Operator**: Thank you. And our next question comes from Craig Siegenthaler of Credit Suisse. Your line is now open.

---

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

Q

Thanks. Good morning, everyone. One of your competitors has been active and very public with the formation of new strategic partnerships which added $7 billion of AUM. I'm just wondering does Carlyle already have relationships of this type with your core LPs and are you looking to build these types of partnerships?

---

William E. Conway, Jr.
*Co-Founder, Co-Chief Executive Officer and Managing Director & Chief Investment Officer, The Carlyle Group LP*

A

We do have some partnerships like these, called special management agreements that we would have. We have some investors, large ones who have committed to us billions of dollars, and they will invest across a number of funds and conceivably in co-investments as well. We don't talk about them one by one or anything, we just kind of, in today's world particularly the sovereign wealth funds just have enormous amounts of money. What they're looking for obviously is co-investment opportunities and lower fees. And, of course, what we'd like to have them pay is of course higher fees, but that doesn't work out that way. Go ahead, David.

---

David M. Rubenstein
*Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP*

A

The sovereign wealth funds are most interested in having these so-called strategic relationships probably more so than the U.S. public pension funds. And, we and our peers, have entered into arrangements with them. We don't generally advertise them, but they are designed to give them maybe more information about what we see going on in the world, very good co-investment opportunities in return for very, very large commitments. And I don't think that any of the peers that we have, have done things that we really haven't done in this direction. I know that there have been some that have been announced recently by some U.S. public pension funds. But really, we all have done a fair number of these.

And you know to be honest, there's a limited number of so-called strategic relationships you can really have. You can't be married to 15 different people. So, we have a number of them. We don't advertise them, but we're quite happy with our relationships with the largest sovereign wealth funds in the world.

**Operator**: Thank you. And our next question comes from Mike Carrier of Bank of America. Your line is now open.

Michael Carrier
*Analyst, Bank of America Merrill Lynch*

Q

All right. Thanks, everyone. Hey, Curt, maybe, just if you could – I guess maybe clarify or give us a little bit of color, I know these things are difficult. But you mentioned in the fourth quarter just given your Asia and U.S. fundraising is going to be active and you have the related costs. And then, as we get into 2018 and 2019, just how you're thinking about the increase in management fees kicking in versus some of those fundraising costs slowing down and an ongoing build-out in credit. I'm just trying to – like kind of separate it out sort of the noise or the transition when you get to that that kind of run rate. I know in the past you guys have given some color on that, but just any update on how to be thinking about that or if anything has changed?

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

A

Mike, thanks. Look, I'd really detest getting forward guidance on specific numbers, but having said that, I want to just reiterate what I've said in the past. We've said before that we've previously had a peak of about $250 million of FRE, and I'm very comfortable that we can, again, see that kind of number if not more. And if you drill down behind that, I think, one of the things that we are really working on is to raise much larger funds in Corporate Private Equity. And as we do that, what's already a very successful business will become even bigger and more profitable.

Second, real assets has real momentum behind it. You've already seen this year both in terms of real estate in the NGP, as well as the energy funds, we have a lot of momentum there. Infrastructure will add to that. I think that that business will also really kick in a much more healthy way in 2018.

Next, you heard Kew and Bill talk about our credit business. That's been kind – it's been hard to kind of see that given all the costs we've been incurring, plus getting rid of all the hedge funds. That's all behind us. And so, I really think that that business can really be underpinning our FRE growth in the future, especially as we really grow from the $30 billion that it is now.

And then, let's not forget Investment Solutions. The team there has really done a nice job. The capital raised this year has been very good. And so, I think that that also underpins future growth in FRE, as well as performance fee. So, overall, I'm feeling pretty good about kind of where the firm goes. Every quarter is going to have its ups and downs, but the trajectory is looking pretty strong.

**Operator**: Thank you. Your next question comes from Bill Katz of Citigroup. Your line is now open.

William Raymond Katz
*Analyst, Citigroup Global Markets, Inc.*

Q

Okay. Thank you very much. Just a two-part question, I guess. First part, Curt, maybe just following up on that, is what do you think about what a normalized FRE margin might be as you look out to sort of that crest of FRE itself on absolute basis?

And then, maybe stepping back. It looks to me like some of the near-term distributable earnings type of dynamics softened a little bit if I looked at four-plus year aged or what's publicly-traded?

And Bill or others, I was wondering if you guys sort of comment on how you sort of see where you get the realizations from here. And then, again, thanks, everyone, and good luck to everyone in their new roles.

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

A

Bill, thanks. So, first, with respect to Fee-Related Earnings margins and the like, generally, that's not been – we have a high cost model really built around having the diversity in the platform. And so, what we're really focused on is getting the full benefit of the diversity across the platform from all four businesses.

You're not going to see probably a material uptick in margins on a sustained basis until we really get the credit business going well, that's what will really drive it. You'll see some increases of a small amount, but nothing that's going to materially change it on a long-term basis, but you will see this increase in management fees and that's what's going to really give us the benefit.

Secondly, with respect to carry, the first thing is obviously thinking about our generation of performance fees and the growth in accrued carry. So, this quarter, accrued carry is about $1.5 billion, essentially about flat with – down $70 million from last quarter, but up substantially from a year ago and you can kind of see that on page 5

If you think longer-term, we're in good shape to continue to build this. If you look on page 29 of the earnings release, if you look at some of the major funds there, you'll see a lot of access showing which funds are in accrued carry. The current generation of funds like Carlyle Partners VI has an 11% Net IRR as of September 30, it's only – it's roughly 84% invested. It has more run rate to go in terms of causing that Total MOIC and the returns to go up. So, I can see more accrued carry being built out of that.

Asia Partners IV, 17% Net IRR, 76% invested, it's in accrued carry and, I think, there's more runway there as well. Europe Partners IV, 7% Net, not yet in accrued carry, full expectation is that it will be. And that will be a big pot for accrued carry.

Same story is for NGP XI, Real Estate VII, Japan III, International Energy, there's just a lot on here that's going to continue to build our accrued carry balance.

From a realization perspective, we've – we still have roughly 20% of the portfolio that's over four years old, I think it's like 22%. That portion will still be able to contribute. Yes, our public portfolio is smaller than it has been, roughly about 14% now, but three very large public companies are in funds that are in the accrued carry. And so, you have the ability to realize from there as well. So, overall, I think we're in pretty good shape. You're – the real key, as I look at it, and it is our ability to continue to grow accrued carry, so that we can reload that pipeline, if you will.

William E. Conway, Jr.
*Co-Founder, Co-Chief Executive Officer and Managing Director & Chief Investment Officer, The Carlyle Group LP*

A

And just to add on to that, Curt. We had been building accrued carry. This quarter, it fell under $100 million, but we've been building it for the last year or so. In terms of where we're going to generate this DE going forward, I do think it's certainly true that the public portfolio is now down to just about $10 billion or thereabouts. I think, the top 10 positions are just under $10 billion.

And in the past, when you have companies public, it's easier to get liquidity out of a public company sometimes than it is out of private companies. This, frankly, is a part of a much bigger trend in terms of the, what I'll call, the decline in the importance of the public markets. The total number of, for example, publicly-traded stocks in the United States has been cut in half in the last 20 years. The number of IPOs is down probably 80% in the last decade or so. So, the public markets are becoming much different than they used to be, and I think that's a factor perhaps even in the size of our publicly-traded portfolio.

We still have – carry a fair value in the ground of about $68 billion, of which 22% is older than four years. So, in terms of where we have the capability to get the additional DE is from those investments that have already been made. It's one of the reasons why you have to kind of keep investing even when you think sometimes asset prices are high, which we do today.

**Operator**: Thank you. And our next question comes from Robert Lee of KBW. Your line is now open.

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

Q

Thank you, good morning. And first, Bill, Dave, Dan, congrats on building the firm to this point over the years, and Glenn and Kew, congrats on your new roles and best of luck to everyone.

William E. Conway, Jr.
*Co-Founder, Co-Chief Executive Officer and Managing Director & Chief Investment Officer, The Carlyle Group LP*

A

Thank you.

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

Q

Maybe the first question and I know it hasn't been touched on, but you did announce a few weeks back about a joint venture with Oppenheimer in the wealth management market, and can you maybe just update us on what that is, what your expectations are, when you maybe expect some product launches through that JV as we look into 2018?

William E. Conway, Jr.
*Co-Founder, Co-Chief Executive Officer and Managing Director & Chief Investment Officer, The Carlyle Group LP*

A

Kew?

Kewsong Lee
*Managing Director, Deputy Chief Investment Officer-Corporate Private Equity & Head-Global Market Strategies, The Carlyle Group LP*

A

Hi, Robert, it's Kew here. Yeah, we did announce a few weeks back this joint venture with OppenheimerFunds. We're going to be offering some credit products that are accredited in mass affluent investors. And, I think, this brings together Carlyle's investment expertise with OppenheimerFunds' extensive product structuring and distribution capabilities.

They've got over 180 people going after this channel. And, I think, it's early days, and I don't want to get into it, but you should expect that we will have some type of an offering that invests across Carlyle's global credit platform sometime in the first half of 2018. And so, more to come with respect to that joint venture and partnership.

**Operator**: Thank you. And our next question comes from Patrick Davitt of Autonomous Research. Your line is now open.

Patrick Davitt
*Analyst, Autonomous Research US LP*

Q

Good morning, thanks. Building on Craig's question earlier on the permanent – on the partnerships. We've seen a couple of your competitors be pretty vocal about wanting to be much bigger in permanent capital. Could you update us on the percent of your AUM that you would consider permanent and your view on making that a focus in terms of getting bigger, in terms of a contribution?

David M. Rubenstein
*Co-Chief Executive Officer, Co-Founder & Director, The Carlyle Group LP*

A

Well, we have raised some so-called permanent capital funds or long-term funds. We have a long-term private equity fund that Kew helped organize, and that's doing quite well. And I expect that will be a successor to that, that will probably be bigger than the initial one.

But one thing I think people should take into account is that, when you have a reputation as we do and, as other peers we have compete with, do, and you go out and raise a successor buyout fund, while you have to go out and raise it, it's – I won't call it a permanent capital, but it's very likely you can raise these funds for quite some time into the future.

So, when we have a – our current U.S. Buyout fund's, $13 billion, when we go out and raise the successor one, which we're now doing, we're fairly comfortable that we're going to get a fund of at least that size, if not more. And so, while it's not technically permanent capital, we have a pretty good ability to get capital when we need it. And we really haven't struggled to raise capital in any recent time, any of the major funds that we really have.

So, we are always looking at different permutations of how you can raise capital. But, I'd say, right now, the model that we have is one that we're pretty reasonably comfortable with. We may, from time to time, look for additional ways to raise additional capital in different forms. But right now, our business model is in reasonably good shape in getting the capital we need when we need it.

**Operator**: Thank you. And our next question comes from Brian Bedell of Deutsche Bank. Your line is now open.

Brian Bedell
*Analyst, Deutsche Bank Securities, Inc.*

Q

Great. Thanks, everybody. Thanks very much and also congrats on – everyone, and then best of luck. Maybe just on the investment outlook, Bill, I know you've been pretty cautious on elevated valuations for a while. Maybe if you could just update your – update us on your perspective. And also, Kewsong, if you will, given your role in this area, maybe just – I don't know, if Peter is on the call as well, but if you guys could touch on how you view capital deployment in CPE going forward, given valuations and maybe which regions do you think there might be a strategic pivot towards?

William E. Conway, Jr.

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

A

Well, first of all, thank you for the question. Your question is probably answer – is easier than the answer. Yes, we do think asset prices are high, And, I think, they're particularly high in the United States where compared to the average over the last decade or so is about 25% over the last – over that average price for that period of time. Interestingly, that doesn't mean that going forward returns are going to be negative or anything. It just means they are likely to be lower than they otherwise would be, given the fact that the prices are relatively high today.

I think it's led Carlyle, frankly, to have to evolve in some ways. For example, in our Fund V in the United States, we did a number of deals that were public to private. In Fund VI, we've done 1 out of 20 deals, less than 5% of the capital has been a public to private.

Today, with a relatively high level of the public marketplace and frankly the complications of taking public companies private where you tend to get sued by people who complain they didn't get a high enough price or actually they just want more whether or not they got a high enough price. I think, it's been a tough kind of part of the strategy. We've bought far more private companies, faster growing private companies led by founders who helped to build them.

Examples of those in the past have been companies like Beats and Vogue, the hair products company, where we've – obviously we've done very well on those, but they were private companies. They never went public. And we bought them, we helped them build. And frankly, one of the big reasons for going public has disappeared. Used to be people went public so they could raise money. Now, they can raise money in so many other ways.

In terms of places around the world that I think we find particularly attractive, I would say, we find Japan particularly attractive. I think that the market there is – generally it's been tremendously underpenetrated for private equity. Today it is – it's becoming more welcoming to private equity, and we've got a big, deep team there. We've been there a long time. We're on our third fund. And so, I think – we think, that's a pretty attractive place to invest.

In Asia, we have another big, deep team. We've got more than 100 Carlyle people working in Asia today, and there are many great opportunities there. We're very happy with, for example, with McDonald's deal, which I think was a deal that very few people could have done other than Carlyle, and there are other examples of that.

Europe, I think, is underappreciated, for a long time, it's been thought as this place that was first going to break up of its own weight, whether Brexit was going to be the problem or Catalonia was going to be the problem or something else is going to cause Europe to falter. It's been growing at a rate comparable to the United States. Sometimes it's a little higher, sometimes a little lower. It's a very wealthy part of the world. It's more connected, frankly, to emerging markets than the United States market is. So, I think, it's been a pretty great market for us. And so, we like that as well.

Emerging markets, we have funds in Africa and in South America. Lately, emerging markets have done reasonably well in general because of the – frankly the weakness of the United States dollar has been a big positive for the emerging markets. And, I think, I don't know how long that will continue, but I'm not a currency trader, but I think that has been a positive for the emerging markets.

So, I think, in order, I'd say, probably Japan would be the top of the list in terms of the markets that I see the greatest opportunity, but it's a much smaller market. Even with being a $5 trillion economy, it's not that big -bigger market. Europe and Asia are probably, today, relatively more attractive than the United States.

Kew, anything to add on to that?

---

**Kewsong Lee**
*Managing Director, Deputy Chief Investment Officer-Corporate Private Equity & Head-Global Market Strategies, The Carlyle Group LP* A

Yeah. Brian, I'd say, first of all, we have over 600 professionals across the world in over 30 offices, doing nothing more than looking for that next great deal. And you have to keep in mind, finding deals, this is – it's not months, it's a multi-year timeframe with which to do all the hard work to get a deal done. But with industry focus and with the coverage that we have, I think, we're very well positioned. And Bill pointed out some of the regional areas that we're leaning into, but I'd only add a couple of thoughts.

First of all, over the past several years, all of you have will know, corporate M&A activity has really spiked up, and out of that will come divestitures and carve outs, which Carlyle is very well known for. I think, if there's one area where we've really been distinctive in, it's the ability to get very large scale carve outs done successfully, like Axalta for instance.

And then second, taking an industry theme, healthcare is, while mature in the state, is still underpenetrated in certain parts of the world, particularly in Asia. And our global healthcare presence is quite strong, and we've done a lot of things there in India and in China and in Japan. And so, I think we're very well positioned.

I'll leave you with one thought though. The $6.9 billion of investments that we put into the ground this quarter in a very challenging investment environment, a little more than half of that was CPE. And the reason I make that point is, we have a broadly diversified platform, and you're seeing us being able to hopefully, in a disciplined way, put that money into the ground not only in credit, but in energy, in real estate and through our Investment Solutions and our terrific AlpInvest team.

So, I think, broadly speaking, it's a very tough environment, but we have the teams and the diversified platform with which to keep pushing forward.

---

**Operator**: Thank you. And our next question comes from Alex Blostein of Goldman Sachs. Your line is now open.

---

**Alexander Blostein**
*Analyst, Goldman Sachs & Co. LLC* Q

Great. Hey, good morning, everybody. This is just kind of a follow-up to the last point you guys were making. I was hoping to spend a minute on the solutions business. It is a business not getting, I think, enough focus from investors, and obviously it hasn't been a huge contributor to earnings in the past. But I guess, as you guys look out, how should we think about the new AlpInvest funds coming into carry and overall kind of contribution from that business to ENI and DE over the next couple of years? Thanks.

Glenn A. Youngkin
*President, Co-CEO, COO & Director, The Carlyle Group LP*

A

Thanks, Alex. This is Glenn. So, yes, I do think that the solutions business has been a little bit in the shadows. It's beginning to emerge, and we don't want to raise expectations too high because it's a longer process for that business, particularly when it comes to generating performance fees. The one distinction in that business is that their performance fee generation comes at the back end of their funds, and the funds that we are earning performance fees in today are the ones that started post our acquisition in 2012.

And so that's why when Curt comments that we actually have seen for this quarter strong performance fee generation, it really is those new fund that have been launched in the last few years that have had very strong investment performance that are beginning now to finally kick in.

So, we'll see this build over time. The two big businesses that of course to watch there are the secondaries funds where we had a $6.5 billion fundraise that concluded in the first quarter, and that fund is being deployed. And of course, the co-invest program that Curt mentioned in his comments, which is at the top of its cap, and that is being deployed as well.

We'll have some new products that we're deploying. We also are seeing strong fund performance out of the Metropolitan Real Estate platform, and we're in the market right now with their secondary and co-invest funds. So, just continue to watch this build steady. It won't be a big spike, but it'll be a steady contributor in an increasing way over time. And it's all underpinned by just great investment performance. These guys are doing a super job.

**Operator**: Thank you. And our next question comes from Gerald O'Hara of Jefferies. Your line is now open.

Gerald Edward O'Hara
*Analyst, Jefferies LLC*

Q

Great. Thanks. Just maybe one for Curt, and with respect to the preferred equity raise here, I guess, roughly a month ago, you noted to fund various growth initiatives with the proper kind of interpretation there based sort of relative to fundraising or is there perhaps something you could say in addition or maybe just elaborate on those growth initiatives? Thanks.

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

A

Hi. Thanks for the question. We're really pleased to have gotten the $400 million raise. It's a great execution that's really helpful in terms of all the players that worked with us on. So we're very pleased to have that, definitely helps us from a balance sheet perspective.

As we think forward though, this is – there if you look at opportunities to grow the business, we're very careful about how we do that, but it's also to invest in our funds as we complete the $100 billion capital raise.

So, remember, we invest 0.75% to 1% into our funds. And so, if you think about $100 billion, that requires some capital there. Kew has talked about the growth in the credit business. That's where I see kind of having this capital support, building out that credit platform. So hopefully that helps.

**Operator**: Thank you. And our next question comes from Robert Lee of KBW. Your line is now open.

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

Q

Thanks for taking my follow-up. I'm just curious – I mean, fundraising clearly is going extraordinarily well, but maybe update us a little bit on how maybe the complexion of LP is or isn't evolving. I mean, I think, be interested to get a sense of are you seeing existing investors. There's a lot of the incremental capital coming from existing investors moving into additional products, upping their commitments, and maybe your success in bringing on relatively new LPs into the family, so to speak.

.....................................................................................................................................................................................................................................................................

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

A

Okay. I would say that if you look at our historic fundraising sources of capital, I mean, you look at where we're getting money from today or in the last 12 months, there's been some slight change. We are seeing more money coming in now from sovereign wealth funds that we did historically. We are seeing the public pension funds being still very, very large. I think, all of our peers, their biggest source of capital really is U.S. public pension funds for these carry funds. Second now, I would say, is probably the sovereign wealth fund. And third probably are called retail, which is to say feeder funds or high net worth or family offices.

And in our own case, we have found, over the years, that investors like us in one product, they will invest in other products. So, I think, the numbers are something like 60% of our capital is now coming from investors who are in six or more of our funds, and actually 10% of our capital is coming from people who are in 20 or more of our funds. So, there's no doubt that if you like one Carlyle product, you're likely to take a look at another one and probably be happy with it as well. So, we think that's a very good position for us and a trend that we think we can continue.

Right now, the fundraising efforts – our biggest challenges in fundraising are over-allocation. In other words, to say, we are going to be oversubscribed. And when you're oversubscribed, you have the difficulty of going to investors who've been with us for a long time and saying, well, we're sorry, you've been with us for a long time, but there isn't enough room for you in the funds. So, that's why we're telling everybody, if they want to come into these funds, they've got to be in the first closing if they want to get their full allocation.

And so, the biggest challenge we have now is really how to allocate among our very good loyal investors around the world with the available size fund that we have in the various funds. It's a good problem to have, but it's one nonetheless we spent a fair amount of time on.

.....................................................................................................................................................................................................................................................................

**Operator**: Thank you. And our next question comes from Patrick Davitt of Autonomous Research. Your line is now open.

.....................................................................................................................................................................................................................................................................

Patrick Davitt
*Analyst, Autonomous Research US LP*

Q

My question was just asked. Thanks.

.....................................................................................................................................................................................................................................................................

**Operator**: Thank you. And our next question comes from Bill Katz of Citigroup. Your line is now open.

.....................................................................................................................................................................................................................................................................

William Raymond Katz
*Analyst, Citigroup Global Markets, Inc.*

Q

Okay. Thanks for taking the second question. Just stepping back a little bit. There's been some further movement into potential U.S. tax reform, and it seems like interest deductibility seems to be bubbling up again as a potential area to fund that reform. If you could give us your fresh views of how it might spill through the different businesses, particularly with some focus on both credit and the corporate private equity business? Thank you.

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

A

Let me start with that, and then others may chime in. First, it's unclear what the tax bill will be. Having been in Washington for almost 40 years, I know that what starts out likely to be a tax bill isn't what often emerges as the final tax bill. So, I know what has been discussed, but it's just not clear what will actually get done. But let's assume for a moment that there is some limit on deductibility of interest. One, it'll affect all the private equity firms equally presumably. And therefore, we would adjust the way we value companies to some extent.

But I want to remind people that interest is less important than it used to be for two reasons. One, we are not putting in as much debt as we were many years ago. Remember, in the early days of private equity, debt often was 95% of the purchase price. In recent years, it's probably been under 50% in many cases. Secondly, the interest rates are so low today that even if they were to go a little bit higher as the fed likely will do at some point, it's still a relatively modest interest charge compared to what we saw many, many years ago.

So, I don't want to make it sound like we're not concerned about it. We're always concerned about it. We run numbers all the time. But right now, I think it's not something we can really say for certain what will happen, because we don't know what will get through the process of the House and the Senate. But it's something we do look at, and it's clear that there will probably be some effort to make a change in that area.

**Operator**: Thank you. And our next question comes from Brian Bedell, Deutsche Bank. Your line is now open.

## Brian Bedell
*Analyst, Deutsche Bank Securities, Inc.*

Q

Great. Thanks for taking my follow-up. Curt, just back on FRE. I appreciate all the granular comments. Just in your comment about reaching that peak FRE of $250 million or so, I assume that will be in 2019, given what you've said about the trajectory stepping up really in the second half of 2018. Just wanted to sort of clarify that, I guess, make the statement I guess if that would be impossible to hit in 2018 given the step up?

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

A

Thanks for your question. I guess, again, I don't like giving the specific guidance around FRE exactly when, but 2018 is going to be much better than the current year from an FRE perspective and 2019 will be even better than 2018 based on everything I'm seeing now. But the exact timing on what hits when, look, I'm very comfortable with the $250 million. When exactly does that come into play? Hard to exactly say, but the second half of 2018 is going to be better than the first half, and 2018 will be very good.

**Operator**: Thank you. And our next question comes from Michael Cyprys of Morgan Stanley. Your line is now open.

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

Q

Thanks for taking the follow-up question. Just curious if you could comment on the EBITDA and revenue growth trends at your portfolio companies?

William E. Conway, Jr.

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

A

Well, this is Bill. The world is in a synchronized global recovery. And so, I don't have the numbers right at my fingertips. I don't know if you do Glenn or Kew, but what I do know is that through the summer globally, revenue and EBITDA were both growing at about 10% across the portfolio. And that goes a little bit to the fact that, of course, we invest on a micro basis rather than a macro basis.

We're not buying the index. We're not buying an economy. We're buying a specific company. But I'd say, everywhere, the economy is pretty good if you think about the economies. Although people complain about an economy growing at 1% or 1.5% or something like that, the one thing I've seen is, if you're growing at 1.5%, you can grow at 1.5% for a long, long, long, long, long time. And that kind of keeps you out of the excesses that can happen when you have very fast growth followed by slowdowns and recessions. So, I think it's – our portfolio is in good shape generally, everybody has some deals they wish they hadn't done or paid lower price or whatever, but generally we're in pretty good shape. And a lot of that is the performance of the global economy, which is good too.

**Operator**: Thank you. And I'm showing no further questions at this time. I'd like to turn the conference back over to Daniel Harris for any closing remarks.

Daniel F. Harris

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

Thank you for your time today. If you have any follow-up questions, please call Investor Relations at any point, and we look forward to talking to you again next quarter.

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