PARTICIPANTS

Corporate Participants

Daniel Harris – Managing Director and Head of Public Investor Relations, The Carlyle Group
David M. Rubenstein – Founder and Co-Chief Executive Officer, The Carlyle Group LP
William E. Conway – Founder and Co-Chief Executive Officer, The Carlyle Group
Adena T. Friedman – Chief Financial Officer, The Carlyle Group

Other Participants

Kenneth B. Worthington – Analyst, JPMorgan Securities LLC
Marc S. Irizarry – Analyst, Goldman Sachs & Co.
Matt Kelley – Analyst, Morgan Stanley & Co. LLC
Michael S. Kim – Analyst, Sandler O'Neill & Partners LP
Brian B. Bedell – Analyst, Deutsche Bank Securities, Inc.
Patrick Davitt – Analyst, Autonomous Research US LP
Dina Shin – Analyst, Credit Suisse Securities (USA) LLC (Broker)
Kaimon Chung – Analyst, International Strategy & Investment Group LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and thank you for standing by. And welcome to the Carlyle Group's Fourth Quarter 2013 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we'll conduct a question-and-answer session and instructions will be given at that time. [Operator instructions] As a reminder, today's conference may be recorded.

It's now my pleasure to turn the floor over to Daniel Harris. Sir, the floor is yours.

Daniel Harris, Managing Director and Head of Public Investor Relations, The Carlyle Group

Thank you, Hughie. Good morning and welcome to Carlyle's fourth quarter and full year 2013 earnings call. With me on the call today are Carlyle's Co-Chief Executive Officers, Bill Conway and David Rubenstein; and our Chief Financial Officer, Adena Friedman.

Earlier this morning, we issued a press release with our fourth quarter and full year 2013 results. A copy of which is available on the Investor Relations portion of our website. Following our remarks, we will hold a question-and-answer session for analysts and institutional unitholders.

As we did last quarter, we are going to limit each person to one question to allow everyone on the line to participate in a reasonable timeframe. So feel free to get back in the queue, if you have additional questions. This call is being webcast and a replay will be available on our website.

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

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

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

David M. Rubenstein, Founder and Co-Chief Executive Officer

Good morning and thank you for joining Carlyle's fourth quarter earnings call. By virtually any metric, Carlyle posted a very strong quarter and a very strong year. For the full year, our 2013 performance was better than we had anticipated earlier in the year because of the growing strength during the year of our portfolio. Especially that part of our portfolio, which included the 11 carry funds and hedge funds that we highlighted at our Investor Day.

Our performance also exceeded our prior outlook because some of the exit activities that we earlier expected would occur in future periods, in fact, occurred in 2013. As we have always said, we cannot precisely predict nor do we try to manage, which investments or which exits will take place in a particular quarter or even a particular year. That is exactly why we took the time at our November Investor Day to outline the firm's longer-term expectations, which are still very much intact.

We are pleased that those unitholders who have shared our longer-term perspective on the performance of our business have been rewarded during the first full year of our being a public company. Specifically, distributable earnings for the quarter were $401 million or more than double the $188 million in the fourth quarter of 2012. On an after-tax per share basis, we produced $1.18 in distributable earnings for the fourth quarter and $2.50 for the year.

For 2013 as a whole, we posted a 22% increase in pre-tax distributable earnings from 2012 to $840 million. Unitholders of record on March 3 will receive a distribution of $1.40 on March 11. In total, we will have distributed $1.88 per unit to our common unitholders in connection with our 2013 performance.

Because of robust fund appreciation and because several of our significant funds moved into accrued carry, our economic net income for the quarter was $576 million, more than triple the $182 million in the fourth quarter of 2012. Several of our funds, including two of our large buyout funds, Carlyle Asia Partners III and Carlyle Europe Partners III, moved into a full accrued carry position. As a result, we now have 80% of the remaining fair value of our carry funds in carry, up from 57% at the end of the third quarter of 2013.

In 2013, we raised more than $22 billion in new capital. And that was our best fund-raising years since 2007. Along with market appreciation, this helped drive our total assets under management to $189 billion, up 11% over the prior year. And that is after distributing more than $17 billion during the year to our investors.

And importantly, for the long term, we took a number of important steps in 2013 to create or add new investment strategies to bolster the firm's management and to strengthen our global portfolio, which we believe positions us well for 2014 and beyond.

Before digging into some of the fundraising highlights and trends, I want to first highlight some of the significant moves we made in 2013 to broaden and strengthen our platform. First, we made substantial progress in repositioning, broadening and enhancing our Natural Resources' investment capability. Carlyle now offers a broad range of global energy investment opportunities with over $13 billion under active management within Carlyle and within our partner, NGP Energy Capital Management, but excluding our legacy relationship with Riverstone.

Last year, we completed nine new energy investments across the Carlyle platform, and NGP completed 21 investments. We are seeing very strong investor demand for the three energy funds we now have in the market and we're excited about the opportunities in 2014 to raise and deploy capital in this area.

Second, in 2013, we added the second and third legs of our Solutions strategy, positioning Carlyle with proven capabilities in private equity, real estate and hedge fund of funds. In addition, AlpInvest performed very well in 2013 with 17% appreciation and strong distribution activity.

Third, last year, we continued to strengthen and grow our Global Market Strategies platform, which now manages $35 billion in assets. In 2013, we issued more than $3 billion and six new issue CLOs in the United States and in Europe. We grew our hedge funds and we recently submitted filings with the SEC for our first two mutual fund products. Our hedge funds grew to over $14 billion in assets and our energy mezzanine and distressed investing strategies are both performing well.

Fourth, in 2013, we recruited a number of senior managers to the firm, including Kewsong Lee to be Deputy CIO of our Corporate Private Equity business, and Adam Metz to be Head of our International Real Estate operations. Ken Hersh, who founded NGP, recently assumed a leadership role overseeing Carlyle's natural resource activities within the Real Assets segment. We are fortunate to have an impressive group of future firm leaders throughout Carlyle and we will continue to strengthen across the firm through internal growth and some external hires in our pool of next-generation leaders.

Now, let me turn to fundraising highlights and trends. Fundraising remains resource intensive, but the macro and micro environments improved significantly in 2013, and we are cautiously optimistic, these trends will continue in 2014. As we noted at our Investor Day in November, we expect to be able to raise between $15 billion to $20 billion in new capital throughout 2014.

Specifically, three dynamics are contributing to the better macro environment for fundraising. First, the largest pools of capital throughout the world have seen significant increases in asset values, reversing the so-called denominator effect, which has pressured fundraising since the crisis. According to our analysis of OECD data, the value of global pension fund assets increased by more than $2 trillion in 2013 and now stands at almost $25 trillion. As a result of the rise in asset prices, many large institutional investors are now significantly below their stated allocation targets for alternative investments.

Second, allocations to private equity are also increasing across the spectrum of investors who participate in this area. This trend can reasonably be expected at some level to continue. Third, private equity managers alone returned a record $120 billion to limited partners in 2013. Limited partners in turn seemed likely to reinvest these proceeds in private equity for other alternative investment opportunities in the near-term.

These trends, along with our investment track record and the attractiveness of our funds in the market, enabled us to raise more than $22 billion across all of our strategies in 2013. Within our carry funds, we raised over $14 billion in 2013. We closed our latest vintage U.S. buyout fund at $13 billion, above our original $10 billion target. We exceeded our target in our Sub Saharan Africa fund and we are making good progress on our latest Asian, Japan and Europe buyout funds. We saw net inflows of nearly $1 billion to our hedge funds, and we are making solid progress on our business development company and our new international energy fund.

As a result of our fundraising efforts, our fee earnings assets under management increased 14% in 2013 to $140 billion. Of the total funds we raised in 2013, 45% came from the Americas, 28% came from Europe and the Middle East, and 27% came from Asia. Public pension funds remained our largest source of capital, accounting for one-third of the amount raised for our carry funds last year, while sovereign wealth funds represented 26% of capital raised in our carry funds more than doubled their share from just a few years earlier.

Retail investors continue to play an important role in our fundraising process, with $2 billion in capital commitments in 2013 coming from retail investors through our feeder fund partners. We continue to add ways for retail investors to access Carlyle funds, including creating new products and adding new feeder partners. In late 2013, Carlyle filed to register two mutual funds with the SEC that we plan to launch later this year pending regulatory approval.

Looking ahead for the year, we expect a greater share of our fundraising in 2014 to come from our Real Assets segment, which currently has five funds in the market, including our seventh U.S. real estate fund, NGP's 11th fund, our second U.S. power fund and our first international energy fund. Beyond Real Assets, we expect to complete fundraising for our Asia, Europe and Japan buyout funds this year. And our hedge funds are continuing to grow by developing several new strategies and where appropriate expanding their existing ones.

Now let me turn to Bill Conway to provide more color on the portfolio and investing in exit environments. Bill?

William E. Conway, Founder and Co-Chief Executive Officer

Thank you, David. A few introductory comments before I discuss our investment business by segment. 2013 was yet another good year to exit. In the four-year period ending December 2013, we have had over $60 billion of realizations. We witnessed public markets climbed to all-time highs and interest rates remain low. We continue to drive appreciation across the existing portfolio and to exit when appropriate, realizing a total of $17.4 billion in proceeds in 2013. As a result, 10 of the 11 funds that we highlighted at Carlyle's Investor Day are now producing either accrued or cash carry.

While 2013 was another good year to exit, it was a challenging year to invest, particularly in the United States. This was the flip side of robust public markets and low interest rates. We invested $8.2 billion in 2013 across our carry funds, slightly more than last year. We were particularly active in China, where we invested more than $1 billion, more than we have invested there in any prior year. We also closed seven new transactions in Europe, totaling more than $1 billion, taking advantage of relatively attractive prices and a lack of mid-market financing.

In the U.S., we completed seven new Corporate Private Equity transactions for $2.5 billion. We took public eight of our portfolio companies in the quarter and 15 over the year. The fourth quarter IPOs included Numericable and Completel, the French cable operator, CommScope, the U.S. telecom equipment manufacturer, CVC, the Brazilian tour operator, and Moncler, the Italian high-end fashion company. These IPOs and others, as well as the market performance, increased the value of our public portfolio to more than $18 billion in our carry funds as of year-end.

With that overview, I would like to move to our quarterly segment update. In Corporate Private Equity, or CPE, we invested more than $900 million in the fourth quarter in three new and 15 follow-on investments. We closed our investment in Beats by Dre. We invested in one of the top cancer specialist hospitals in India, and we invested in Edgewood Partners, a U.S. based insurance brokerage firm. Already in 2014, we have agreed to invest $2.3 billion of equity in five businesses.

In terms of our CPE portfolio, our carry funds appreciated 9% in the fourth quarter and 30% during 2013, driven by a combination of earnings growth and appreciation of the public markets. For 2012, our CPE funds appreciated 16%. The underlying companies in our portfolio are performing very well. As of September 30, the average last 12 months EBITDA for our corporate portfolio equity companies has increased more than 15% since the prior year.

In terms of realizations, our CPE segment realized proceeds of $5.3 billion in the fourth quarter and $12.2 billion in 2013. The more notable sales in the quarter were ARINC, a company in our fourth U.S. buyout fund, to Rockwell Collins for $1.4 billion and a 4.5 multiple of invested capital. Personal & Informatik, a software company in our second European technology fund, for a total return of 6.5 times our original investment. Genesee & Wyoming, the short line railroad in our fifth U.S. buyout fund to a substantial gain, and we executed block sales at Nielsen, Allison, BankUnited, OzForex and Booz Allen Hamilton.

Turning to our Global Market Strategies segment, or GMS, we invested about $400 million in the quarter in our carry funds. Our GMS carry funds, which include distressed, mezzanine and energy mezzanine, appreciated by 10% in the quarter and 28% during 2013, compared to up 23% in 2012. Our GMS hedge funds turned in strong risk-adjusted performances for their specific strategies. Overall, our hedge funds produced net incentive fees to Carlyle of $77 million in the fourth quarter and $85 million for 2013.

Our CLOs are also performing well, consistent with our objectives, and we plan to continue to offer new issue CLOs this year. Lastly, with initial equity capital of over $1 billion, our BDC is off to a strong start.

Turning to Real Assets, we invested almost $900 million in the quarter. This number excludes NGP investments. Notably, we closed our first two investments in our international energy fund, we acquired Red Oak, a natural gas-fired power plant in New Jersey and we invested in 40 new and follow-on real estate investments in United States with an increasing focus on office and hotel properties.

The portfolio performance in our Real Assets segment was mixed, up about 1% for the year versus up 9% in 2012. U.S. real estate funds generated year-over-year appreciation averaging about 20%, while non-U.S. real estate performance struggled, resulting in total appreciation across the real estate asset class of 4% for the year. And the legacy Riverstone energy business was down 2% for the year as volatility in their public portfolio pressured their returns.

Turning to realizations, the Real Assets business realized about $770 million in proceeds in the quarter and $4.1 billion for the year, which was split about equally between the real estate funds and the energy and infrastructure funds.

In Solutions, we can now offer our investors a wide range of private equity, real estate and hedge fund of fund strategies. On the investment front, as David mentioned, AlpInvest performed well in 2013, achieving appreciation of 17%.

In summary, the attractive environment for realizations, combined with the quality and maturity of our investment portfolio, resulted in more than $17 billion in realizations in our carry funds in 2013. We are very pleased with the investments we chose to make, companies like Axalta, Beats, Chesapeake Packaging, TCW, Focus Media, [indiscernible] (00:17:26) Duff & Phelps, Red Oak Power and Vero Energy. We believe that we added significantly to what was already a quality portfolio, and we believe that these transactions will drive value creation and powerful distributions in the years ahead.

For 2014, a market that started with falling interest rates in the developed markets, falling stock prices, and increased volatility, particularly in the emerging markets. Despite these factors, or maybe because of them, our global investment pipeline is stronger than it's been in over a year.

Now let me turn to Adena.

Adena T. Friedman, Chief Financial Officer

Thank you, Bill. Carlyle had a very solid year-end. We achieved strong fourth quarter results and continued to build our foundation for robust potential future earnings. Let me drill down on a few items impacting our results. I'll begin with the distribution.

As David mentioned, fourth quarter pre-tax distributable earnings were $401 million, which led to after-tax distributable earnings per unit of $1.18. For the full-year, pre-tax distributable earnings were $840 million, up 22% compared to 2012, and in 2013, after tax distributable earnings per unit was $2.50.

Our fourth quarter distribution of $1.40 per unit includes our base $0.16 quarterly payment as well as the $1.24 in a true-up distribution. For the full fiscal year, $1.88 in distributions per unit represents a 75% payout on our full-year after tax distributable earnings, and it's within the 75% to 85% range that we target.

We distributed this amount in consideration of Carlyle's strong year, but also reflecting continued investment in our platforms, as well the need to meet earn-out obligations on prior acquisitions. For fiscal 2014, our intention remains to pay out 75% to 85% of our after tax distributable earnings.

Moving on to performance fees, economic net income and accrued carry, during the fourth quarter, we had seven funds moved into an accrued carry position, which provided a material boost to total performance fees and economic net income. Net performance fees were $592 million in the quarter. And for the full year, net performance fees of $1.2 billion were more than double the 2012 level.

Fourth quarter performance fees were underpinned by 9% quarterly carry fund appreciation in our Corporate Private Equity segment and strong results in our Global Market Strategies segment. Our unrealized investment loss of $56 million in the quarter was primarily the result of managing a tax matter in our European real estate business, as well as losses from our balance sheet investment in Latin America.

Our robust performance fees and solid fee-related earnings led to pre-tax economic net income of $576 million, and post-tax ENI per unit of $1.64, both of which represents the best results for Carlyle since our IPO. That said, we do not rely upon short-term economic net income results to evaluate the state of Carlyle, given the volatile nature of ENI, and this quarter proves that on the upside.

Two of our larger buyout funds, Carlyle Europe Partners III and Carlyle Asia Partners III, representing $9.3 billion in combined remaining fair value, both crossed into full accrued carry this quarter and together contributed approximately $350 million to net performance fees.

There could be volatility in quarterly performance fees, while these funds remained close to their hurdle rates, though the investment underpinnings of both funds are very strong. While both funds are now accruing carry, we have not yet taken carry – realized carry in either fund. We will follow the guidelines we described at our Investor Day in November to determine the appropriate time to begin to recognize realized carry associated with future exit events.

Our solid fund performance drove gross and net accrued carry to record level. Gross accrued carry reached $3.7 billion at year-end and our net accrued carry balance was $1.8 billion, up 15% year-over-year despite $677 million in net realized performance fees during the year. On a per unit basis, our net accrued carry equates almost $6 per unit.

We expect to continue to be opportunistic in exiting mature fund investments to generate realized proceeds and convert accrued carry into realized performance fees over the next year, assuming a reasonable market backdrop and available capital markets.

Shifting to fee-related earnings, Carlyle produced $39 million in fee-related earnings during the fourth quarter compared to $44 million in the third quarter. And for the full year, fee-related were $152 million. During the fourth quarter, a few items impacted fee-related earnings. G&A expenses were higher in the fourth quarter, driven by professional fees, somewhat offset by lower fundraising costs. Additionally, there were some one-time revenue rebates and expense items, as well as management fee catch-ups that largely offset each other.

We began to reflect the acquisition of Metropolitan Real Estate, our new real estate fund of funds platform, as of the November 1 close of that transaction. The quarter also reflected a full quarter of our 100% ownership stake in AlpInvest, up from 60% through August 1. Together, these two changes added $7 million to our fee-related earnings in the quarter compared to prior period. And on February 3, 2014, we completed the acquisition of Diversified Global Asset Management, or DGAM, which had $6.6 million in managed and advised assets as of December 31, 2013.

In terms of our units, we exited the fourth quarter of 2013 with approximately 312 million total units and 49 million common units. Common units issued in connection with the DGAM acquisition and the vesting of prior year stock grants has increased our public unit count by approximately 900,000 as of February 3, 2014. Prior year grants, including IPO grants that we'll vest this year, will add 3.6 million more units to our distributable earnings unit count throughout the remainder of 2014, with the majority vesting on May 2.

Lastly, I would like to call your attention to two new disclosures in the earnings release. First, we added a table, which highlights certain characteristics of our family of funds that provide more transparency into each of our significant funds that have at least $100 million of remaining fair value. Along with the remaining fair value for each fund, we also highlight the MOIC of remaining value, whether the fund is accruing carry as of the end of the quarter and which funds have taken carry over the past 12 months.

In the second disclosure, we provide our top 10 public positions and in which funds those securities reside. Both of these disclosures provide improved transparency into the potential size and location for future carry.

With that, we look forward to seeing many of you throughout 2014 and encourage you to reach out to us if you have any questions on our results or disclosures.

Let me now turn it back over to David for some concluding remarks.

David M. Rubenstein, Founder and Co-Chief Executive Officer

As we have tried to convey this morning, Carlyle had a strong quarter and a strong year by almost any measure or any standard. Obviously, while we cannot guarantee what our performance this year will be, we feel we are well positioned for 2014.

Now, we're pleased to take any questions you might have.

QUESTION AND ANSWER SECTION

Operator: Sure. Thanks, sir. [Operator Instructions] And it looks like our first phone question will come from Ken Worthington with JPMorgan. Please go ahead. Your line is open.

<Q – Ken Worthington – JPMorgan Securities LLC>: Hi. Good morning and thank you for taking my questions. It was a very good quarter. I do want to just maybe jump into Real Assets and the returns that you're generating there. They continue to be depressed, and you've called out European and Latin America real estate for a number of quarters. So the question is, what needs to happen on both the real estate side and the energy side to drive better returns there for your investors? And is it something that Carlyle can do or are these issues just something that Carlyle has to kind of grow out of?

<A – Bill Conway – The Carlyle Group>: Ken, this is Bill Conway. Thanks for the question. As your question anticipated, the Real Assets segment is really composed, I would say, of several different businesses, U.S. real estate, international real estate and energy, let's say.

In U.S. real estate, as I mentioned in my remarks, the business continues to perform very well. There are three or four funds that are active today in U.S. real estate. They were up on average, as I said, about 20%. So that business performs well. The funds typically get into carry and we're hopeful that they all will get there and begin paying meaningful amounts of carry.

In international real estate, our problems are different around the world. In Asia, I think it's a problem of scale. The business needs to get bigger. And that's something we're working on. In Europe, the performance has not met our expectations at all. You've noticed we brought Adam Metz in to run our international real estate business. He is a very experienced real estate executive. And we have high hopes that he will, over time, help us rebuild that business.

Yes, it would be helpful if the market were better in international real estate, if there were more jobs being created, if the consumer was stronger in Europe, if things like that happened, but I would say that some of the performance in Europe was not the market, but it was Carlyle.

In energy, which is a very big part of the Real Assets focus there, what we've done is try to manage a transition. For years, as you remember, we started Riverstone together with a couple of energy Wall Street guys. And together, we did a great job for a decade and gradually, grew apart. And the legacy Riverstone funds had a tough year last year because primarily there were declines in the value of some of their companies in their public portfolio. And you can see in the chart we have in our release here, I think Cobalt and Pattern Energy are two of the big – two of our 10 biggest positions and you can watch the stock price performance there. And when a fund is in carry, as the Riverstone energy funds are, and when the price of the public securities go down, that causes ENI and the various other metrics to fall.

I'd say also that we are managing this transition to the new energy platform, which is NGP. And I'll tell you, NGP is – they have 10 funds. They're working on the eleventh fund. The first 10 funds, we think, are all in carry. And I've been investing a long time in private equity. And believe me, if you're going to have 10 funds in a row make carry in private equity, it is a lot. And so we're very pleased and have very high expectations for what the NGP platform will be and, frankly, its ability to work with the rest of Carlyle's global platform.

We've also just started our international energy business together with an executive we worked with over a decade ago, made us a lot of money. He's putting a lot of his own money into the fund. We're excited about our ability there. We announced our first two deals in our international energy [ph] bulk (29:43) area. And, frankly, we also have our power business, which is – power in the United States is such a critical resource, and there's a transition going on from coal to natural gas. And so we're very busy in that area as well.

So I think a lot of it is things that we can do. Yes, it would be helpful if the market were better in Europe. But I think actually – I think we've actually passed the transition point where – or the inflection point, if I can call it that, where we're hopeful things will get better from here, and we're sure working hard on it. We're not satisfied with the performance of Real Assets business.

Operator: Thank you, sir. And it looks our next question will come from Marc Irizarry with Goldman Sachs. Please go ahead. Your line is open.

<Q – Marc Irizarry – Goldman Sachs & Co.>: Great. Thanks. Bill, I was hoping you could take us through – you mentioned the pipeline's stronger, when you look at it this year over last, in particular. Maybe where are you seeing sort of the incremental strength in your private equity pipeline for investing? And also, I'd be curious on your, guys, views on what impact the EM volatility is having, either on your ability to put capital to work or to pull money out of the ground? Thanks.

<A – Bill Conway – The Carlyle Group>: Okay. Thanks, Marc. In terms of where we're seeing strength, I think it's a lot of places. Obviously, the U.S. is off to a great start in 2014. Although we have only closed one of the large deals so far, which was the Vogue deal, the hair products deal, where we invested about $400 million.

The two much bigger deals that we have not closed yet, is in healthcare, the purchase of the clinical diagnostics business from Johnson & Johnson. In that business, we expect to put in a little over $1 billion of equity, expect to close it sometime mid-year, working very hard on it. It's a carve-out, as Axalta was, as ITW is, the purchase of that packaging business from Illinois Tool Works and the Johnson & Johnson business. I think it's something that Carlyle works very hard to be able to carve these businesses out of global giants.

And that reminds me, I would also say, although I'm talking about the U.S., it's important to remember that a lot of these companies, it could be thought of as a U.S. company or European company or an Asian company, but most of them are really big global businesses. Axalta, for example, would be a company that has 40% of its business in Europe. It's bigger in Europe than it is in United States. So it's an example of it could be thought of as an American business, but it's really a global business.

And the other big deal in the U.S. that we've announced is the purchase of Illinois Tool Works of the Signode business, which is the packaging business. In that we expect to be putting in a little less than $1 billion of equity, and we also hope that'll close around mid-year as well and it's another carve-out.

In Europe, the European big corporates have not been really shedding their strategic assets. We're seeing a little more of that happening now. Chesapeake, at the end of last year, was an example. We're working on a good-sized transaction now in Europe that is a carve-out from a strategic. So we'll take that expertise and use it in Europe as well.

In Asia, we're busy there. Last year, of course, we did a couple of public to privates, notably Focus Media. I would say that the deals we're working on now are primarily not in China, frankly. They're in other parts of Asia, other than China, although that ebbs and flows. I wouldn't read too much into that.

In the developing world, we're busy, but those are obviously much smaller funds. The U.S. fund is $13 billion. The last European fund is over €5 billion and the last Asian fund is over $3 billion. So they're big funds and they can have a more significant impact.

In terms of the volatility, I think, first of all, it can create opportunities. There's no question about that. But as you know and as we said, we have an $18 billion-plus public portfolio. We gave you in the release the names of the 10 biggest. The 10 biggest are about two-thirds of that portfolio and total over $12 billion. So you can actually watch the volatility. What's Booz Allen doing, what's Allison doing, what's CommScope doing, and the like, Numericable, Pattern, and some of the other big names. I would say, obviously, we – in the early part of the year, when the stock market generally had the – I would not deign to call it a correction, a mini drop in prices, we suffered there and we bounced back as the market started moving back as well. But we are really not so much – yes, we – the stock market is going to affect us, no doubt about that. But obviously, it's specific situations that we watch as opposed to the any one company name, so – or any market movement, if it's a specific company that's going to determine.

We've already this year, as you know, we've done sales of Booz Allen, which is public. Freescale, we're a big investor today, large primary offering a week or so ago and we've got a couple of others in the works. So I think that so far, we would say, that although there's been some volatility that the markets are still pretty receptive and we're able to do transactions and get some exits in the market so far. I think that's going to continue and I certainly hope it does.

Operator: Thank you, sir. Our next phone question will come from the line of Matt Kelley with Morgan Stanley. Please go ahead. Your question, please?

<Q – Matt Kelley – Morgan Stanley & Co. LLC>: Morning. Thanks. So I just wanted to ask a couple of questions. Understanding that quarterly results are very volatile and there was a lot of upside from seven funds crossing hurdle rates this quarter. I first wanted to ask, if you can give any more disclosure on CAP III and CEP III, how far through the – I think you said, you're accruing full carry, but does that mean you're through the catch-up on those funds, and any other funds that could move the needle?

And then, second, I just wanted to ask, with the Solutions business, now that you have Metropolitan and Diversified Global, how we should think about performance fees, what you're earning performance fees on as a percentage of total AUM there, and how we should expect management fees and expenses to trend? Thank you.

<A – Adena Friedman – The Carlyle Group>: So with Carlyle Europe Partners III and Carlyle Asia Partners III, they both did cross through the catch-up phase, and they are both in the accrued carry position. If you look at fund table in the earnings release, you'll see that CEP III, the Europe III fund, is right at a net IRR of 8%. So they're pretty close to the hurdle rate. Whereas Carlyle Asia Partners III is now at 11% return, so they're a little bit further through the hurdle.

So I think that, as I said in my remarks, there could be some level of volatility, if the markets remain volatile in terms of just overall market performance, impacting those funds since they are continue to be relatively close to the hurdle rates. The other funds that crossed into carry are also relatively close to hurdle rates, but some of them crossed through quite nicely in the quarter.

So I think that in terms of contribution, the 11 funds that we highlighted at Investor Day are still the relevant funds. You'll be able to see the majority of those in our tables and be able to continue to follow their performance, but they all should be significant contributors in the quarters going forward.

In terms of the Solutions business, when we purchased the remaining portion of AlpInvest, we did not change the relationship we have with AlpInvest. It's related to the legacy carry that's coming off of the funds that they had before we purchased them. So, that still sits at that they are entitled to 85% of the carry on those legacy funds. Whereas, going forward, we have essentially a 40% carry opportunity on any funds that we've done together with them since the acquisition. And so the carry performance should increase over time, as we see their fund appreciation turning into realized carry for them in future periods.

For Metropolitan and DGAM, I would say both of those businesses are primarily fee businesses. They may have some carry potential that comes off of those funds, but, primarily, that will be a fee generating business for us.

Operator: Thank you, ma'am. Our next phone question will come from the line of Michael Kim with Sandler O'Neill. Please go ahead. Your question, please?

<Q – Michael Kim – Sandler O'Neill & Partners LP>: Hey, guys. Good morning. Just wanted to follow-up on the Solutions business, can you just maybe update us on how you see the business evolving now that you've added the real estate and hedge fund of funds capabilities into the mix? Just wondering what the next steps are in terms of building out outsourced CIO or customized managed account solutions capabilities over time? Thanks.

<A – David Rubenstein – The Carlyle Group LP>: Okay. This is David Rubenstein. The purpose of the Solutions business is to provide to investors a wide array of alternate investment opportunities for investors who may not have a capacity or desire to go into with one large buyout fund or one large real estate fund. This gives them a cross-section of opportunities. And these are typically investors that either are just getting into private equity alternatives and they may not know exactly what they want to do, or investors that just don't have the resources to make fund selection. So it gives them the opportunity to have a cross-section of funds across the spectrum of many different funds not just a Carlyle fund.

So what we wanted to do was to build out this segment using the AlpInvest business as the nucleus. And AlpInvest basically had three businesses, investing in private equity funds, investing in secondaries and doing co-investments. And what we've added to that is a real estate fund of funds business and a hedge fund of funds business, and we brought in Jacques Chappuis to oversee that.

And I'd say, going forward, we will probably build out some of the things that we've been working with AlpInvest to do more of, which is the managed account business. That's a gigantic growth area for firms like ours because a number of investors increasingly say, I will give you X dollars, $100 million, $500 million, $1 billion, and I want it to be in a managed account. I don't want it to be commingled with others, but I want it to be managed a certain way. And that capability is now residing within our Solutions business.

There is another business we've looked at. I won't say we're going to do it. I won't say we won't do it, but it's called the outsourced CIO business. And that's a business in which someone says, I really want you to replicate what the Yale Endowment does, the Stanford Endowment does, or some equivalent organization like that, which provides a cross-section of investments modeling what university endowments tend to do. That's a business which does exist in United States by a number of smaller firms. Whether we build that or buy that, we haven't finally decided, but that's an area that we would expect to have some potential growth as well.

So what we hope to be able to do is to have the Cadillac, or the Rolls-Royce, or the Mercedes, or whatever your automobile of choice is, business in this area providing to investors the best possible selection of alternative investment scenarios around the world and throughout the United States. And we think we've built a pretty good platform so far. It's fairly significant in size. As Adena said, it probably will be more of a fee business than a carry business, but we think that's not a bad thing for us to do as well.

Operator: Thank you, sir. Our next phone question will come from Brian Bedell with Deutsche Bank. Please go ahead. Your line is open.

<Q – Brian Bedell – Deutsche Bank Securities, Inc.>: Morning. Thanks for taking my questions. Just one for David, one for Bill. David, on the fundraising, the $15 billion to $20 billion you mentioned, if you could try to elaborate on what might provide some upside to that, given some of the initiatives you're talking about, including the mutual funds, and the CLOs, as well. And then a question for Bill. Can comment on your view of the M&A environment going forward for the next couple of years as it pertains to providing both exit opportunities and capital deployment opportunities? Thanks.

<A – David Rubenstein – The Carlyle Group LP>: Let me answer first. By upside, you mean how much will we be able to raise in effect this year, or will we be able to do something close to what we did last year, is that the implication or question? No, okay. So essentially, we have a number of – well, our largest U.S. buyout fund and our largest fund was raised last year, as you know, at $13 billion. We still have several very large buyout funds in the market now. Our Europe buyout fund, which is targeted at €3 billion, our Asia buyout fund, which is targeted at $3.5 billion, and our Japan fund, which is targeted at $1 billion – I guess, $1 billion effectively. And those funds are doing pretty well in the market. And I would expect this year they will close at or around their target area.

We also have a number of organizations that have come close to Carlyle or become part of Carlyle in recent years or last year, and they will benefit to some extent from our fundraising network. So, among those would be Metropolitan, for example, or DGAM or NGP. NGP has a very strong track record, as Bill mentioned. And they probably don't need our fundraising assistance all that much. But we have noticed that we do have some investors that they have not historically had and we might be able to help them there. So we expect that those will be – NGP will do pretty well also.

One of the funds we have in the market that has met an enormous receptivity is our international energy fund. Although it's a so-called first fund, it does have individuals running it who have a very good track record. And we are very confident that we'll get to our target there, which is roughly $2 billion. So I think we've agreed to cap the fund at $2 billion. We could have probably raised more than that, but we're very happy at that first fund level.

We also have a power fund. And our power fund is in effect our second power fund. We raised our first power fund before we bought Cogentrix from Goldman, and we think that that opportunity is one where we see a lot of interest. As Bill mentioned, there's a lot of interest in power in the United States.

We also have our flagship U.S. real estate fund in the market. This will be our seventh U.S. real estate fund. And we have a fair amount of interest in that and I would expect it will be the biggest U.S. real estate fund we will ever have raised, in part because the track record's very good. So those will be some of the things that we'll have that will be fairly significant in size. We also have some other funds that we'll probably be initiating during the year, but those will be among the biggest ones that I've mentioned. Bill?

<A – Bill Conway – The Carlyle Group>: In terms of the M&A environment going forward, it's obviously very tough to make predictions about what's going to happen in terms of the M&A environment. I would say, over the past couple of years, I've been surprised at how limited the M&A activity has been by the big corporate strategic acquirers.

With interest rates at about zero and with the liquidity and capital resources of the corporates, I have been very surprised they haven't been more aggressive competitors against each other and against Carlyle to make acquisitions, because
almost any acquisition they could make, at almost any price that they would willingly pay is going to be accretive to their earnings and, yet, they really were not making many acquisitions. And frankly, they weren't making that many divestitures.

Recently, this seems to have turned around. I think for companies like Johnson & Johnson, DuPont, Illinois Tool Works and some other big ones around the world that we're working on now, to sell parts of their business indicates that finally that these businesses are getting focused on the way they want to run their business going forward down to their core. It's kind of a two-sided coin, of course. On the one hand, [ph] I guess soon (46:38) they weren't competing against us too strongly for – to make new deals. On the other hand, I'd love to have them around when we're trying to sell some things so that they can step up and make a purchase as, for example, we've recently announced the deal to sell one of our portfolio companies in U.S. buyout to a big strategic as well.

In terms of capital deployment, a little short story here. In 2012, we invested about $8 billion. And I said, early in 2013, I thought we're going to invest more in 2013 than we did in 2012. Then we got part way through the year and I had to back off. And I said, jeez, I'm not really sure on that, and I was looking at the investment pace. In the end, we did $8.2 billion. So we're up a little bit over the $8 billion of 2012 into 2013.

We're off to a strong start in 2014. I'd say, we'd be significantly ahead of that pace so far. The business ebbs and flows. And you'd like to think it's easier to raise money at some times and invest money at other times. And frankly, we find the time to raise money is when we can get it. And investing, we find if a deal meets our return hurdles, we do it. And we're able to find the money really pretty much in one of our funds to make that happen. So I would say, again, this year, I'm hopeful we'll invest more in 2014 than we did in 2013.

Operator: Thank you, sir. And our next phone question will come from Patrick Davitt with Autonomous. Please go ahead. Your line is open.

<Q – Patrick Davitt – Autonomous Research US LP>: Good morning. On the mutual funds you talked about, there's been a fair amount of press about one of your competitors pulling their mutual fund offerings. Just curious how you feel you are structuring that offering differently or why you think you can be successful when others haven't?

<A – David Rubenstein – The Carlyle Group LP>: Well, we don't want to comment, of course, on what other people have done or not done with their mutual funds. Let's just talk about what we are doing. What we are looking at are products that we think are very specialized that don't have a lot of competition in the marketplace. So the ones that we have filed with the SEC, obviously, we have to wait to hear from the SEC before we can go forward with them, are ones that we don't think are very common in terms of their presence in the market. So, therefore, they're quite specialized. We have experts who are running them, who have that kind of expertise that we want. And so we are hopeful that with this specialized knowledge that we'll meet a fair amount of interest because there's not a lot of other competition for those particular types of funds. And so we have the people running them that we think have very good expertise and have a very good track record. So that's all we can really say, and we'll wait to see what the SEC does in terms of approving them.

But we recognize that whenever you develop a new product, you don't know for certain whether the market will accept it or not. But based on our track record of devising and develop new products, we think when we put something in the market it generally meets the marketplace, and generally finds the receptivity. And so we're very confident that will be the case here as well.

Operator: Thank you, sir. Our next phone question will come from Christian Bolu with Credit Suisse. Please go ahead. Your line is open.

<Q – Dina Shin – Credit Suisse Securities (USA) LLC (Broker)>: Hi. This is Dina filling in for Christian. Congrats on the great quarter. We saw high fundraising costs and expansion efforts impacting fee-related earnings in 2013. Could you lay out your investment spending initiatives and fundraising costs outlook for 2014, and what that ultimately means for your fee-related earnings this year?

<A – Adena Friedman – The Carlyle Group>: Sure. Thanks. I think that, as David mentioned, we continue to have strong fundraising ambitions for this year and so, therefore, the fundraising costs will continue. And I think that as our – as we continue to grow our business generally and we pursue our growth initiative, we should expect the fact that our expenses will grow, but so should our revenues. And we do expect that our revenues will grow, not just our fee revenue, but also our carry revenue. And we have a global platform. We have investors – our investor professionals all over the world. Our LPs expect us to invest properly when we launch new things, as well as when we just maintain our ongoing business. And they also expect us to have proper controls across the business.

So when we do make investments in new initiatives and new funds, we do try to make sure that we do it properly, but it should result in revenue growth for us. And I think that one of the things that our platform really does demonstrate is having seven funds cross into carry in the quarter because it's not just fee revenue that we're looking for. We are ultimately looking for our ability for these funds to generate a return. And with the multi-fund platform that we have with the investor professionals around the world, we are enjoying the benefit of that kind of multi-fund structure with a number of funds in carry. And we do expect that that will generate, or at least we should be positioned to generate significant carry revenue going forward in addition to growth in our management fees.

So I think our expenses are a reflection of our growth orientation, but our revenues are as well.

Operator: Thank you, ma'am. Our next phone question will come from the line of Robert Lee with KBW. Please go ahead. Your line is now open.

<Q>: Hi. This is [indiscernible] (52:24) filling in for Rob. So we saw some small outflows in hedge funds this quarter. I'm just wondering if there was any specific driver of those, and wondering how 2014 looks from that perspective? And also, kind of as a corollary to that, we're seeing the funding status of pensions looking much healthier as asset values rose through the last year. So are you seeing any weakening demand for alternative strategies or less liquid strategies as a result of that?

<A – David Rubenstein – The Carlyle Group LP>: The latter question, let me take that first and Bill will take the first part. On the latter part, as I tried to indicate in my remarks, I do think that the denominator effect has largely gone away, which means that the public pension funds that were compressed a bit in terms of their ability to honor their allocation commitments are now finding that they are under allocated according to their own – or under allocated according to their own commitments. So, in other words, if CalPERS, for example, had a 14% private equity commitment, for a while, when the overall size of the CalPERS fund was down, they might have been "over allocated". Now, as their fund size has gone back up, the overall size, they might be slightly under allocated. Let's use that as an example.

And so we now think that large public pension funds, endowments – foundation endowments and university endowments, are probably going to increase their allocation to private equity or at least do everything they can to make sure they honor their existing allocation limits.

If you look at frequent surveys, you'd see that a large percentage of people who invest in alternatives are now looking to increase their allocations, and other survey data bears that out. So we do think that we will see fair amount of additional money coming into the alternative space, in part, because the alternative space has generally very good returns through good and bad times.

One thing I would mention is that there are a lot of sovereign wealth funds that get a lot of attention, but, really, only some of them are pursuing private equity alternatives in a dramatic way. As some new sovereign wealth funds get created or some which have never been in alternatives now begin to go on alternatives. You're going to see a lot more money from some of those funds that are going to be subject to people like us talking to them about investing with us.

So we expect that there'll be some fertile territory there. Bill?

<A – Bill Conway – The Carlyle Group>: In terms of the hedge funds, although in the quarter they were down a little bit, I think for the year the hedge funds were up about $1 billion. And we have three big families with hedge funds so far, this credit hedge funds, emerging market hedge funds and the commodity hedge funds. And I think this year we may add other special niche commodity funds to the mix. I think after the year that they had, it's natural some people will close out positions at year-end. So I don't read anything into the particular quarter.

Of course, when you're in credit hedge funds and commodity hedge funds and emerging market hedge funds, different investors have different views on what's going to happen. And that can lead to outflows from credit hedge funds, if you think they're not positioned for a move this way or that way or whatever. I am hopeful this year the hedge funds will grow. And if they perform, I expect they will. Our commodities hedge fund has launched a couple of new products and we have high hopes for some reasonable growth in that part of the business this year. And the other two hedge funds had great – did a great job last year, both ESG and Claren Road.

Operator: Thank you, sir. Our next question will come from Glenn Schorr with ISI Group. Please go ahead. Your question, please?

<Q – Kaimon Chung – International Strategy & Investment Group LLC>: Hi. This is Kaimon Chung filling in for Glenn Schorr. Just a high-class problem, but you're raising money at a faster pace than you can invest it, and still investing faster than peers. Just curious what you think of valuations in terms after multiple expansion led the market lift over the past year or so? And a related question is, as you realize proceeds in a number of investments, and the dollars are much larger than equity invested, should we think about a gap or period of lower distributions at any point in time as new money gets put to work and matures? Thanks.

<A – Bill Conway – The Carlyle Group>: Well, great question. I would say that if you look at the last few years, we invested $8 billion or so a year and we distributed $16 billion or so a year. Now, in fact, the $16 billion doesn't really relate to the $8 billion. The $16 billion relates to investments made several years before those – that $8 billion.

But it is true that kind of the – one of our goals in a big picture way of thinking about it is that we roughly are trying to double people's money in our carry funds. And so it isn't realistic, for example, to turn the $8 billion into $25 billion, that $8 billion and $16 billion. So we need to do to grow that carry portfolio, to grow those carry distributions, is to invest more money over time and hopefully, get it to $10 billion and then to more than that.

I would say that we have remaining fair value in our portfolio of about $60 billion. And clearly, we have the opportunity for [indiscernible] (57:46) as public to turn some of that into carry distributions this year. But my view is that we really do need to step up the investment pace above the $8 billion. And the question really is, can we do it and how will we do that, given, as you point out, what's going on with market multiples and debt rates and everything else. And clearly, market multiples have gone up. To some extent, very low interest rates by themselves can justify paying a higher purchase price. You can work out the mathematics, how much exactly you could pay based upon what the interest rates are, but you can pay more at very low rates. And frankly, I think the market expects that interest rates are going to stay low for quite a while.

I did say in my earlier – in response to earlier question, I hope to invest more this year than last year. I think that a lot of that, frankly, will turn on the performance of the Real Assets business, which – the great news about our performance is that our Real Assets business didn't do very well. And we had a great year despite the fact that the Real Assets business didn't do really well. And if we get that business really performing then, frankly, all of Carlyle will do a lot better.

Operator: Thank you, sir. Our next question will come from the line of Matt Kelley with Morgan Stanley. Please go ahead. Your line is open.

<Q – Matt Kelley – Morgan Stanley & Co. LLC>: Okay. Thanks for taking my quick follow-up. I just wanted to follow-up with you guys in terms of if you could help us size the balance sheet investment you have in Latin America and European real estate, because you've taken the write-offs in the last couple quarters? Just wondering how small that is at this point. Thank you.

<A – Adena Friedman – The Carlyle Group>: Sure. So these are two distinct matters. The first, I'll talk about the European matter. That is essentially a tax issue that we're working through in France related to an investment we had in our Europe real estate fund several years ago. And what we did this quarter is just increase the reserve essentially, the provision, against the tax matter. We're fighting it vigorously and we feel confident in our position. But in terms of making sure that we're working through that issue with the tax authorities, we increased our provision. And we wouldn't expect us to have a significant continued increase in that position going forward. I think that we feel pretty well reserved there.

With regards to the Latin American matter, that's an investment that we have made in Latin American real-estate company. The partners of Carlyle as well as the Carlyle balance sheet have jointly made that investment. And as we mentioned on our last quarterly earnings release that we would expect that the balance sheet portion of that investment to be approximately $50 million in terms of incremental capital put-in. And we've put in about – I think about [ph] $8 million (01:00:37) so far.

So we have a relatively small amount that we expect to commit from the balance sheet over the next several quarters. That business is currently in a loss position and we are consolidating that business into our balance sheet because of the fact that it's a combination of our partners and the balance sheet making the investments. So you'll probably see small losses continue to flow through the investment income line or unrealized losses going forward because that's where we're putting the consolidation impact. And so that should continue.

And in the fourth quarter, that was approximately $5.6 million loss. So that's kind of the scope of what we're seeing right now in terms of the losses there, attributable to the balance sheet investment. And I think those are the two matters that we're working through. And so the Latin American matter will continue and the European matter should be that we're pretty well reserved.

Operator: Thank you, ma'am. [Operator Instructions] And we do have another question in queue and it'll come from the line Patrick Davitt with Autonomous. Please go ahead. Your line is now open.

<Q – Patrick Davitt – Autonomous Research US LP>: Hi. Thanks for the follow-up. Could you give us an idea – I mean, you had a lot of IPOs last quarter. Broadly, where – how the pricing of those compared to the September 30 mark, if there was any kind of trend there and if that was consistent with your historical trend?

<A – Bill Conway – The Carlyle Group>: Okay. Generally, the IPOs are in the range of our valuations. I'd say, on balance, maybe our IPOs are a little higher priced than the valuation in which we carry it. That's been a long-term trend and I hope it continues. I don't know whether it's 10% or some other number, but it's generally been – the IPO pricing has been above the valuation. Because, obviously, when you're valuing something, you can't count that the IPO is really going to happen. And fortunately, as you mentioned, last quarter, we got eight of them off, and there were some pretty big ones, too, in the last quarter, and 15 all last year.

Operator: Thank you, sir. [Operator Instructions] All right. Presenters, at this time, I am showing no additional questioners in the queue. I would like to turn the program back over to Mr. Harris for any additional or closing remarks. Please go ahead, sir.

Daniel Harris, Managing Director and Head of Public Investor Relations, The Carlyle Group

Thank you for listening today. Should you have any questions, feel free to reach out to me, and we look forward to speaking with you again next quarter.

Operator: Thank you, presenters, and thank you, ladies and gentlemen. Again, this does conclude today's call. Thank you for your participation and have a wonderful day. Attendees, you may now all disconnect.