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CG - Carlyle Group LP at UBS Best of Americas Conference

EVENT DATE/TIME: SEPTEMBER 11, 2014 / 2:50PM GMT

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PRESENTATION

Brennan Hawken - *UBS - Analyst*

My name is Brennan Hawken. I'm the broker and asset management analyst here at UBS. Thanks for joining us. I'd like to welcome David Rubenstein, who is the Co-CEO, Co-Founder of Carlyle Group. I know he's the one everyone wants to hear. So, I'll just stop talking now and turn it over to him.

David Rubenstein - *The Carlyle Group L.P. - Co-Founder & Co-CEO*

Thank you very much. For those who don't know what Carlyle is or what business we are in, let me just summarize very briefly and then I'd like to go through some of the data about how we're doing now and how the industry is doing.

Carlyle is a global alternative investment management firm. We manage now about a $203 billion firm, which started in 1987. I'm one of the Co-Founders and now the Co-CEO as well. The firm went public in May of 2012 at a price of about $22 a share. We're traded above that almost consistently since we went public. The questions that I get today very frequently are how is Carlyle doing and how will you likely do in the future? And I would like to address that to the extent that I can, but also people ask me tell me about the alternative investment industry. What is this industry, is it likely to grow?

Today, the phrase alternative investment industry is generally used in the investment firms that get some kind of incentive compensation. They are not just traditional money management firms. They get some type of incentive, a carried interest of some type. In private equity historically it's been 20% or so. In hedge funds, it's been 20%; sometimes, more than that. Obviously, in some specialty, of course, the carried interest might be less.

And this industry has grown dramatically, as I'll talk about, and it's one that I think -- it's one that is probably not as appreciated by the market as some other asset management industries are. So, let me explain what I mean. Should you be excited about the asset, the alternative asset management business generally? Is this a business that's -- one that deserves excitement?

So, think about this. Today, generally, in the world, there's roughly $64 trillion being managed, $64 trillion, you add up all the money being managed in the world and stock markets and everything else, $64 trillion. A decade ago, that was $38 trillion. Today alternatives are $7 trillion, whereas about a decade ago, they were $2 trillion. So, what you can see is that, in 2003, because of this faster growth rate, of all the money being managed, 5% was alternatives, that meaning private equity, which includes buyout firms and distressed debt firms and venture firms and hedge funds. Today, it's 11% of the total asset management industry. So, it's grown by more than 50% from what it was in 2003, 10 years ago; so faster growth by far than the asset management industry.

Now, revenue growth is also fairly significant as well. If you look at the left-hand part of this chart, what you see is, it is the fee income that is generated by the global asset management market. So, what you see here is that in 2013, the total fees earned by people managing money was more or less $270 billion. Now, as you can see from the chart, a modest amount of that 8% was in cash or passive amounts, because [Fennie have] relatively modest fees. 33% was in alternatives. So, alternatives are a small number, relatively speaking, 11% of every -- all the money under management, it's 33% of the fees. So, 11% of the money being managed is alternative [about] 33% of the fees, because the carried interest of 20% is a large fee relative to what you can get in the ETF business rather cash passive businesses. It's projected in the future, seven years down the road, that this percentage will increase even more, so that 40% of the fees generated by money management world will be coming from alternatives.

So, on the right-hand part of this chart, you simply see that it is expected that the alternatives will gain a much bigger market share, largely what I was just saying, quantum 33% of the fees to 40% of the fees and that is a higher growth rate, 10% growth rate higher than the asset management business overall.

So, if the asset management business is going to overall have fees grow by 7%, over the next seven years or so, the alternative industry is likely to have its fees growing by 10%. So, you would say that's probably pretty good if you're in the alternate industry and you're one of the general partners collecting this or you're a stock person investing in this industry.

So, this chart really designed to show what people think about the alternative investment industry. And what you see is that more than three-quarters of investors who invest in alternative products, expect to increase or maintain their allocations over the next [three] years. And what does that mean? That means that people who already invest in the industry, expect to put more into the industry, three-quarters of them expect to maintain or increase their investment there. And the reason is that private equity and alternatives and hedge funds and so forth have outperformed consistently over 5, 10, 15, 20 years the regular asset management returns, than people got in other areas and we think this trend probably understates what some of our own investors have told us about what they expect to do, but this is a generic chart that is based on generic surveys.

This is just indicating private equity growth rate. And the interesting thing, in the year 1980, you saw very little money overall under money management in global private equity; in 1980, very little. Now, there's $3.5 trillion. No other area of money management has increased the assets under management as dramatically as this over this period of time and that's because in private equity the rates of return have, through good and bad times, been very consistently quite attractive.

Now, today, although there's a fair amount of private equity activity going on and a fair amount of exits occurring, it's still well below the peaks of 2006 and 2007. In the years of 2006 and 2007, at least in terms of deal volume, you saw much more deal volume than you're seeing today and that's because for a number reasons, there are fewer deals being done, in part because stock prices are very high, a lot of companies are not selling their assets and it has been harder to get deals done. Of course, there were some very large deals done in the 2006 and 2007 period, which is the pre-bubble period. And today, exit volume is up considerably from last year at this time. You can see, from first half of last year this time $152 billion of exits occurred. This year, the first half of the year, $236 billion, but still below the peak year. So we have a lot of growth to go to -- get back to just the peak years and the private equity industry and the alternate investment industry has done pretty well. But think about this, in private equity, we are still below the peak years. And so we've got a lot of room to grow. To get back to the peak years in the industry, I think it's going to get there at the pace that we're going.

Now why is all this happening? It's not because of the charm and good looks of the founders of these firms, I can assure you. I know many of the founders of these firms, they're very nice people, but charming good looks may not be our greatest asset. I think our greatest asset is simply that when you look at the numbers, the rates of return are just much better than anything else you can do with your money that's legal.

So for example, if we take the MSCI World Index over the last 5 years, 10 years and 20 years, nice rates of return if you were in that index. But generally you're probably better off. generally. if you are in a buyout fund and it's the pale blue indicates the general return of buyout funds generally. Nobody wants to be in a general buyout fund. Nobody says, I want to be in the index of buyout fund. They all say, I want to be in a top-quartile buyout fund. Well, nobody knows in advance who is going to be in a top-quartile buyout fund. But you can look at track record, do your research and so forth. If you're fortunate enough to be in a top-quartile buyout fund and you were in the last 5, 10 or 20 years, you can look at the rates of return. If you are in a top-quartile buyout fund over the last 20 years, you would have averaged that kind of rate of return, 10 years and 5 years. You can see outperforming generic buyout funds obviously, but also public market indexes.

So that's why people consistently want to go into these private equity funds, these buyout funds.

Now this is a chart that's designed to show one of the important phenomenons that's occurring at Carlyle and other organizations. Carlyle is an organization that started as a private equity firm, and we are a firm that still does a lot of private equity. I think we do more private equity investing than virtually any other firm in the world, very global in this area. But what we have done and what other firms like us have done is diversified away from pure private equity. So we would have, for example, a real estate business, an energy business, a fund of funds business. And today, from the time that we went public, for example, 47% of our assets under management were in the private equity business that we were best known for --

I'm sorry, 47% were outside of that industry. Now 66% are outside of that industry. So when we went public at our IPO, 53% of our assets that we manage were in the private equity business, 47% were not. Now 66% are outside. And what does that really mean? That means our private equity is a very good business, and it's been our core business. We are, like many other money management firms [and other] organizations, diversified. And I think this trend will continue, and that's true of all of the large private equity firms that are public. They're all diversified fairly dramatically away from their core business that they had when they started the firm.

Now, today what you are seeing is that increasingly the private equity firms that have gone public, because of the fact that it's on the right, stability, consistency, returns, the brand name, the size, transparency, they are gaining an increasing share of the money that's now being invested in the alternative assets world. For example, you could see here that in 2016, these private equity firms that are public, the well known private equity firms that are public, were getting roughly 6% -- 6.8% of the money going into alternative asset management, 6.8% of the money invested in that particular year were going into those well known private equity firms that are publicly traded. In 2013, that same percentage was 10.9%.

Now what does that mean? That means that in the end, when you look at all the alternatives, investors are increasingly saying a firm like Carlyle, which is very well known, it does many different things, it's consistent in its returns, it's likely to be around for quite some time, we're going to give them more and more money, and I think that trend is likely to continue. But I should point out that today, the largest asset -- alternative asset managers only represent a small percentage of the segment assets that are out there.

So, for example, in ETFs, ETFs, 76% of the ETF money is managed by five managers. So the top five managers have 76%, in large cap domestic equities, the top five managers have 60% and you can see the chart. In real estate, private equity and hedge funds, the top five managers have a very small percentage. Now if the trend that happened in ETFs and large cap, large cap domestic equity or US retail alternatives, if those trends are to happen in this industry as well, it is likely that the firms like Carlyle are likely to get an even higher share of the money under management, because there is more, more consolidation, more and more money is going to the top five firms.

So how should you think about the individual fund cycles and growth? Very often people say to me, well, okay, you have a -- you're in a good industry, it's growing very, very nicely and so forth, but we can't really value how your firm is to be judged so readily, because you have so many different clients, you're exiting at different times, how can we really judge what you're doing? And the truth is, in our business, it is a little more complicated than traditional asset management, because of this reason. The core way that a private equity fund is managed and is operated is this. People have been doing this for about 40 years, the model hasn't changed all that much. You commit to a fund, you commit to a fund that probably has a 10-year duration. For the first five years, money is being invested by the general partnering deals. Probably in the latter five years those deals are being sold.

So you have a 10-year duration and in the early years, you probably are looking for deals, you'd probably start investing in the years 2, 3, 4, maybe 5, 6, and then you're exiting in years 7, 8 or 9; maybe you are exiting in the year 7 the deals you did in years 2 and 3. And so it's a longer cycle. Early on you're getting a management fee on all the money that [gets distributed] to the fund. The management fee will go down over a period of time, once you stop investing money and you're just harvesting money. Clearly the performance fee is the larger part of the compensation. When you're getting a fee, you might be getting a 1% or 1.5% fee on the money under management that's committed to you, but if you're successful in investing the fund, you will get 20% of the profits above our preferred return, [if you] returned all the capital that has been invested. So that performance fee can produce very, very high profits if you're good at this business.

Now, what does this chart really mean? Well, it's more than -- supposed to be a geometric chart, it's designed to show to you that in Carlyle's case, it's hard for us to say when we're in any part of the cycle. People always ask me, well, is it a good time to invest now, is it a good time to harvest now? I have to say for which particular fund, we have so many different funds that we are in some cases harvesting funds that have been around for a while, in other cases we're just beginning to invest funds. And so we have so many different funds, over 126 active private equity funds and 139 fund-of-fund vehicles that at any given time we are at various parts of the cycle in one or more of them, but generally it's pretty well balanced, so we have a fair amount of funds that are being invested, fair amount of funds that are being harvested any given time.

One of the questions that people often ask is can we really continue to grow our core earnings through new product scaling and operating efficiency. Let me try to explain what I'm talking about here. We have three types of funds. We have funds that we come up with in our own minds, a new idea, recently a Sub-Saharan Africa Fund for example. No other global private equity firm had a Sub-Saharan Africa Fund. We went out and with the help of a lot of people we raised about $700 million for a first Sub-Saharan Africa Fund. Now that will take five years to invest and probably five years or more to harvest. That was an idea that we had. We also recently closed Carlyle Asia Partners IV, which was a $3.9 billion fund or if you care about lucky numbers, $3.88 billion was actually what it was. That was our fourth version of that fund.

So what we try to do is come up with new ideas and raise a first fund that used to be smaller than second, third or fourth funds or then have new funds that are a successor to earlier funds. A third way that we create funds and create earnings is by buying organizations or buying funds. So as many of you know, we bought the largest private equity fund-of-funds business a few years ago called AlpInvest, which we bought from two Dutch pension funds and we effectively bought an energy business not long ago called NGP, which has a very strong track record. So we're always doing one of those three things, and of course, operating efficiency. Private equity firms are really composed historically of people who knew how to manage money and invest. They did not, when they first set our, hire Jack Welch or Lou Gerstner to manage these organizations, because they were very small. As these organizations got bigger, it became clear that you are really running a serious money management business and more and more people have come into these organizations with management skills, in addition to investment skills and increasingly Carlyle, like other organizations of ours, they spend a lot of time on the management and making our organization much more efficient, and as many of you may know, we recruited one person to help with the management of our organization, Mike Cavanagh, who is a well-known senior professional at JPMorgan who joined us about six or eight weeks ago.

Now, Carlyle itself is in four different core businesses and let me just explain for those who haven't followed the business that we really evolved into. As I mentioned, we had started out as a private equity firm. That was our core business in 1987. Our first fund didn't actually occur until three years after we started the firm and that was a $100 million fund. We had $100 million fund that we raised I think about 1990. So that was a small fund and that was in corporate private equity. Later, we moved into real estate and then later we moved into energy as well. And those are both now under real assets, energy and real estate.

Global market strategy, as we moved into later, and that is more liquid kinds of businesses. So we have CLOs; we're the second largest CLO manager in the world. We have a number of hedge funds that we've acquired that are in there, we have our distressed debt business in there. And we have a lot of structured credit businesses in there as well in the United States and outside. And then we bought AlpInvest, which I mentioned earlier, two Dutch pension funds had sold it to us with this largest private equity fund of funds business in the world. It does three things, invest in private equity funds, it does co-investments alongside private equity funds and a secondary, find interest in private equity partnerships that other people want to sell. We've added to that by buying two other fund of funds business, a hedge fund of funds business called DGAM, which we brought from Toronto and a real estate fund of funds business called Metropolitan, which we bought not long ago.

So those are our four key businesses that we have today. And as you can see, performance-related earnings is much more important to the corporate private equity business today than it is for solutions and what is performance related earnings means, earnings that we get from the incentive compensation. As I mentioned, firms like ours that cut through everything, basically get compensated two ways. We get a fee on money under management, then we get a fee on performance. The fee under money under management might be 1%, it might be 1.5%. It's typically on funds under -- that are committed to us, sometimes already invested, sometimes not. Performance-related earnings typically is an incentive compensation, the 20% carried interest that I mentioned, that's very important to corporate private equity and as you go down the list of business we have, less and less important, because some of these businesses make more of their money and solutions as an example on fees, rather than in carry.

These are, again, the four core businesses; I won't read every one of these things here. These are available to you. But as you can see, we have diversified the firm pretty well in the sense that no one area is 50% of the firm or anything like that. So we have $65 billion now under management in corporate private equity, around 14 different fund families. We have in global market strategies $38 billion under seven different strategies, real assets in three different energy strategies and three different real estate groupings, $43 billion, and then our solutions business, which is a lower margin, doesn't have as much carried interest income, but it's still a very large business, is $57 billion under management.

How do we do all this? Well some of these organizations we bought, some of them we grew. You can see here some of the ones that we bought, Claren Road, which is a long-short credit hedge fund that we bought in 2010, AlpInvest I mentioned, ESG is an emerging market long-short hedge fund. 2012, we did the NGP acquisition that I mentioned to you and Vermillion, which is a commodities hedge fund, Metropolitan Real Estate Fund of Funds I mentioned, DGAM I mentioned is the hedge fund of funds, based in Toronto. And so, we bought or built these businesses of how we've grown away from just a pure buyout firm.

So, how can we grow our earnings over the long-term? So right now the assets under management, as you can see, have gone up pretty sharply over the last three years or so. Today, in the carry funds, those are the funds that we get a carried interest on, typically 20%, we now have in 2014 second quarter about $111 million of those funds under management. Our hedge funds are about now $15 billion, structured credit, which is largely CLOs, collateralized loan obligations, about $18.2 billion and our fund of funds business is $56.7 billion. So you can see we've increased our assets under management pretty dramatically over the last [two] years and diversified it as well.

Now this chart is designed to show the annualized rates of return that we've achieved. This is why people tend to give us money. You can see that in the corporate private equity funds, our buyout funds have appreciated pretty dramatically. Over the last 12 months, this is second quarter numbers, last 12 months in 2014, our buyout funds appreciated by 27%, our growth funds by 44%. So fairly dramatic increases. Our real asset funds, energy and real estate, increased by 5% over the last 12 months in terms of the valuation values and our GMS carry funds, those are the carried interest funds that are managed by our GMS division. So they might be distressed debt funds, for example, they increased by 29%. Overall, the carry fund in appreciation; carry fund is our core business, in the sense that's how we [often] measure how significant our carry is, [has been increased] over the last 12 months by 20%.

So let me explain what carry is for those who didn't specialize in private equity accounting or management of private equity firms. So we earn a 20% carry. The way the private equity business developed initially, there were two ways of doing this. You could -- every time you did a deal, when you get a profit, you take 20% of the profits and you put it in your pocket and that was a good thing if you were making profitable deals. And at the end of the fund you could do a true-up and see whether you actually had taken more than 20% of the profits, because maybe some deals didn't do as well. That was what's called the American style of carry. You collect the 20% every time a deal was done and ultimately you have to true up at the end of the fund. Americans not being great in [deferral of gratification] we like to collect our money all the time, (inaudible) you might say.

The European style of carry is not until the fund is completely invested and all the money at least has come back to the investors who committed the money, you take as carry. So European style would be like this. If a EUR1 billion is in a fund, every time a deal is done and profit is made, you don't collect the carry, you just wait till a EUR1 billion has been returned to the investors and once they've gotten all their capital back, plus the preferred return, then you would start taking the 20%.

So the carry is different in different parts of the world. All of our funds are more or less American style carry, so we can collect the carry after each deal, but we don't actually pay it out for this reason. If you (inaudible) fund and you have 20% [of the overall] profit. Well, if you take it and put it in your pocket, then the second year might be bad and so therefore, you will have taken out more than 20% of the overall profits, because the first year, you will have 20% of the profits. The second deal, let's say, it's the same size, you lost all the money, you in effect [re-titled] after two deals, but no money, no carry interest. So you would have to give that 20% back, a clawback it's called. Well rather than go through clawbacks and have to pay money back to investors and it's be confusing about what you've really earned and not earned, confusing to investors in our stock, we don't actually take the carry until we are sure there's never going to be a clawback within reason. And so what we do is we approve the carry. Right now, we have -- in the second quarter of 2014, we have almost $2 billion of approved carry. That means that 20% profit share that I keep mentioning that is money that we have approved in our funds and when we're comfortable that we won't ever have to worry about a clawback, we will pay it out in cash to the unitholders in effect and collect it. So right now that is -- the importance of that is that we have a lot of money that is very likely to come out to our unitholders. And that's the highest number I think we've had in our firm's history at any one time of approved carry.

So, well, right now we have, in the year 2011 to 2013, we had about 10 funds that had accrued carry in them or were moving towards accrued carry. And that meant that of all the funds we had that 10 of them were likely to produce accrued carry and were moving in that direction and ones where we could expect reasonably to have approved carry, ultimately be realized eventually by investors in our stock, our units. Today, on the 2014 to 2016 likely results is that we probably have close to 20 funds that are going to be in that category. So we more or less doubled the number of funds that are likely to produce carry. And the advantage of that for our people who buy our units is there's more diversification. We're not dependent on one fund or any one area to produce that carry, we have many more than we used to have.

So, when we had our last Investor's Day last year, we said that we had 11 finds that were positioned to generate carry in the near term and those were the funds and you can see here the net internal rates [or] remaining fair value and so forth. Now, we've added a number of funds to that list, because we now have, as I mentioned, more funds. We have [13] additional funds are currently accruing performance funds -- performance fees.

So we've diversified, again, I think we're in a much stronger position to deliver more accrued -- more carry to our unitholders than we were just a few years ago.

So in the end, I guess I would summarize and say that Carlyle is an organization that is multi-fund. We, I think, help lead the way to having multiple funds in an alternative investment organization. We do it not just in one area, it's not multi-fund and buyouts, it's not multi-fund and real estate, it's many different disciplines and it's multi-geography. We are essentially all over the world, I think as global as anybody in this industry can be.

Despite all these multi, multi, multis, it's one culture. One of the obsessions of the firm is one Carlyle culture, where everybody pools together, and I think as a result of that people rarely leave the firm, people are pretty happy at the firm, people want to work at the firm and it's a very healthy culture. If any organization that's going to survive founders, that's going to be around for many, many years, generations, they'd have to keep and maintain this culture and that's an obsession that we have in our firm.

So let me conclude there and say that I'd be happy to take any questions that might exist. Thank you.

Brennan Hawken - *UBS - Analyst*

Thanks, David. Before -- maybe to prime the pump a little bit, I can get it started and then we can see if the audience has anything.

So, you guys have done a great job raising assets, fund raising has been great as you touched on, but yet, we've got public equity valuations, a lot of people highlight the kind of high, the S&P 500 hits records regularly. How do you think about deploying this capital that you've raised? What geographies, industries and the like are of interest today?

David Rubenstein - *The Carlyle Group L.P. - Co-Founder & Co-CEO*

Well people ask me all the time, was it a good time to invest in private equity? Well, it's hard to answer that, because funds typically have a 10-year duration and typically five years or maybe a little bit more to invest. So, any given five-year period it's hard to predict where the market is going to be.

Today, obviously the stock markets are very high and there aren't as many deals being done as before and the reason is if the stock market is high, companies don't feel, because their stock price is high, they need to sell things. They tend to have a lot of cash. So, about 50% of the private equity deals being done in the United States and Western Europe are being done at so-called secondary buyouts, where one buyout firm is selling to another, because as part of that what they do is they buy and sell. Large strategics tend not to be selling as much as we would like them to sell. I suspect when there is a market correction that would change and so forth. There is no evidence that the secondary buyouts really have lower rates of return, but they are a different nature of the beast you could say.

In terms of our ability to deploy the capital we have, we have not found it to be as difficult as some people might think to deploy it, because there are always some opportunities to buy things. We just did one of the larger buyouts in the United States not long ago, it will close soon; Acosta, it's about a $5 billion buyout and we think that's a very attractively priced deal on a very major company. But we probably have invested a little bit less than we might like to invest already this year. I think we would like to probably invest a little bit more. I can't say that we wouldn't be happier investing a little bit more than we have invested, but all the cycles vary and right now we think we're well positioned around the world to get -- to see the best deals. It's not something we often bragged about, but we do pay a lot of fees to Wall Street. They do tend, as a result, to show you a lot of transactions. We develop a lot of our deals ourself, proprietary deals, without Wall Street. And right now, we have a fair amount of deal flow, but I'd say it could pick up a bit and I would be happier if it picked up a bit.

Brennan Hawken - *UBS - Analyst*

And one of the things that actually has investors a little worried, just to follow up on that is, the dry powder, how should we think about it and how long of a leash, so to speak, is there on the dry powder where you -- is the clock running where you got to get it to work?

David Rubenstein - *The Carlyle Group L.P. - Co-Founder & Co-CEO*

Well, remember, we are large investors in our funds. We have about $8 billion of the personal money that people in the firm invest alongside the investors. So, it's not like we're just saying, well, let's invest investors' money and let's expect their fees and we don't really care about their performance so much, where our money is invested alongside, we are exactly parallel to these investors. We don't want to deploy the money when it's not a good time to deploy it, but we aren't driven to invest when it's not a good time. Generally, our view is the cycles will come around and we'll ultimately get a good time to invest.

Right now, the dry powder isn't really weighing on us in any great way. We do have a fair amount of dry powder and that's useful when the markets come back. One point I should make, in our business, you have to in effect repay the management fee. So, while we're paying -- collecting a management fee, we have to repay that in effect before we actually collect our 20% carry. So, it's not like we're just collecting this money and not doing anything. We recognize that in effect by collecting the fee, we're really just paying ourselves the money that we're going to pay back in time.

Brennan Hawken - *UBS - Analyst*

Is there anyone in the audience who have any questions at this point? Yes, sir?

QUESTIONS AND ANSWERS

Unidentified Audience Member

It's a simple question. You were mentioning that the alternative asset management side is not very much consolidated. So, are you actively consolidating that industry or some ideas to go for more shops?

David Rubenstein - *The Carlyle Group L.P. - Co-Founder & Co-CEO*

In the private equity world, there are roughly 5,000 private equity firms. There are seven that I would call are global that are managing $75 billion or $80 billion of assets under management and really investing around the world, but only -- that's a small percentage of the 5,000. I do think consolidation is going to occur. And that the top seven or so and maybe the top three or four are going to dramatically increase their assets under management, because they are just brand names that are so well known to people, people feel more comfortable giving them money. I think you'll see these larger firms probably make acquisitions as well as develop their own products. So I do think there will be some consolidation. But there's always going to be small private equity firms that are just doing one thing and not going to probably (inaudible) size.

Unidentified Audience Member

So you would take money into your hands to buy competitor, or is it just because of the brand, the ability of returns that gives you -- that brings you the money that there's no need to go actually out in the (multiple speakers)?

David Rubenstein - *The Carlyle Group L.P. - Co-Founder & Co-CEO*

It's unlikely that [either seven] are going to sell and the others are going to be any mergers of those firms. But I do think -- let's suppose, an example, if somebody is 55 years old, he or she has built a private equity firm, they're not sure they could ever take it public, they are not sure that it can scale much more, they need greater marketing capabilities, they might come to somebody like us and say, you're not in this one area that we have, why don't you buy this area from us and you can be a player in this pretty much from the start, rather than starting. We're not likely to buy people that compete with us in areas, because we already have a pretty good business in those areas. Probably we and other firms like us will fill in niches by making acquisitions.

Unidentified Audience Member

(inaudible - microphone inaccessible)

David Rubenstein - *The Carlyle Group L.P. - Co-Founder & Co-CEO*

First, on the leverage levels, leverage levels aren't high. They're roughly what they were probably around the time of the great bubble bursting in 2007 or 2008. I don't want to say that they're not high. I would say that you should take into account though that while the levels of leverage is high, you are not being paid as much less, the interest level charges that we pay today is de minimus compared to what we paid in 2007 and 2008. So if you say that something has six times leverage, it was much more expensive to have six times leverage in 2007 or 2008 than it is today. And so, it's not something I want to dismiss and not something to be worried about, but it's not something as significant as paying the interest charges we were paying before.

Covenant light, and covenant light more or less means covenant -- no covenant. Covenant light more or less means that all you have to do is pay the interest back on when it's due, you don't have any kind of covenants about what your earnings are supposed to be, are your other kinds of ratios. That's very common in the industry now. And I would say 60% or so of all the leveraged loans are probably covenant light, but for the large private equity firms like ours, it's more closer to 100%.

So, I would say I don't obsess over it being a big problem, because we tend to pay our interest when it's due and so forth, and I don't think it's necessarily a bad sign, but it's something to be watched. I think the US government among other regulators is looking at it.

Brennan Hawken - *UBS - Analyst*

So I guess following up maybe on one component of that answer, you had mentioned that the leverage is not necessarily onerous for you guys, because rates are low. With the rates in the US potentially backing up, how do you all insulate yourselves, so that you can continue to generate good returns, continue to deliver those good IRRs for you fund investors?

David Rubenstein - *The Carlyle Group L.P. - Co-Founder & Co-CEO*

Well our interest rates are low, today you can obviously borrow more and it doesn't cost as much, but I would say the principal change that has occurred from today -- 2007, 2008 is that investors are willing to accept happily lower rates of return. I think a 20% net internal rate of turn is what an investor and private equity fund might have wanted in 2006 or 2007. Today, I think a net internal rate of return of 15%, 16%, 17% net on all fees is what would keep investors quite happy.

So the pressure to get high rates of return, or as high as the [40s] it's not quite there. So I think that's to our good. On the other hand, we'd like to get higher rates of return, but we don't want to take undue risk to get them. So I'd say, I'm not obsessed with the fact that we have to get 20-some-percent net internal rates of return to keep our investor base happy.

Brennan Hawken - *UBS - Analyst*

Any other questions from the audience at this stage? I can keep going. Okay. Maybe you could give us an update on recent trends and activity that you've seen?

David Rubenstein - *The Carlyle Group L.P. - Co-Founder & Co-CEO*

Today, let's suppose you divide the business into two parts, the private equity business, the fund raising part and the investing part and, let's say, there's a third part exiting. So let's say three are things. The fund raising is picking up and we have raised a fair amount of money this year already and I suspect we will do very well this year in our fund raising efforts and I think last year we raised about $20-some-billion, and I suspect we'll do at least as well this year. Our target is to do at least as well. So fund raising is in pretty good shape. It's coming in from many different sources. The principal changes are sovereign wealth funds are bigger and bigger percentage of what we're raising and individual investor money is becoming more and more important part of our business and I think those trends are likely to continue and we also see a trend where an investor is giving you money for longer durations than before.

So fund raising is in reasonable shape, but it's still well below the 2007 and 2008 peaks. More fund raising occurred in 2007 and 2008 than today by a long shot. It's probably twice what it is today. So it's still got aways to go. The money that is coming in, larger and larger shares I mentioned earlier, is coming to the larger better known firms.

In terms of investing, investing is probably not as high as many people in the industry would like, in part because prices are high, and therefore investing is well below the peak of 2006 and 2007. In our case, we are investing about what we'd like, but we wouldn't be upset to see a little bit more money invested than we have invested today.

In terms of exiting, exiting is, you know, it's a good time to exit and Carlyle did a pretty good job of exiting. In the last couple of years, we have returned a lot of money to our investors over the years. I think we've returned to our investors in our funds in the last two years about $40 billion, it's a lot of money to our investors in our funds and a lot of that ultimately will accrue to benefit our unitholders.

In the second quarter of this year, some things occurred that might have initially occurred in the third quarter, we thought initially might have occurred in the third quarter, so we had a very, very good second quarter. Our third quarter will be over in a few weeks, it's hard to know exactly what I can say about it, but I would say probably some of the things that happened in the second quarter were anticipated to happen in the third quarter. We haven't had as many exits as I might have once thought, because of them second quarter activities, but still generally exit activity is in reasonably good shape.

Unidentified Audience Member

[Are you having] fears about potential future regulations in States, including taxation in your business areas?

David Rubenstein - *The Carlyle Group L.P. - Co-Founder & Co-CEO*

Let me address taxation. People do talk about carried interest taxation. For those who aren't obsessed with it, essentially carried interest, which is a 20% I've referred to, is tax in the United States that has been in the real estate industry, the energy industry, the venture capital industry, that has been taxed historically and approved by the IRS at capital gains rates rather than ordinary rates. There are some people, who think it should be taxed at ordinary rates. It really wouldn't pick up very much money for the federal government. I think the federal government numbers show that if just private equity were taxed at the capital -- at the ordinary rates rather than capital gains rates over the next 10 years and pick up $3 billion or $4 billion dollars of additional revenue, which is de minimus considering the size of the budget. But at some point that issue will be addressed by the US Congress. Generally the view in the United States now that unless you have comprehensive tax reform, it isn't fair to single out private equity or any industry for changes in the taxation. So until there's comprehensive tax reform, it is extremely unlikely that carried interest will be changed and we don't expect carry -- a comprehensive tax reform for several years. I don't think it's a highest priority of the President and I think Congress will not likely to deal with it. So I don't think any big changes there. In terms of other regulations, we don't see anything on the horizon that is likely to hurt private equity in any measurable way, no.

Brennan Hawken - *UBS - Analyst*

Anything else from the audience? Okay, we got about time for one last one, so I can get one more in here real quick. You'd mentioned on the activity levels there are sort of three sides and the last one was on exits and monetization and you also talked about the $2 billion that you guys have accrued on accrued carry. How should we think about that and when you look at the visibility that you've got, how much visibility do you have, how much confidence you have in the trajectory that [$2 billion] over this foreseeable future. Can you help us frame it?

David Rubenstein - *The Carlyle Group L.P. - Co-Founder & Co-CEO*

There is no law about when you take your carry. In other words, every firm has its own standards, every firm will say they're conservative in doing it. So my saying we're conservative probably wouldn't impress anybody, because everybody are going to say they are conservative. We have a policy of not accruing carry and taking carry, I should say, taking carry, until we're absolutely certain that we're not going to have a clawback later. And I think of the 27 years at Carlyle, there has probably been any clawbacks of any consequence. So, we're very conservative, as I mentioned, doing it.

We have very good visibility in our accrued carriers. We have a lot of people go through in great detail and if the number is $1.9 billion, they need to pretty much go to the bank if that's a fair assessment of what our net accrued carry is. I can't tell you when it will actually be cash carry you would take out. It depends on a number of events occur. But I suspect over the next couple of years, two to three years, a lot of that will probably come out.

Brennan Hawken - *UBS - Analyst*

And is it reasonable to assume that it might be a little bit front-end loaded or that's not something for you to comment on?

David Rubenstein - *The Carlyle Group L.P. - Co-Founder & Co-CEO*

I just can't say, because I know I will get in trouble if I say something. So, rather than get in trouble, I would say, it'll probably come out when it's ready to come out.

Brennan Hawken - *UBS - Analyst*

Yes, I saw Dan shaking his head vehemently. So, that answered that. Great. David, thanks for coming along.

David Rubenstein - *The Carlyle Group L.P. - Co-Founder & Co-CEO*

Thank you very much. I appreciate it. Thank you.

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