PARTICIPANTS

Corporate Participants

Daniel Harris – Managing Director and Head of Public Investor Relations, The Carlyle Group LP
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 LP
Curtis L. Buser – Interim Chief Financial, The Carlyle Group LP

Other Participants

Michael S. Kim – Analyst, Sandler O'Neill & Partners LP
Kenneth B. Worthington – Analyst, JPMorgan Securities LLC
Brian B. Bedell – Analyst, Deutsche Bank Securities, Inc.
Craig W. Siegenthaler – Analyst, Credit Suisse Securities (USA) LLC (Broker)
Michael R. Carrier – Analyst, Bank of America Merrill Lynch
Brennan Hawken – Analyst, UBS Securities LLC
Ann Dai – Analyst, Keefe, Bruyette & Woods, Inc.
Glenn P. Schorr – Analyst, International Strategy & Investment Group LLC
Marc S. Irizarry – Analyst, Goldman Sachs & Co.
Patrick Davitt – Analyst, Autonomous Research US LP

MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the Carlyle Group's Second Quarter 2014 Earnings Conference Call.

At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time. [Operator Instructions] As a reminder, this conference call is being recorded.

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

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

Thank you, Latoya. Good morning and welcome to Carlyle's second quarter of 2014 earnings call. With me on the call today are our Co-Chief Executive Officers, Bill Conway and David Rubenstein; and our Interim Chief Financial Officer, Curt Buser.

Earlier this morning, we issued a press release and earnings presentation with our second quarter 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 investors.

Please limit yourself to one question, so we can give everyone on line a chance to participate and return to the queue for any follow-ups. Contact Investor Relations after the call with any 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

Thank you, Dan.

Carlyle's second quarter was a very strong and quite robust one as measured by the key metrics we and others use to judge our quarterly performance. And just as importantly in our view, during the quarter, we also continued to make further progress in building out and strengthening a truly global multi-faceted alternative investment firm.

Now let me be specific. Distributable earnings, which we regard as the most important metric, were $324 million or nearly double the second quarter of 2013. Over the last 12 months, distributable earnings were $1 billion or about 40% greater than the prior 12 months. Economic net income was $318 million or more than double the second quarter of 2013. Our existing carry fund investment portfolio, which consists of $64 billion in fair value in the ground, appreciated by 5% in the quarter and 11% year-to-date. Over the last 12 months, this portfolio appreciated by 20%.

Today, we have 14 of our significant funds in accrued carry and eight have paid cash carry in the last 12 months including Carlyle Europe Partners III, which distributed carry earlier than we previously expected. Put another way, despite realizing almost $800 million in net realized performance fees over the last 12 months associated with almost $19 billion in realized proceeds for our fund investors, our net accrued carry position has actually increased by more than $500 million over the same period to a record for us of nearly $2 billion.

We believe the sizeable net accrued carry balance should give investors comfort that are methodical, long-term focus on fund performance will continue to drive ongoing earnings. AUM during the quarter grew to $203 billion, the highest in our firm's history. And this growth occurred despite having realized proceeds for our fund investors of $6.5 billion in the second quarter. Fee earning AUM as of the end of the second quarter was approximately $146 billion, which is almost 10% higher than a year ago.

Fund raising continues to run at a high level, reaching $7.4 billion in the second quarter, across a diverse group of funds, brining our first half total to $12.9 billion in new capital commitments. We invested $3.4 billion in the quarter for a total of $4.5 billion for the first six months of 2014.

With respect to the longer term matters that I earlier mentioned, let me highlight two occurrences during the quarter. First, Mike Cavanagh is now officially on board and working out of our New York and Washington offices. As I believe, everyone listening knows Mike is our Co-President and Co-COO and joined a 20-year Carlyle veteran Glenn Youngkin in that position. We believe their combined talent and experience alongside a deep global bench of next generation professionals, places the firm in a very enviable position for many years into the future.

Second, as part of our ongoing effort to expand our Real Assets platform, Carlyle exercised its option to share in the incentive fees NGP's 10th Fund in all future NGP funds. Specifically, on NGP X where exists are expected to occur over the next several years, Carlyle will now have a 40% participation in incentive fees. As you know, we previously acquired a 47.5% share in NGP's management fees on all funds. Beyond that action, we are currently in the market with three energy funds, our first international energy fund, our second U.S. power fund, and NGP's 11th fund.

In the first half of 2014, because of the appeal of these three energy funds and our seventh U.S. opportunistic real estate fund, we have raised almost $4.4 billion in new equity capital for our Real Assets segment, which is actually more than we raised for any of our other segments during this period.

Finally, let me address fund raising in some detail during the quarter. The substantial capital raised during the quarter reflected two trends that we currently see in the fund raising market. First, while fund raising for the private equity industry is still below the record levels of 2007, fund raising levels have been consistently increasing every quarter. And second, it should be pointed out that fund raising is increasing especially for the large diversified alternate investment firms. The largest, most diversified firms are raising an increasing percentage of the dollars now being invested in alternative strategies; we expect these two trends to continue.

During this quarter, $5.5 billion of the $7.4 billion in capital we raised was in our carry funds. This past quarter, we had a final closing on our second global financial services fund and also closings on nine other carry funds as well as in our business development company. We also saw net inflows into our hedge funds and into our Solutions business. We expect to have final closings during the third quarter in our fourth Asian buyout fund and our first international energy fund, with both funds expected to have closings at levels above our initial target sizes. The international energy fund will be the largest first fund raised in Carlyle's history.

Finally, we closed two CLOs, one in Europe and one in the U.S. this quarter, for a total of $1.2 billion. We also raised $400 million for a new commodities financing vehicle that is part of our Vermillion platform.

In sum, we had a successful fund raising quarter, and we expect reasonably strong fund raising performance for the remainder of the year.

Now, let me turn it over to Bill.

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

Thank you, David.

As David said, our portfolio, particularly our Corporate Private Equity business performed exceptionally well in the second quarter, with the carry funds appreciating by 5%. We generated $6.5 billion in realized proceeds for our investors in the quarter. While our U.S. businesses continued their strong performance, results in our European private equity business both buyout and growth was the big story of the quarter.

With five offices and a 17-year history, we've been a very strong Corporate Private Equity business in Europe with an excellent track record. However, when we began investing our most recent European buyout fund, Carlyle Europe Partners III, we struggled early. A couple of our initial investments realized losses and we paid high prices for two excellent companies: Applus, a global engineering and testing company based in Spain and Numericable, a French telecommunications company.

When the recession hit, business slowed and multiples contracted. Since then, however, the fund has recovered and thrived and those two high priced investments Applus and Numericable have become sources of strength of the fund. Carlyle took steps to enhance these companies during and after the tough times. For Applus, we strengthened management, broadened the business outside of Spain, funded additional equity, renegotiated debt agreements and completed significant add-on acquisitions.

On Numericable, we improved margins in the B2B business, negotiating and amend to extend debt agreement, facilitated a high-yield offering in February 2012, worked to merge the second largest cellular company in the region, SFR into Numericable and supported the Numericable transaction with Altice. Over the past year, both companies have gone public; Applus in Madrid and Numericable in Paris and now are both among Carlyle's top 10 public holdings. In the last quarter alone, Carlyle Europe Partners III appreciated 13% and has appreciated 47% over the past year, a percentage gain that is more than double that of the EURO STOXX 50 over the same period.

The MOIC of Europe III is now in line with Carlyle Partners V, a fund the market rightly considers a great fund, which is our U.S. buyout fund of the same vintage and one of our best funds. As a result of the portfolio appreciation and some attractive exits, Carlyle Europe Partners III realized cash carry in the second quarter, faster than we previously expected. With the remaining fair value of almost €5 billion, Carlyle Europe Partners III is a sizable fund and is now in a position to make a meaningful contribution to realize performance fees going forward.

Worldwide, we realized proceeds through a number of sales this quarter including 11 block sales from 10 different companies in various buyout funds. In total, we realized $3.4 billion from these block sales. In addition, we sold Medical Park, the second largest hospital chain in Turkey. We sold our stake in Sermeta, a French heat exchanger company, and we realized more than $800 million in proceeds from our real estate funds.

Two portfolio companies went public in the quarter: Applus and Foresight Reserves, a company in the third Riverstone Carlyle Energy fund. We have several other significant IPOs in the pipeline in addition to the IPO of Healthscope, which went public in Australia last week.

As Apple has previously announced, the sale of Beats Electronics to Apple is expected to close in the third quarter. We closed a number of significant new investments in the quarter, most of which have been previously announced. Total invested capital for the quarter was $3.4 billion. New investments included, Ortho-Clinical Diagnostics, formally a division of Johnson & Johnson; Signode Industrial Group, formally a division of Illinois Tool Works; ADT Caps, a Korea-based security business we acquired from ADT, which is the first deal in our new Asia buyout fund; Oyatsu, the Japan-based snack maker; Talent Partners, a firm that provides payroll and other services to the advertising industry; and investments in two Energy Mezzanine transactions, both related to development of upstream oil and gas assets, and a number of real estate investments.

Looking forward, we announced a number of other investments during and right after the quarter, transactions which should close before the end of the year. These include the acquisition of Traxys, a metal trading company by our Equity Opportunities Fund, and our Sub-Saharan Africa Fund; the acquisition of Acosta, a full service consumer packaged goods sales and marketing agency by our U.S. buyout fund; the take private of SBI Mortgage and the acquisition of Sunsho Pharmaceutical by our Japan buyout fund, and the acquisition with the European partner of Custom Sensors & Technologies from the Schneider Electric, our first deal in our new Europe buyout fund, Carlyle Europe Partners IV.

The investment environment remains similar to that which I described last quarter, which is to stay competitive and challenging. For a large scale buyout, almost on a global basis, equity valuations remain high, cost at least in part, by the very low global interest rate environment. That said, we do continue to find attractive investment opportunities selectively in the large buyout area, in the energy and release estate sectors, in small to mid-sized companies, in our hedge funds, and in our business development company.

Let me conclude with a few points about each of our segments. Our Corporate Private Equity business is in great shape. It continues to be our largest business and contributor to earnings. We are raising large amounts of new commitments, creating value in our portfolio, taking advantage of opportunities to realize proceeds, and deploying capital and transactions we find attractive despite high market valuations. Our performance fees are becoming more diversified in private equity, a trend we expect to continue as more of our funds move into cash carry.

We continue to see opportunities to scale our Global Market Strategies segment. We continue to issue new CLOs. Our hedge funds, which had flat to modestly higher performance in the quarter, saw new inflows and our business development company continues to attract capital and invest in good yielding assets. Our GMS carry funds continue to perform exceptionally well.

Our Real Assets segment is in a position to be a larger positive contributor to our overall results for the reasons we discussed earlier. As the earnings release shows, our most recent U.S. real estate fund, Carlyle Realty Partners VI has a 1.5 times MOIC, which is a strong performance for a young fund. Carlyle Realty VI is in accrued carry and could soon be in position to produce cash carry. Overall, our U.S. real estate business has been investing approximately $700 million per year, a trend we think can continue, if not grow.

Our Solutions segment is successfully integrating Metropolitan Real Estate and diversified global asset management alongside AlpInvest. Solutions launched several new products in the first half of the year and is becoming a larger contributor to fee-related earnings.

In conclusion, I am pleased with our investment performance and results for the quarter and first half. Going forward, we expect that interest rates will remain low. Debt financing will be abundant and the asset prices will remain high. Under these conditions, we will continue to aggressively realize gains in our portfolio and be selective on new deals. If we are wrong in our expectations, I believe our portfolio companies are generally well positioned to withstand capital market conditions.

Let me now turn it over to Curt Buser, who has been with Carlyle for 10 years and who assumed the role of Interim CFO during the second quarter.

Curt?

Curtis L. Buser, Interim Chief Financial

Thank you, Bill.

As David mentioned, our pre-tax distributable earnings for the quarter were $324 million, nearly double last year's $163 million. On a post-tax basis, distributable earnings per common unit were $0.93 in the quarter and for the first half of 2014, Carlyle's produced $1.45 in distributable earnings per common unit. With this quarter's $0.16 per unit distribution announcement, Carlyle has now announced unitholder distributions of $0.32 per unit thus far in 2014.

So, the year end true up payment continues to build at this stage of the year. This quarter's distribution has a record date of August 11, and a payout date of August 22. Distributable earnings this quarter were comprised of $80 million of fee-related earnings, $232 million of realized net performance fees and $12 million of realized investment income.

Drilling down a bit more, the $80 million in second quarter fee-related earnings was a record and compares to $37 million in the first quarter of this year. Certain of the components of the change this quarter are episodic in nature and are not likely to recur on a regular basis at the same level as this quarter.

The two most significant components were first, Carlyle benefited from $25 million in catch-up management fee revenues, attributable primarily to closings in our second financial services fund, fourth Asian buyout fund and our international energy fund. We generally expect some level of catch-up fees each quarter when raising new funds, but this quarter's catch-up fees were greater than we normally see. With this quarter's result in perspective, we earned $8 million in the first quarter of this year in catch-up management fee revenues and averaged above that same amount per quarter during 2013.

The $25 million in catch-up management fees more than offset the direct fundraising cost this quarter of approximately $16 million, driven by the $7.4 billion in new capital committed during the quarter. The fundraising costs this quarter were slightly below the first quarter, even though we raised more capital in this second quarter. We're raising substantially all of the capital this quarter from internal resources, which are less expensive than external sources.

Second, Carlyle also generated $30 million in net transaction fees during the second quarter, largely in connection with various investments made during the quarter. This quarter's revenue should not be inferred as a new trend, but rather based on the timing of certain investments being closed. Our reported transaction fees are net of a management fee offset we provide to our fund investors, which is generally 80% of the gross transaction free.

Shifting below the line, there are a few expense items to also highlight. Compensation expense exclusive of performance fee related compensation and equity based compensation was $178 million or approximately $6 million higher than first quarter as we continue to build out fund teams and back office support. Interest expense was higher versus the first quarter, due to the $200 million add-on to our 30-year senior notes issued in March of this year.

Moving on to net realized performance fees; the $232 million we generated this quarter was driven by a diverse set of realization events. With the majority of realized performance fees generated in two of our U.S. buyout funds, Carlyle Partners IV and Carlyle Partners V, as well as carry realized for the first time from our third European buyout fund, Carlyle Europe Partners III. Some of these assets were accelerated into the second quarter from activity we expected to occur later in the year, given strong equity markets. In addition, we generated realized performance fees from seven other funds during the quarter.

I want to spend a moment on the performance fees we realized from Carlyle Europe Partners III, a fund that has a current multiple of invested capital of 1.7 times and remaining fair value of $6.6 billion. During the quarter, we had partial our full exits in five Europe III portfolio companies: Applus, CommScope, Sermeta, Moncler and Numericable.

As we have discussed previously, we generally defer taking carry on funds that recently move into a carry position, until certain internal criteria met to minimize potential claw-back. Consistent with this approach, we took less carry on the Europe III exits and otherwise allowed under the partnership agreement to manage potential claw-back exposure. Specifically, we took approximately 10% on the transaction gains for the three of five exists, we did take carry on this quarter. By the end of Europe III's fund cycle, assuming continued strong performance of the fund, Carlyle will have received or realized a full 20% carry rate.

Realized investment income is the final component of distributable earnings and Carlyle generated $12 million in realized investment income this quarter, including a $17 million pre-tax gain on a European real estate investment. The tax associated with this real estate gain is approximately $7 million, which increased our tax provision in the quarter.

Shifting to economic net income; pre-tax ENI was $318 million in the quarter and $1.4 billion over the last year. The 5% carry fund appreciation helped drive approximately $262 million in net performance fees in the quarter. These strong performance fees and solid fee related earnings were partially offset by unrealized investment losses, primarily related to Urbplan and certain other European real estate investments, which may persist throughout the remainder of 2014, due to the expectation for continuing Urbplan plan losses. In addition, our European real estate business continues to contribute to our unrealized investment losses as we continue to work through the challenges in this portfolio.

The tax provision on economic net income was $81 million in the second quarter, which was higher than our recent trend. The reason for the higher tax provision outside the $7 million in tax I mentioned earlier relating to real estate investment income is there was a larger component of ENI from the Solutions segment, which pays corporate taxes.

Post IPO equity-based compensation is included in ENI, and it increased to $20 million from $14 million last quarter and $5 million in the fourth quarter of 2013, largely driven by the $170 million in equity compensation granted in February of this year. Looking forward, in the event that Carlyle grants additional equity awards in connection with new hires or pursuant to annual grants in early 2015, we would expect another increase in equity compensation expense. As we have said throughout this call, this was a solid quarter for Carlyle and the metrics that underpin our business point to continued strength going forward.

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

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

Thank you, Curt.

As we have just tried to convey, Carlyle had an excellent quarter in all of our key metrics. We are especially pleased that our focus of late in Europe has shown strong results in producing new investments and enhancing the value of existing longer term investments. Of course, we recognized a strong quarter's results in Europe and overall does not guarantee strong results every quarter, but we are pleased with the second quarter's results and believe preliminary signs of our fund raising investment activity in the future are looking positive as well.

Now, we'll be pleased to take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And the first question comes from Michael Kim of Sandler O'Neill. Your line is open.

<Q – Michael Kim – Sandler O'Neill & Partners LP>: Hey, guys. Good morning. So, it seems like U.S. buyout and your hedge fund businesses have really driven an outsized proportion of performance fees more recently. So, just thinking – looking forward as the real estate and Asian and European buyout platforms increasingly come on line, just wondering if you could talk about sort of the potential trajectory in terms of carry and/or distributable earnings as you look forward.

<A – Bill Conway – The Carlyle Group LP>: Okay. This is Bill. Let me – first of all, a little bit of the premise isn't quite right. I would say that in the most recent quarter, the performance fees were driven by the two big U.S. buyout funds and by the European buyout fund, with the two U.S. funds contributing more than half of all the performance fees. I would say that that trend in U.S. buyout has actually been in existence for quite a while although the U.S. buyout fund seemed to be becoming less important than they were, still big in the most – and the biggest, but not as the higher percentage.

The hedge fund performance fees, we tend to book those in the – we do book those in the fourth quarter. So, once we know what the results for the year are, we're then able to calculate the hedge fund performance fee and realize that performance fee. Obviously, we're accruing based upon the results earlier in the year, but it's not until the fourth quarter that we really know what those performance fees are going to be. Last year they were strong. This year, we're only halfway through the year. We'll have to see what they turn out to be for the year as a whole.

Going forward, one of our goals is to make sure that we're getting more and more of our funds into carry both in the Corporate Private Equity segment, where we want to move funds like our equity opportunities fund, our Energy Mezzanine fund, both of our Asia buyout funds [ph] into the extent they aren't (26:23) into cash carry and more and more of that. Hard to comment on a trajectory going forward other than I'm fairly hopeful for more of the same in the Corporate Private Equity business.

Now, in the Real Assets business and in the GMS business, the GMS business is actually down from last year. But I consider that really just episodic in nature, just kind of thing that last year's second quarter had some fund closings and had some significant gains in our distressed business that didn't repeat in this year's second quarter.

I look at the GMS business over the last couple of years going from making $20 million to making a couple of hundred million dollars a year. So, I'd see it in through the lens of that type of long-term performance and our goal is obviously to continue that going forward.

I think the big opportunity frankly is in the Real Assets business, where our real estate businesses other than our U.S. real estate business have struggled and we're working to improve that performance dramatically. And then as David mentioned in his remarks, we're building the energy segments. It's already a great, great segment, but you take our energy, mezzanine business, NGP, our power business, our international energy business and the residue of Riverstone and it's a great business. And there we have a lot of those funds are beginning to get raised. As David mentioned, our international energy fund will be the largest first fund we've ever had.

<Q – Michael Kim – Sandler O'Neill & Partners LP>: Okay, that's helpful. Thanks for taking my question.

Operator: Thank you. The next question is from Ken Worthington from JPMorgan. Your line is open.

<Q – Ken Worthington – JPMorgan Securities LLC>: Hi, good morning. First on NGP X, I don't think you are in a position to share metrics last quarter. But given the purchase of carry, would you share MOIC and IRR information for the fund now? And then, were there any restrictions in the timing of the exercise of your option? My assumption, as you try to exercise the option, is close to the fund going into cash carry as possible unless there were some restriction. So, I'm trying to figure out if the exercise the option means, we should be expecting some cash carry shortly.

<A – Curt Buser – The Carlyle Group LP>: Ken, this is Curt Buser. Thanks for your question.

We're very excited about the opportunity with NGP. And just to kind of recap where we are, we currently have a 47.5% management fee interest in NGP for all their funds. We exercised our options to acquire 40% of the fund X carry and all future NGP funds. At the completion of NGP's investment period, we'll actually acquire an additional 7.5% stake in management fees from NGP given us the total of 55% of their management fee revenues.

In July 1, that was really the key day for exercising NGP X; end of June, we exercised NGP XI. We're very excited about our relationship. NGP's historical performance has been very good. And we don't like to comment upon future performance, but we would expect the future performance hopefully to be in line with what they've done today.

<A – Bill Conway – The Carlyle Group LP>: This is Bill. I would just add that NGP I through IX, all earned carry. And for somebody to put nine funds in a role into carry, I think that is a spectacular performance and it's a performance we expect to continue on X and XI.

<Q – Ken Worthington – JPMorgan Securities LLC>: Okay. Thank you. In terms of expenses, you had both Adena leave and Mike came on board this quarter, potentially creating some noise in compensation for either 2Q or 3Q. Any extent, you can tell us if compensation or the run rate was a little high or a little low in 2Q given those dynamics.

<A – Curt Buser – The Carlyle Group LP>: So, as I said in my script, Ken, we were about $6 million higher than in Q1, but really had nothing to do with either of those factors and I don't believe that those factors will have a material impact on our quarterly compensation.

<Q – Ken Worthington – JPMorgan Securities LLC>: Perfect. And then lastly, Carlyle has a number of investments made in conjunction with other private equity firms. In these situations, how do you think about the timing of an exit? Do you prefer to exit together? Do you prefer to go it alone? I'm sure it's a situation specific, but at this point, you've got a number of investments that seem right for harvesting where you're in it with one to two other sponsors and some color about exit will be great.

<A – Bill Conway – The Carlyle Group LP>: Okay. Ken, I would say that generally, you go into the – a buyout deal and at the front end hopefully, you and your partner are aligned and you have the same vision for what's going to happen and what you're going to do in a certain situation. And of course the first thing that happens is what you expect doesn't occur and hopefully the partnership is strong through that process.

Usually in our deals, we agree for some period of time that we're going to stay in sync with our partner. And then after some period of time, we can go our separate ways. Obviously, nobody really likes kind of a rush for the exit or a rush even for the entrance, because it can really skew things and hurt your limited partners.

We've never been a firm, by the way, Ken, that likes to distribute even marketable securities to our LPs. Generally, they don't want them and also that can also lead kind of for a very unruly market situation. I would say that generally we want to stay in sync with our partners. For example, last week when we took Healthscope public in Australia, we and TPG sold equal amounts of the stock. We're very much in sync in that primary offering, that initial public offering. I'd say that is more typical.

Later on in some deals, particularly if you've got more than one partner, you're going to occasionally have a situation, where there are some majority rules that are in affect that three out of the five or some number can determine what's the partners are going to do, but even that tends to fall away and people are not required to sell together anything else. They can go their own separate way if they have different views of value.

<Q – Ken Worthington – JPMorgan Securities LLC>: Great. Thank you very much.

Operator: Thank you. And as a reminder, we ask you to limit yourself to one question and re-queue. And the next question comes from Brian Bedell of Deutsche Bank. Your line is open.

<Q – Brian Bedell – Deutsche Bank Securities, Inc.>: Hi, good morning. Thanks. So, just if you can sort of if can just touch on the CEP III dynamics for the carry. Like you said you took 10% of the gains. Just given the variance to the internal benchmarks that you mentioned, should we be expecting that to move up to a higher catch-up rate going forward?

And then just on fund raising, I asked this on the first quarter as well. You're tracking farther ahead of your $15 billion to $20 billion annual target on the fund raising side. Should we expect that to pull back in or are you definitively sort of ahead of the $20 billion mark? Thanks.

<A – Curt Buser – The Carlyle Group LP>: Brian, I'll take the first part of that and then David will answer on the fund raising.

So with respect to Carlyle Europe Partners III, there were five exits in the quarter, we took carry on three of those and again at 10%. We did that really as funds that initially move into carry, we want to be very careful about managing our claw-back exposure.

So, really what we do is we look at a number of factors. We, first and obviously have to have an underlying deal that are in exit from a profitable transaction, going to make sure to return the cost to our limited partner investors and make sure they've been reimbursed, and make sure that fund's cumulative returns are exceeding the preferred return or hurdle rate. And we have to really look at kind of the amounts that we've paid back to-date in their respective embedded gain in the fund. That funds at about a 12% net IRR versus a hurdle rate of about 8%, but made sense to take carry at this stage. And as I said on my script, over the life of this fund, assuming things work out well in total we'll have taken a 20% carry.

<A – David Rubenstein – The Carlyle Group LP>: On fund raising, fund raising for the entire industry is up for the first half of 2014 compared to 2013. It's up about 4% or so and 2013 was up over 2012. Assuming global macro economic factors continue to be roughly what they seem to be now and what most people project, it would appear that fund raising probably will continue to be fairly robust for the remainder of 2014.

You are correct that our numbers appear to be higher than we once thought they would be. We're a little nervous about saying that you can extrapolate the first six months to the second six months and add the two up and will be higher than we were projecting. We don't want anybody to think we were below expectations. And so, we don't want expectations to get too high, but we're very comfortable that our fund raising products in the market are quite attractive to investors and we don't think that there is going to be any diminution in fund raising generally around the world and in our own product. So, we're quite comfortable with where we are, but we don't want to have anybody raise expectations unduly.

Is that carefully stated enough?

<Q – Brian Bedell – Deutsche Bank Securities, Inc.>: Yeah. No, no, that makes a clear sense. No, no, thanks very much.

Operator: Thank you. The next question is from Craig Siegenthaler of Credit Suisse. Your line is open.

<Q – Craig Siegenthaler – Credit Suisse Securities (USA) LLC (Broker)>: Good morning, everyone. Given that you'll receive 40% of future carry in NGP fund X, I believe you are also fund raising for the new agricultural fund. So, maybe you can talk about the investing opportunities you see across the agricultural and energy verticals here. And I know you also attack energy from several different points including both PE and mezz. Maybe you can talk about how your effort here is really differentiated from some of your large competitors.

<A – Bill Conway – The Carlyle Group LP>: So the energy business, we are very excited about that business and at a scenario, where we think we can put enormous amounts to work throughout the whole energy stream and up and down the capital structure of the businesses in which we invest. By some measures, the amount of additional capital that the energy businesses in United States alone need to raise are just scattering numbers, begins with a T instead of a B in terms of the share size, but investment required for the energy businesses in the U.S. and around the world. I think, we are differentiated because we have a number of pieces and our success will be determined by our extent of knit them together a bit. In the U.S. business, which is frankly the best place to be in this business, they don't change the rules on you too much and you know what the laws are and both the environmental laws and the tax laws and the like, we – NGP is a great business. I mentioned about it going into carry into its first nine funds.

The international energy business, we've got a great leader there. We've done business with him for more than 10 years, very high expectations and hopes there. In Energy Mezz, which is primarily focused on the United States, that's the lending business, but it can really move up and down the capital structure. It's called Energy Mezzanine, but most of its deals have actually been senior loans, kind of an example of the banks being intermediated or intermediating themselves frankly by not pursuing that particular business.

And then, of course we have the power business and United States is making an enormous conversion from coal and to some extent nuclear to natural gas.

David?

<A – David Rubenstein – The Carlyle Group LP>: NGP raised an agribusiness fund as you pointed out, and it closed above what they thought they would raise. It raised about $400 million – $402 million. It's hard to say that there is any one area in the world, where there aren't enough private equity funds, but agribusiness might be one of them. It's not a business, where there are very many private equity funds to be honest. And just think about this, there are 7 billion people in the face of the earth today, or when I was born, 2.5 billion people, now there are 7 billion, but there's half the arable land.

So, the amount of land available for agricultural product harvesting is reduced, and the demand particularly among emerging markets for food supplies is much greater. As the emerging markets emerge and become wealthier as they are – obviously are in China and India, Sub-Saharan Africa, the demand for western type food is increasing dramatically. So, we think that that is one of the great growth areas in private equity world, agri business and NGP is out with a very good fund in that area and have a very good person running it.

<Q – Craig Siegenthaler – Credit Suisse Securities (USA) LLC (Broker)>: Great. Thanks for taking my question.

Operator: Thank you. The next question is from Mike Carrier of Bank of America. Your line is open.

<Q – Mike Carrier – Bank of America Merrill Lynch>: Hi. Thanks a lot. I think when we look at the private equity business and that business is running well, and it's relatively easy to look at the outlook. I think when I look at the Global Market Strategies, the Real Assets, the Solutions based on some of the acquisitions and then the interest that you're buying up, just trying to understand if you can provide any insight when we think about maybe next year whether it's the amount of assets that can be generating carry. Just trying to get some color on the dynamics on over the next couple of years, those other three segments, what's the potential on the like the performance fee side?

<A – Bill Conway – The Carlyle Group LP>: Well, obviously, we don't give guidance as you know for what we think our financial performance might be next quarter or next year. We wouldn't be spending the time and money we're spending to try to build those businesses if we didn't think we could make them successful. How successful they will be, will be determined by our execution and I have confidence in our ability to do that and hope that over time our private equity business grows and yet its share of our business goes down.

<Q – Mike Carrier – Bank of America Merrill Lynch>: Okay. Thanks a lot.

Operator: Thank you. The next question is from Brennan Hawken of UBS. Your line is open.

<Q – Brennan Hawken – UBS Securities LLC>: So, even though deployment picked up this quarter, it remains low looking at it especially vis-à-vis dry powder. So, maybe some thoughts and comments on how you guys are thinking about investment opportunities and if there is any difference in how you're approaching different geographies or asset classes, any color on that front?

<A – Bill Conway – The Carlyle Group LP>: Well, I could give you a lot of color on that front. First of all, I think our investment pace has been pretty good particularly in the United States. As you know, we did Signode and Ortho-Clinical. We did Vogue. We did ADT, which is part U.S. part Asia, and then we announced yesterday or the day before, Acosta. Those businesses will be between $4 billion, $4.5 billion of equity in those businesses having been invested, which is a lot more, I think, than most other people. I'd say the prices we're paying are not cheap, but we continue to think we can earn very attractive IRRs for our fund investors.

And so, the United States is a very good place in which to invest. No question that the low interest rates and the abundant amount of credit have raised valuations. If you do some simple analysis on what the impact would be of financing at one rate compared to financing at a rate 200 basis points or 300 basis points lower, the numbers can be staggering, an extra 15% or 20% of the purchase price can be paid and are in the same IRR under those set of assumptions. I think it would be fair to say that the current world is a world of United States Economy adding about 200,000 jobs a month, growing about 2% a year, very cheap credit and abundant, Federal Reserve saying we're going to keep it that way and high asset prices that have been moving higher.

In my view, I don't think that anything is going to happen to change that. I don't see the catalyst in the United States or in China or even the X-factor, that's going to cause that to change. I know it will change eventually. For now, we are taking advantage of it, but I think that that type – that view of the world is likely to continue. If you then say, around the world what's going on, Europe is about – Europe and Japan are both priced about 20% lower than the United States, at least in their public markets, which translates pretty closely to what's going on in the private markets as well. And I would say that is too big a discount. I think that the relative – I know they're going to grow less slowly – more slowly than America. And I think they have other issues in Europe particularly. But those discounts versus prices in America make it worthwhile taking a hard look at investments in Europe and in Japan. And then of course, Asia is part of the fast growing global markets. So, I think that I'm satisfied with our investment pace to-date. No question that prices are high. But I feel satisfied with the investment pace.

<A – David Rubenstein – The Carlyle Group LP>: I would just add two things that have changed over the last, let's say, five years to 10 years in the private equity world that we're now seeing. Number one, there's greater acceptability by potential sellers of private equity as a source of capital. It used to be in Europe or Japan, people thought that private equity people were not really appropriate buyers, but I think that's really changed and therefore there's more opportunities that we're seeing in Europe and Japan than we were years ago and that's an important factor.

Also secondary buyouts have had their ups and downs in terms of the way people look at them, but the results of secondary buyouts have been pretty robust for investors in recent years. And I think therefore, you're likely to see more secondary buyouts. And while we haven't done as many of them as we have done carve-outs, we do recognize that you can make a fair amount of money if you have a very good management approach and a very good – and a plan when you're buying a secondary buyout. And therefore, I think you're going to see a fair number of those continue as well in Europe and United States.

<Q – Brennan Hawken – UBS Securities LLC>: Perfect. Thanks for all the color.

Operator: Thank you. And the next question is from Ann Dai of KBW. Your line is open.

<Q – Ann Dai – Keefe, Bruyette & Woods, Inc.>: Good morning. I'm calling in for Rob Lee. I just want to go back to Real Assets quickly. As we're starting to see performance turn the corner a bit, I was wondering if you guys could provide some color on what proportion of that improvement in returns is due to general market conditions as opposed to improvement of fundamentals at the portfolio companies and are there any examples you can provide there?

<A – David Rubenstein – The Carlyle Group LP>: Or our skill-set, you forgot that.

<Q – Ann Dai – Keefe, Bruyette & Woods, Inc.>: And the skill-set.

<A – David Rubenstein – The Carlyle Group LP>: Okay.

<A – Bill Conway – The Carlyle Group LP>: Well, I distinguish Real Assets as a big business for us. It goes from real estate over the world through the various parts of the energy platform. In Real Assets, it's interesting. We've continued for the last four years, five years to kind of invest at the same pace. We haven't changed our underwriting standards or return expectations. So, it doesn't strike me – that's either of the factors that [indiscernible] (46:49) maybe it's all from combined.

In global real estate, it's been a tough business for us and we're fixing it. In energy, each of the energy business is a little bit different frankly. In Energy Mezzanine, which is a fund that we hope to moving to carry in the next year or so, there just is an enormous opportunity because of the banks, particularly the foreign banks that used to finance energy projects in the United States around the world have withdrawn a lot from that business and it's been a void in which we've moved.

NGP, they've done a great job in good markets and bad markets. Energy prices up or down, crisis around the world, fracking or pre-fracking, they've just done a wonderful job. And I think that I would say there that is the skill-set perhaps in that case.

<Q – Ann Dai – Keefe, Bruyette & Woods, Inc.>: Okay, appreciate the color. And quickly moving to your comments on the opportunities to scale GMS further, do you guys see that happening through acquisitions and list outs or is it your intention to grow at more organically raise larger funds, upside some funds there? I'm just trying to get a sense of what you see driving growth and providing some leverage within that business.

<A – David Rubenstein – The Carlyle Group LP>: The organizations or the parts of GMS that we have today, we think, are in pretty good shape and we expect to see a fair amount of organic growth. We're quite happy with the performance of most of the things we have in GMS, a couple of things to grow a little bit faster than maybe they currently are and we're working on that. We're pretty happy with where things are there. But we do get opportunities all the time that people present to us, because the things that have gone on our platform from acquisition have done pretty well. And a lot of people like working in our firm, I guess, have heard good things about it. And therefore, we do see a lot of opportunities.

And I wouldn't be surprised if we made some other acquisitions at some point or made some new businesses there. Very often, we're looking at starting business really by putting a team together that might not have a large amount of capital under management now, but will be after they get on our platform. So, we are opportunistic. We haven't precluded anything, but I suspect we'll probably have a little of everything, growth of some of the adjusting things, some startups that we'll kind of fund, and then some acquisitions of things that have some assets under management already.

<Q – Ann Dai – Keefe, Bruyette & Woods, Inc.>: Great. Thanks for taking my questions.

Operator: Thank you. The next question is from Glenn Schorr of ISI. Your line is open.

<Q – Glenn Schorr – International Strategy & Investment Group LLC>: Thanks. Maybe we'll just a little bit backwards before forwards; I appreciate the comments on the growth outlook for GMS. In the – just looking at the previous period, whether it'd be the quarter, the last 12 months, just ENI and some of the drivers are down. And I'm just trying to separate, is that just a function of low rates type spreads, less opportunity. I'm just trying to get at what you think is the main headwinds in GMS, because I'm a believer in the growth drivers you just mentioned.

<A – Bill Conway – The Carlyle Group LP>: Yeah. Well, this is Bill, but Curt may fill in after me. I'd say that the rates and lack of volatility can over time affect the hedge funds, which is a big part of the GMS business. And the whole hedge fund industry for the last couple of years has had a tough time. Our funds have done pretty well. But there is no question that when you have interest rates of zero, no volatility, it's hard for hedge funds to make money. Returning kind of to some of the other question we're talking about if you thought about what we're doing there, in the CLO business, we continue to issue a couple of CLOs quarterly, and some of them are kind of replacing CLOs that are running off that we issued five years or six years or seven years ago, some of it is expanding the size of the business. We built the BDC really from scratch. Year-and-a-half and so, it had no assets; now, it's got over $1 billion in assets.

CEMOF was a business we started and built from scratch, which is also in the GMS business as well. Today it's got over $1 billion in loans outstanding or assets outstanding are roughly in that range. I think, the fact that it's down versus a year ago is really as I tried to say in my remarks, a function of a couple of things that happened a year ago. I know, we had big gains on a couple of deals in our distress business and they did not recur in the second quarter of 2014. They did occur in 2013. And then, I think Curt mentioned the fact that we had some fund closings in – and people say, what does it mean that there is a fund closing? Why is there some more management fees that comes in?

Well, suppose you have a fund closing and there is $300 million committed and everybody commits to pay a fee of 1%, well then when you have and those people pay, well then when you have a subsequent closing, the people who close in the subsequent closing usually go back and pay fees to day one. So you have a real catch-up on the management fee and that's what tends to happen in some of our businesses. It's been throughout our discussion today.

<A – Curt Buser – The Carlyle Group LP>: And that's what happened in 2013 with our Energy Mezzanine fund as well as with one of our Carlyle Strategic Partners III of our distress funds.

<Q – Glenn Schorr – International Strategy & Investment Group LLC>: Okay. I think I got all that. Maybe just one quick follow up on the regulatory side, I personally don't see that many big increase and anything to be super sacred about, but there doesn't seem to be more increase, more suites. I'm just curious on how you can categorize it. Maybe in the context of should we expect a pickup in regulatory-related expenses, any color would be great. I know it's a touchy subject to comment on.

<A – David Rubenstein – The Carlyle Group LP>: Well, let me let Curt deal with the expense issue, but we obviously recognize that there are people in regulatory positions that do raise questions from time-to-time about certain things in the industry, but we don't really see any ongoing problem that we have to worry about. Obviously the government can always come in and ask questions, but we have a right regular dialogue with the SEC for example, as other firms that are registered with the SEC do and we don't anticipate any problems there of any note or anything worth commenting on now. We don't think that Congress is likely to do anything in the near future that is going to adversely affect Private Equity as opposed to anything else in the society. So we don't have any real concerns in this area right now that, I think, are worth noting but Curt on expense issue.

<A – Curt Buser – The Carlyle Group LP>: Yeah. I mean I would just say, David, I would echo your comments and we're pleased with our compliance efforts to-date. We needed to invest in both people and systems to support compliance, regulatory, and reporting matters. And we'll continue to do that to make sure that not only we're keeping pace, but hopefully, we'll be kind of exceeding the expectations.

<Q – Glenn Schorr – International Strategy & Investment Group LLC>: Okay. Doesn't sound like we have worry about it being a P&L drag to any larger extent, but thanks.

Operator: Thank you. And the next question is from Marc Irizarry of Goldman Sachs. Your line is open.

<Q – Marc Irizarry – Goldman Sachs & Co.>: Great. Thanks. David, can you talk about fund raising and in particular, I guess there's sort of different economics between raising funds internally versus maybe having to go external. Can you – as you look at the mix of fund raising, what you're in the market with today and going forward as you shift maybe to more high net-worth or global clients, is that sort of what's impacting the internal versus the external and do asset classes maybe planted as well? Thanks.

<A – David Rubenstein – The Carlyle Group LP>: Okay. Well, first, most of the money we are raising is being raised by our internal fund raising group. We've got about 85 people in that group. Not everyone is a fund raiser, but the whole group people do various functions for the group, that 85 people or so. And most of the money we raised comes from our internal fund raisers. However, we don't have the capacity, nor does any organization like ours to do retail investing in-house really. So, we do rely on external people from time-to-time, and sometimes they charge higher upfront fees than we would prefer. Your own organization is pretty good at that as well. And we'd all wish they would lower their fees, but they don't seem to be lowering them. So for the time being, I expect the market will be that, we will probably pay some fees.

However, one point that is very important to note. When we raise money today from large institutional investors, very often they would like co-investment, very often they would like ancillary services, all kinds of conferences and other things that we might provide for them and information and all kinds of other things across money for us to do. We don't usually have the same thing from retail investor. So while you might pay an upfront pay that might be higher, we don't usually have the same co-investment requirements and co-investment obviously is something we're giving away more or less for free. So we usually don't have those kinds of things with the retail investors so far. And therefore, we're quite attracted to retail investors even though the upfront cost might appear to be higher at the outset; over a longer period of time, it probably will be cheaper for us to raise money that way. But we'll have a mix and I suspect other firms like ours will have a mix. Probably though for the foreseeable future, the vast bulk of the money we're going to raise is going to still come from our internally generated fund raiser team.

<Q – Marc Irizarry – Goldman Sachs & Co.>: Okay, great. Thanks.

Operator: Thank you. The next question is from Patrick Davitt of Autonomous. Your line is open.

<Q – Patrick Davitt – Autonomous Research US LP>: Good morning. Thank you. Could you – and I apologize if you said this at the beginning of the call, I wasn't on. But could you give us a little bit more color on how the portfolio companies are performing from a revenue and EBITDA standpoint maybe globally and by industry?

<A – Bill Conway – The Carlyle Group LP>: How long do you have?

I would say this that remember, we own about 200 portfolio companies around the world. And we have very good data that we're able to track from those portfolio companies and compare it and analyze it versus what's coming out in the public estimates of industry performances and economic performances. Generally I'd say in the last few months, that's been maybe a little weaker than the trend line had been, but I say that in the context of when the United States reported a decline of 2.9% in the GDP in the first quarter, we just thought that number was flat out wrong. I'm sure it was the correct number, but it really did not reflect what was going on in the economy as we saw it.

I think that the United States still continues to grow. Europe is growing about 1%; Japan, maybe a little better than that. As I mentioned, the U.S. economy continues to chug along. And any month-to-month, it's almost really noise in the data before you can really say that you've got long-term trends and what's going on. I do think that the economic situation that exists now is going to persist for a while, because I think the central banks have such power over what's going on. They suppressed volatility and they made money abundant and cheap.

<Q – Patrick Davitt – Autonomous Research US LP>: Okay. Thank you.

Operator: Thank you. And the next question is from William Katz of Citi. Your line is open.

<Q>: Good morning. This is actually Neil, filling in for Bill. At the start, you mentioned two big picture trends first rising allocation, second share gains. Within the allocations, where is the incremental interests coming from and then secondly, is there any particular asset class or segment that you're seeing greater allocations to? Thanks.

<A – David Rubenstein – The Carlyle Group LP>: Yes. First, let me give you some numbers. Historically, Carlyle would – gets about 30% of our money from public pension funds in the United States. In this last quarter, we got about 20% of our money there. So, in other words, the U.S. public pension funds last quarter at least were less significant for us; and where is the increase occurring. Well, it's occurring from sovereign wealth funds. Historically, we raised about 14% of our money from sovereign wealth funds. Last quarter, about 25% of our money came from sovereign wealth funds. So, that's a big area of pickup.

We're also seeing some pickup in fund to funds. Historically, we get about 17% of our money from fund to funds, various fund to funds around the world. Last quarter, we got about 23% from that source. So, I'd say you're seeing more fund to fund activity, you're seeing more sovereign wealth activity, and we are seeing a pickup from high net worth. We didn't particularly see it last quarter, but we're seeing it previous quarters in high net worth. So, I would say the two biggest trends that I think are worth noting are more and more high net worth individuals, you can call them retail, you can call them high net worth, whatever you might use as the nomenclature, more and more of them are coming in either through feeder funds or other ways into alternative investments.

And secondly, the growth of the sovereign wealth funds is hard to overstate. They just have so much money and they don't pay it out. Unlike U.S. public pension funds, which are paying out money to pensioners, sovereign wealth funds typically don't need to do that. And so because oil price has been high for 10 years plus, because the Chinese economy and Southeast Asian economies have been high for – and attractive for a while, these Southeast Asian and Chinese sovereign wealth funds and the Middle East sovereign wealth funds are doing quite well and have a fair amount of cash.

In terms of the things that they're looking for, everybody is looking for something that somebody else doesn't have. In other words, they all want something that's perhaps different, unusual; they're more willing to be first in the line than last in the line. Used to be a lot of the large investors said call me at the end of the – when you finally got the fund ready to close and I'll come in and take a look at it, and let you know what I think. Now, a lot of them want to be at the beginning which sometimes special terms.

Historically, all investors in the funds paid the same terms, whenever you came in and whatever your size was. Now the world has changed. If you're bigger, you get a discount typically; you come in earlier, you get a discount. And so, a lot of those sovereign wealth funds or other large investors now want to come in earlier, get a discount and willing to pay in size. Last, high rates of return are less important to some investors than the steadiness of rates of return.

So, getting 30%, 25% rates of return is honesty less appealing to people now than having a steady, steady let's say 12%, 14%, 15% rate of return over longer period of time. So we're seeing more and more demand for more steady products and a lot of current income kind of products too. So that's a big change from years ago.

Bill or Curt? Still there?

<Q>: Thank you.

Operator: Thank you. There are no further questions at this time. I'll turn the call back over to Daniel for closing remarks.

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

Thank you for your participation today. Please contact Investor Relations with any further questions you may have. And we certainly look forward to speaking with you again next quarter.

Operator: Ladies and gentlemen, this concludes today's conference. You may now disconnect. Good day.