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CORPORATE PARTICIPANTS

Daniel Harris *Carlyle Group LP - IR*

David Rubenstein *Carlyle Group LP - Co-CEO*

Bill Conway *Carlyle Group LP - Co-CEO*

Curt Burser *Carlyle Group LP - CFO*

Mike Cavanagh *Carlyle Group LP - co-President & co-COO*

CONFERENCE CALL PARTICIPANTS

Brennan Hawken *UBS - Analyst*

Mike Carrier *Bank of America Merrill Lynch - Analyst*

Ken Worthington *JPMorgan - Analyst*

Craig Siegenthaler *Credit Suisse - Analyst*

Brian Bedell *Deutsche Bank - Analyst*

Michael Kim *Sandler O'Neill - Analyst*

Neil Stratton *Citigroup - Analyst*

Ann Dai *KBW - Analyst*

Michael Cyrpys *Morgan Stanley - Analyst*

Patrick Davitt *Autonomous - Analyst*

PRESENTATION

Operator

Good day ladies and gentlemen, and welcome to the Carlyle Group first-quarter 2015 conference call.

(Operator Instructions)

As a reminder, this conference may be recorded. I will now turn the call over to your host, Daniel Harris. Please go ahead.

Daniel Harris - *Carlyle Group LP - IR*

Thank you, Stephanie.

Good morning, and welcome to Carlyle's first-quarter of 2015 earnings call. With me on the call today are our co-Chief Executive Officers Bill Conway and David Rubenstein, and our Chief Financial Officer, Curt Buser. Earlier this morning we issued a press release and detailed earnings presentation with our first-quarter results, a copy of which is available on the Investor Relations portion of our website.

(Caller Instructions)

Please contact Investor Relations following this call with 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 be not be considered in isolation from, or 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 factor 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 Rubenstein - *Carlyle Group LP - Co-CEO*

Thank you very much, Dan.

As we said on our last earnings call. 2014 was our best year as a public company, and our underlying business is off to a strong start in the first quarter. During the quarter, our portfolio continued to appreciate. We continued to raise significant new commitments, and we continue to exit investments at attractive levels and pace.

Unfortunately, a foreign tax dispute, which we have disclosed since our IPO in our periodic filings, came to a head in April and negatively impacted our financial results this quarter. Specifically, we received an adverse ruling from a French tax court related to a real estate investment we fully exited in 2009.

We disagree with the Court's findings, and we will file an appeal. But under the French law, we're required to make the full payment of the amounts now owed in order to file this appeal.

We will fund the required tax payment with some cash attributable to the first quarter's results. The effective of this is to lower pretax distributable earnings by $80 million and economic net income by $34 million.

This is a frustrating and disappointing outcome to an otherwise solid first quarter, but this isolated Court decision does not detract from the performance of our underlying business and how we're positioned for the future. Curt will more fully discuss this issue in a few moments.

Let me now focus on the key metrics for the first quarter, which we believe reflect the strength of our underlying business. We produce $228 million in pretax distributable earnings for the quarter, excluding the French tax payment. Inclusive of the tax payment, distributable earnings was $148 million for the quarter, or $0.43 per unit. Over the past 12 months, and even including the tax payment, our distributable earnings are up 11% to $938 million.

Economic net income was $273 million, driven by solid appreciation funds that are accrue and carry, a figure that would been $307 million but for the French judgment. And in accordance with or new quarterly distribution policy, we will pay to our unitholders a quarterly distribution of $0.33 per unit, or approximately 75% of the quarter's distributable earnings.

Our carry funds appreciated 6% in the quarter and 15% for the first 12 months, with our CPE carry funds appreciating 8% in the quarter. We raised gross commitments of $6.6 billion, excluding hedge fund commitments, in the quarter continuing the momentum in our fundraising.

Our net fundraising amount was $4.4 billion, which reflects $2.1 billion in net hedge fund redemptions during the quarter, consistent with what we mentioned in our last earnings call. We realized proceeds of $4.6 billion, 70% of which was from our carry funds that are either accruing or paying carry. Despite realizing net performance fees of $178 million, our net accrued carry balance remains at $1.8 billion based on the continued appreciation in our carry funds.

On new investments, as Bill will discuss in more detail, we are did busy in deploying our capital through many of the deals -- though many of the deals have tended to be smaller. We invested $1.5 billion this quarter in 107 new and follow-on transactions, and while that dollar amount is below our recent trend we are pleased with the businesses and assets that we purchased or in which we invested and believe our selectivity, as in the past, will yield great results for our fund investors.

When you evaluate the health and sustainability of the earnings of our business, a few key items should stand out. Despite realizing over $21 billion in proceeds for our fund investors over the past year, a remaining fair value of assets in the grounds remains at over $62 billion.

We have $1.8 billion of net accrued carry on our balance sheet, about the same as a year ago, despite having over $770 million in realized net performance fees over the past 12 months. Our public portfolio stood at $18 billion at quarter end, despite $2.2 billion in public share sales in the first quarter. The underlying trends in our business remain robust across many of our financial and operating metrics.

Let me now address our fundraising for the quarter. We are off to a fast start in 2015, especially in light of the fact that the largest funds we have recently offered have been closed for some time.

As you may recall, last year we raised more than $24 billion, the second largest annual sum we have raised in the Carlyle's 28-year history. Our ability to raise capital is both persistent and broad-based, and we now find ourselves hitting our hard caps for most of our carry funds and thus needing to pare back requested LP commitments in a number of our currently open funds. Of course, we continue to raise only the capital we believe we can deploy effectively in our standard investment timeframe.

During the first quarter we closed our first international energy fund at the $2.5 billion hard cap. NGP closed its most recent energy fund at the $5.3 billion hard cap. As of today including NGP, power, international energy and energy mezzanine, we have $11 billion in dry powder available to invest in the energy sector.

We held additional closes in eight other funds, most notably our latest vintage US real estate has now raised $3.2 billion, and is expected to reach it's $4.3 billion hard cap In the coming months. Our second equity opportunity fund held its first close at around $1 billion. Our hard cap is $2.4 billion.

Our second energy mezzanine fund held its second close, and has now raised $1.3 billion. Our third energy technology fund will hit its hard cap of EUR650 million. And we are about two-thirds of the way towards raising our fourth European Buyout Fund, which has a hard cap of EUR3.5 billion, which we seem likely to reach. The third fund has appreciated by higher percentage than any other significant Carlyle fund over the past six months, and not surprisingly investor demand is now especially strong for that fund. We also priced two new CLOs totalling $1.2 billion.

Let me conclude by spending a moment on the strength of our portfolio, which is well-positioned to generate attractive realizations for fund investors and distributable earnings for unitholders. As I mentioned earlier, our overall carry fund portfolio appreciated by 6% in the first quarter.

More importantly, the way the portfolio has strengthened over the past few quarters has solidified our earnings potential. Our portfolio has strengthened the most in many of our largest funds, and those funds are precisely the ones which have the greatest earnings power.

Within corporate private equity, our largest and most profitable businesses saw substantial appreciation. Carlyle Partners V appreciated by 7%. Carlyle Euro Partners III increased by 16%. And Carlyle Asia Partners III increased by 9%. Within real assets, Carlyle Realty Partners V appreciated by 14% and moved into a accrued carry for the first time. Carlyle Realty Partners VI, which is already paying cash carry, appreciated by 8%. These and a number of our other significant funds continue to strengthen, and are well-positioned to be large drivers of economics for fund investors and unitholders in the future.

With that, let me turn it over to Bill Conway. Bill?

Bill Conway - *Carlyle Group LP - Co-CEO*

Thank you, David.

In terms of the main drivers of the investment environment, asset prices continue to appreciate, interest rates remain historically low, the US dollar continues to strengthen, energy prices have fallen dramatically, and credit remains abundant. Our activity for the quarter reflects these trends.

We have been a very active seller, but a selective buyer. Our 750 investment professionals were busy with new investments this quarter, but most of the transactions were small and midsize deals.

We did not make any new large buyout investments, in part due to high asset valuations, particularly in the United States. As a result, the total amount we invested in the quarter was lower than our run rate over the last year.

Specifically, we invested $1.5 billion in capital in our carry funds in the quarter. We invested $850 million in corporate private equity, with new deals in our Asia Buyout Fund, our Japan Buyout Fund, our Financial Services Fund, our Sub-Saharan Africa Fund, our US Equity Opportunity Fund and our Europe Buyout Fund. We invested almost $600 million in real assets. And our GMS carry funds invested about $50 million in the quarter.

With respect to exits, we sold our final stake in Altice, generating almost $1.1 billion in proceeds, completing a turnaround from an investment that was held below cost for a number of years. We closed the sale of Veyance Technologies to Continental. We completed block sales in CommScope, Booz Allen, Central Pacific Financial, Nielsen, Nantong Heavy Rainbow, and Cube Logistics.

We sold a number of real estate assets, including a large UK student housing investment for more than $400 million and exited several multifamily residential housing assets in the United States. In total, across all of the segments we realized $4.6 billion in proceeds in the quarter.

Several transformational events strengthened the largest fund investments in our public portfolio during the first quarter and the first month of the quarter. First, Freescale, our third-largest public holding with $1.3 billion in remaining value, announced a $40 billion merger with NXP, the Dutch semiconductor firm. Second, CommScope, our second-largest holding with $2.3 billion in remaining value, announced the acquisition of TE Connectivities Telecom Enterprise and Wireless Business.

Third, in early April we sold in a secondary offering 46 million shares of Axalta Coating Systems at a price of $28 per share. And the next week Axalta announced that Berkshire Hathaway was buying from us a 20 million share position for an 8.7% stake in Axalta. Even after all these sales, Axalta remains our largest public position at over $3 billion.

These two Axalta share sales, which generated a combined $1.8 billion in proceeds, position the second quarter well, with net realized performance fees in excess of $150 million. Carlyle continues to own more than 100 million shares of Axalta, and we have enormous confidence in that business and in its management team. These three public positions, Freescale, CommScope and Axalta, created $1.7 billion in asset appreciation in the first quarter.

Of our 11 significant corporate private equity funds that have completed their investment period, 8 are now in carry. On a dollar-weighted basis of remaining fair value, 88% of our fully invested CPE funds are in carry. Corporate private equity saw its carry appreciate by 8% for the quarter and 23% over the last 12 months.

In GMS, our significant hedge funds are off to a good start in 2015 after a poor 2014. The asset-weighted hedge fund performance of our reported funds was a positive 2% in the quarter, and redemptions have slowed considerably. Appreciation in our GMS carry funds, distressed, energy mezzanine and mezzanine was a positive 3% for the quarter.

The CLO market remains open and active. In fact, we have already priced our first CLO in the second quarter in addition to the two CLOs we priced in the first quarter. In real estate, performance was strong with real estate carry funds up 11% in the quarter.

Carlyle Realty Partners III, V and VI are now in carry. Our US Real Estate fund is investing at a pace of approximately $200 million per quarter in a range of commercial, multifamily, and healthcare assets.

Our legacy energy funds, down 3%, and NGP X down 2%, experience declines in value, but at a rate substantially less than the fourth quarter of last year. We generally have lower economics on these funds than we do in our other carry funds.

Our power and international funds experienced appreciation ranging from 4% to 9%. Regarding energy investments, we are seeing significant activity, but there remains a disconnect between seller price expectation and buyers' willingness to pay for energy assets.

Many energy producers believe that they can in the future produce more oil at higher prices, and that other suppliers, rather than they themselves, will cut back. Also, we believe some potential investment opportunities have not emerged because owners are not compelled paired to seek capital, as their commodity hedges are protecting their cash flow. As the hedges expire, we expect greater buying opportunities to emerge. Despite the uneven environment, NGP has already committed approximately 20% of NGP XI to new investment opportunities.

On the international energy front, with different industry dynamics than in the United States, we think opportunities will arise more quickly as both major and smaller firms sell off some of their non-core assets to raise cash. Across the energy sector, given our $11 billion of dry powder and the size and quality of our investment teams, we think we are very well positioned.

Looking to the second quarter, we have already been active on the exit front. In addition to the two Axalta share sales in April, we have also completed a number of exits totaling more than $1 billion in proceeds thus far in the second quarter.

These included block sales of three portfolio companies in Asia, the sale of Metrologic and a block sale of Applus in Europe, a block sale of Nielson, a block sale of CoreSite and a number of other US real estate assets. Market permitting, we have approximately half a dozen companies ready to go public in the coming months.

In summary, our investment performance in the first quarter was excellent, particularly in CPE. In this investment environment, we will continue to focus on optimizing the existing portfolio and exiting when appropriate. Meanwhile, we are cognizant of the need to put money to work, but as we have said previously, we are focused on finding good investments, not just any investment.

Let me now turn it over to our Chief Financial Officer, Curt Buser.

Curt Burser - *Carlyle Group LP - CFO*

Thank you, Bill.

Our business is off to a good start in 2015, with distributable earnings up nearly 25% from last year, excluding the expense of the French tax judgment. This reflects a solid quarter of realization activity and healthy fee-related earnings.

As David mentioned, distributable earnings for this quarter were reduced by the French tax payment we will make. As background, we began consolidating our first European real estate fund into our financial statements in 2012. In 2013 we increased the loss reserve for this matter to EUR75 million at the fund, and recognized unrealized losses and economic net income for amounts in excess of the fund's remaining assets.

Although the loss reserve at that time impacted economic net income and GAAP net income, it did not impact distributable earnings, as it was unrealized. This quarter the judgment adversely impacted our results as follows. Distributable by approximately $0.24 per unit, which you will see in realized investment loss, and economic net income by 11% per unit in investment loss, reflecting the incremental charge above the remaining assets at the fund and pre-existing unrealized loss reserves.

Unrealized investment income this quarter includes the reversal of the previous accrual. Should we prevail in our appeal, any refund would be reflected on our quarterly results at that time.

Moving onto the positive results of our underlying business. Fee-related earnings of $51 million were 38% higher than the first quarter of 2014.

The increase was largely driven by $23 million in catch-up management fees in the current quarter from fund closing in international energy, US real estate, our Europe and Japan Buyout funds as compared to $8 million in catch-up management fees and fund closings a year ago. This quarter also benefited from nearly $9 million less in external fundraising expenses versus the first quarter of last year, offset in part by higher internal fundraising compensation of $2 million.

Foreign exchange impacted our results in a number of ways. Our fee-related earnings were only modestly impacted by the strength in the dollar this quarter due to the existence of forward hedges to mitigate the impacts on our euro-denominated management fees.

However, given the large size of our non-US carry funds and structured credit funds and our non-US investment solutions vehicles, our fee earning assets management was negatively impacted by $4.5 billion, and total assets under management by $6.6 billion. Finally, our net accrued carry balance, which stood at $1.8 billion at quarter end, was negatively impacted by approximately $50 million.

Fee-earning assets under management of $129 billion decreased 4.5% from $136 billion at year end. The negative effect of foreign exchange accounted for two-thirds of the decrease. We have approximately $10 billion in new commitments, which do not yet show up in fee-earning assets under management because we have not yet commenced management fees, with over 0.5 of those commitments in energy-related funds.

The fees on these funds will turn on over the next year or sooner, as these funds deploy capital or their fee holiday expires. While we added over $4 billion to fee-earning assets under management from fee-paying commitments and investments in the first quarter, this growth was offset by $2.1 billion in net redemption on our hedge funds and open-ended investment solutions vehicles, as well as $4.4 billion from our exit activity and basis step-downs on certain vehicles.

Now, turning to our business segments, corporate private equity had an impressive quarter, producing distributable earnings of $194 million, up from $148 million in 2014, reflecting $36 million in higher realized net performance fees than in the first quarter of 2014.

Fee-related earnings in corporate private equity were $22 million, up substantially from $12 million a year ago. The increase was driven by growth in management fees of $5 million and an $8 million reduction in external fundraising expenses.

Total cash compensation in the segment was effectively flat with the prior year, even with an increase of $4 million in compensation for internal fundraising. This otherwise favorable variance in cash compensation as compared to a year ago reflects in part the adjustments to compensation accruals made in the fourth quarter of 2014.

As I said at year end, cash compensation in any particular quarter within a year is difficult to fully assess, as bonuses are not finalized until year end. That said, we continue to expect only nominal increase in cash compensation across the firm for 2015.

Economic net income for corporate private equity was $289 million for the quarter, above the $258 million corporate private equity recorded in the first quarter of 2014, reflecting continued appreciation in the remaining fair value in the ground. Outside in the higher performance fees in the quarter was a $10 million increase in equity compensation in the segment attributable to the vesting of post-IPO equity issuances to employees.

Global market strategies had distributed earnings of $9 million in the quarter, down from $22 million in the first quarter of 2014. The decrease in distributable primarily reflects a $12 million decline in fee-related earnings as a result of lower management fees from our hedge funds partnerships and higher compensation attributable in part to higher internal fundraising expenses associated with raising our second energy mezzanine fund, which has not yet commenced management fees.

Economic net income for this segment was $10 million in the first quarter, down from $56 million a year ago. As Bill mentioned, returns across GMS were broadly positive in the first quarter. However, while our significant hedge funds produced positive returns, they largely remained below their high water marks and therefore they are not yet contributing materially to group performance fees in 2015 as they did in early 2014.

Turning to real assets. Our underlying business improved in the quarter, and is well positioned for the future. Fee-related earnings increased to $19 million in the first quarter from breakeven a year ago, due to a $16 million increase in management fees, $10 million of which was from catch-up management fees on capital closings for international energy and US real estate.

Our sixth US real estate fund generated net realized performance fees of $6 million in the quarter, accounting for all of the increase over last year. Our fifth US real estate fund moved into approved carry for the first time.

Total performance fees for the quarter were $22 million, inclusive of approximately $67 million from real estate partially offset by the reversal of unrealized performance fees in our legacy energy portfolio and NGP Fund X.

Real assets economic net income for the quarter was above breakeven, excluding the realized loss on the European real estate tax judgment compared to a loss of $17 million a year ago. Our legacy energy funds are now in a net accrued clawback position of $27 million, an amount which is less than 2% of our net accrued carry balance of $1.8 billion.

In prior quarters I have discussed losses to our investments in a mezzanine loan in Europe real estate and Urbplan. We incurred an insignificant realized loss in the first quarter in connection with the mezzanine loan. And we realized a loss of approximately $8 million for Urbplan in the quarter. As discussed last quarter, we continue to believe that both situations are stabilizing, but Urbplan will require further capital in 2015 to complete its business turnaround.

Investment solutions contributed $7 million of distributable earnings in the quarter, down from $11 million last year, reflecting lower management fees of $4 million and $1 million in lower realized net performance fees in the segment. Economic net income for the segment was $8 million for the quarter, down from $14 million in the first quarter of 2014.

Our business, as David and Bill have said, is in good shape. Our portfolio is strengthening. We are raising large amounts of money, and we are well positioned for this year and beyond. With that, let me turn it back to David for some closing comments.

David Rubenstein - *Carlyle Group LP - Co-CEO*

As our comments on this call reflect, our underlying business remains robust, and that was evident in so many of our key metrics during the quarter. We're also pleased that the early results from exits in the second quarter reflect what we believe an attractive quarter, as measured by our key metrics.

Now, we are happy to have your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Brennan Hawken, UBS.

Brennan Hawken - *UBS - Analyst*

Quick question on the wide bid/ask spread that you guys commented in the energy sector. Could you maybe give a little more color on that insofar as maybe some of the different energy markets and how you are assessing that opportunity? And maybe put a guess around how long you think it will take before that bid/ask spreads to narrow.

Bill Conway - *Carlyle Group LP - Co-CEO*

Thank you, Brennan. This is Bill. I would say that the bid/ask spread is maybe 20% in terms of what people think their assets may be worth versus what some sellers are willing to pay. Frequently when I look at models of what's likely to happen to a particular business, it shows not only prices going up over time, but production going up over time for that particular company.

So I think that is a thing that just causes one to scratch my head and say, how can it be that everybody is going to produce more and somehow the prices are going to go up in a market that is right now in a significant oversupply position? In terms of how long it will go on, obviously the fall in the rig count in the United States will eventually take it's toll.

But people that have drilled a well and it's producing, they tend to just continue keep producing. So I think this spread could go on for a while, maybe a year, maybe two.

Brennan Hawken - *UBS - Analyst*

Wow. Okay. Thanks for the color.

Operator

Mike Carrier, Bank of America Merrill Lynch

Mike Carrier - *Bank of America Merrill Lynch - Analyst*

It was a strong quarter on the CPE side, and even the realizations. I just want to get your take on the outlook for the net, maybe fee AUM on growth and even FRE growth. It seems like there's a couple items, like you've got catch-up fees that could moderate, although fundraising can easily be active.

On the other side, I think on that real assets segment, you mentioned that the energy fund didn't start to generate fees. So that's a positive. And then it sounds like on expenses with cash (inaudible) being just incrementally growing this year, and then it seemed like non-comp was definitely lower than we were expecting. I just want to get your sense on the growth outlook on fee AUM and then FRE from here, given a bunch of moving pieces, and not just the next quarter but over the next couple years?

Curt Burser - *Carlyle Group LP - CFO*

Sure, Mike. This is Curt. Thanks for your questions. I will cover fee-earning AUM first. If you look back in time, we have been pretty successful at growing fee-earning AUM as well as total assets under management, both by what we have done internally with starting new funds and follow-on funds, as well as through acquisitions.

If you look back, whether it's over the last quarter or the last year, if you take out the effect of foreign exchange and the redemptions that we told you about before with respect to the hedge funds, and then you add in that $10 billion of capital that we've raised, mostly in the energy funds that we haven't turned on yet, so that's going to turn on as we invest it or as the fee holiday expires within next year, we've really raised fee-earning AUMs by about 7%. As we look forward, I think we'll continue to go up long term, there will be periods both in terms of how both exits, and this is a strong exit market right now, as well as fundraising comes into play, and we've been very successful in raising capital. So the timing of how both exits and fundraising will play will create some volatility in the short term, but it'll continue to grow.

As we turn to the second part of your question on fee-related earnings. As I think about really revenues and expenses in total. This quarter we did $51 million of fee-related earnings, up from Q1 of last year. But in any given quarter you can have items toggle within revenues. That's going to be, as we've talked about in terms of management fees and transaction fees. That can toggle $10 million to $15 million in any given quarter up or down.

On expenses, you'll see -- I hope you will see that I think we have been pretty discipline on our expense management, especially in the last couple of quarter. You will see this both in our cash compensation. Those numbers really remaining flat with a year ago and pretty flat with the quarterly average for the past year.

If you look at G&A, G&A this quarter is favorable. It's -- especially compared to Q4 as well as Q1 of last year. Within that are some timing items, things like our conferences tend to occur at the back half of the year, causes more travel back half of the year. Professional fees can come and go in any given quarter. This quarter they happen to be low, and there are other items that can go back and forth.

We are managing that carefully, but I think this is a quarter where we are probably benefiting from some timing on G&A. Again, with respect to expenses, things like external fundraising costs can go up or down as well as our internal fundraising costs, depending upon our mix of use. So how we raise those funds. And we try to spell that out on each quarter. I think just as revenues can toggle up and down, so can expenses. But generally, right around where we've been is probably a good place to put a stake in it for fee-related earnings.

Mike Carrier - *Bank of America Merrill Lynch - Analyst*

Thanks a lot.

Operator

Ken Worthington, JPMorgan.

Ken Worthington - *JPMorgan - Analyst*

I'll take a shot. Is Mike Cavanagh in the room by any chance, and might he be available for a question?

Mike Cavanagh - *Carlyle Group LP - co-President & co-COO*

Here I am, sure.

Ken Worthington - *JPMorgan - Analyst*

Awesome. Okay. Mike, you've been at Carlyle for a while. You bring big-company experience, and Carlyle is growing into a big company. Maybe talk about what you see as priorities for the firm. How much room do you see for improved efficiency? And maybe where do you see, as kind of a new insider, but formally an outsider, opportunities for growth that Carlyle hasn't pursued in the past?

Mike Cavanagh - *Carlyle Group LP - co-President & co-COO*

Efficiency is there, as Curt just talked about. I think the whole team is focused on making sure we run an efficient place. So that is making sure we tighten up on all -- on the variety of expansion ideas that have been underway here, and including the core business of PE. I think we have a very solid management team. I'm just one of many folks that are at work on this, and some newcomers as well, are focused on that side of things. So you see it in the numbers that Curt just talked about.

I think the areas -- nothing shocking in terms of growth areas, other than the ones you've heard us talk about, or the team talk about here. Obviously, the GMS face is one there are opportunities coming from the changes in the banking landscaping that we know well here, and I know well from my old world. So we intend to be a participant in that, particularly through GMS, but not exclusively. In fact, our Fig Fund did some investments that are targeted in that area as well. So that's the lay of the land.

Ken Worthington - *JPMorgan - Analyst*

Okay, great. Thank you very much.

Operator

Craig Siegenthaler, Credit Suisse.

Craig Siegenthaler - *Credit Suisse - Analyst*

Good morning, everyone. I know there are a lot of variables here, especially where each of the four energy funds that are on callback are marked. Also how fundamentals are [churning] the second quarter. When do you think the real assets segment can reasonably return to positive profits on an E&I basis?

Curt Burser - *Carlyle Group LP - CFO*

Craig, this is Curt. If you look at what we are already experiencing, our real estate business is going well. You see that both in terms of Fund VI generating carry, Fund V now being in carry, Fund III has been in carry and will continue to contribute. We also -- there are some items also within Europe that will favorably contribute as well.

Some of the challenges that we've had historically within Europe real estate are hopefully largely behind us, but we'll continue to work on that. As we look at kind of on the energy front, most of what you're seeing is our legacy portfolio, which is really in runoff mode.

You'll see the drop in value was much larger in the fourth quarter than it is here in this quarter. And we're very excited about our $11 billion that we have of [dry-pod], or within in the energy space, and be available to invest that. I think as we invest that as that kind of plays through, I think the growth prospects for this segment are strong.

Craig Siegenthaler - *Credit Suisse - Analyst*

Thank you

Operator

Brian Bedell, Deutsche Bank.

Brian Bedell - *Deutsche Bank - Analyst*

Can you hear me?

Bill Conway - *Carlyle Group LP - Co-CEO*

Yes, we hear you, Brian.

Brian Bedell - *Deutsche Bank - Analyst*

Okay, great. On the -- maybe Bill, if you could talk a little bit more, or expand your comments on the deployment opportunities. It sounds like on the energy side, like you said, the bid/asks are still wide and that could persist for one to two years.

Does that impact deployment opportunities on the overall private equity side? In other words, are you looking for other things in lieu of that, or is this really more of an energy fund situation?

And just a clarification on the realizations that you talked about, $150 million net realized on those transactions. And then you mentioned some other transactions in the second quarter happening, or those over and above the $150 million net.

Bill Conway - *Carlyle Group LP - Co-CEO*

Let me start with the last half first, which is the $150 million. That amount pertains only to the net performance fees on the Axalta sales. It does not pertain to the other $1 billion-plus of transactions that we have already done in the month of April. Is that responsive to that part?

Brian Bedell - *Deutsche Bank - Analyst*

Yes. Any sense of -- maybe it's too early to say what the $150 million would be -- would to increase to, then, I guess, based on that?

Bill Conway - *Carlyle Group LP - Co-CEO*

Nice try. (Laughter) With regard to - Axalta was just so big we felt we had to say something on it. But across the rest of the portfolio, no comment at this time.

Brian Bedell - *Deutsche Bank - Analyst*

That's fair.

Bill Conway - *Carlyle Group LP - Co-CEO*

In terms of deployment opportunities, take a big step back. Last year we deployed about $10 billion across the platform. That was energy and real assets, real estate. It was in our credit businesses as well. It was in CPE.

I'd like to do that kind of amount going forward. However, in the first quarter we just found $1.5 billion of deals that we invested in.

I would say that it is tough across the entire platform to meet that transactions that meet our goals for what we're trying to do for our LP investors and than the unitholders. It's not just energy.

It is credit, for example. Credit spreads have really compressed. There are lots of alternatives to credit products. It's a very competitive business.

People can raise equity. They can raise public debt. It's tough in the credit platform.

In the energy platform, as I said before, sellers' expectations and buyers' hopes just haven't quite met generally, I'd say. And then CPE, obviously our biggest fund, our longest-serving fund, the fund with the most investment professionals, is our US Buyout funds, and in the first quarter they didn't really do any deals.

So it was -- and often times, frankly, in the past they've been -- I think a couple of years ago they were $3 billion or $4 billion for the year -- so significantly there.

Now I look around the universe of deals that get done, and it's not like I say, so-and-so did that deal, I wish we'd done it, or somebody did that other deal, or wasn't that creative, or the like. I think that the valuations are relatively high across the entire space, energy assets, credit assets, and CPE.

Now, we are blessed by having a very -- by the way, it's particular tough in the United States. Outside the United States, Japan, Asia, Europe where we're strong in all those markets, I think buying opportunities are better there than they are in America, at least at this time. That can change over time.

I would say that I expect that, even in the current quarter, based upon what I see now, it's unlikely we will do $2.5 billion in this quarter. It's just the run rate is tough.

On the other hand, the business is pretty lumpy. And you can find times where you will find very significant [large] opportunities to invest the money, and when we find them, we're willing to put money to work backing our opinions on them.

Brian Bedell - *Deutsche Bank - Analyst*

Great. Thanks great color. Thanks so much.

Operator

Michael Kim, Sandler O'Neill.

Michael Kim - *Sandler O'Neill - Analyst*

Good morning. Just coming back to the realization front. As you pointed out, you were active in terms of secondary offerings and strategic sales during the first quarter, and that's followed through into the second quarter thus far.

Just wondering, from a high level, how you're thinking about the trajectory for distributable earnings looking beyond the second quarter, particularly in light of what seems to be a still pretty favorable exit environment, like you mentioned?

Bill Conway - *Carlyle Group LP - Co-CEO*

We don't give guidance, but I would say that it is really a good time to be selling assets. And it's not just in the United States. For example, the stock markets in China are up, I think, some of them in one of our funds I think was up 25% just since March 31. We're an aggressive seller of our assets generally. But no prediction on performance fees going forward.

Michael Kim - *Sandler O'Neill - Analyst*

Okay, great. Thank you.

Operator

Bill Katz, Citi.

Neil Stratton - *Citigroup - Analyst*

This is actually Neil Stratton filling in for Bill. My question is on the Department of Labor and how their proposed rules have excluded private equity and some other products into the retirement market and IRA accounts. Just wanted to see how this may impact the opportunity into the retirement channel going forward. Thanks.

Bill Conway - *Carlyle Group LP - Co-CEO*

This is Bill. David, I don't know if you want to take a stab at it, but I would say so far, no impact.

I think it's obviously there are different standards that are being discussed in terms of fiduciary standards and best available investment standards or cheapest fee standards or whatever. But I think it's pretty tough given our performance over 25 years for people to say we're not a suitable, and also in a fiduciary sense, a good investment for somebody to make, that is being advised by a fiduciary.

Daniel Harris - *Carlyle Group LP - IR*

Next question, please?

Operator

Ann Dai, KBW.

Ann Dai - *KBW - Analyst*

This is Ann calling in for Rob Lee. Just had a quick question on the GMS hedge funds. I think you guys mentioned that redemption activity had slowed, and apologies if I misheard on that count. But can you tell us if those funds are net outflow or are they able to offset those redemptions with new commitments? And can you size that at for us?

Curt Burser - *Carlyle Group LP - CFO*

Ann, this is Curt. The hedge had $2.1 billion in net redemptions in the current quarter. We foretold that last quarter. We generally -- we only comment really on future activity when it's out of in the normal realm.

There is nothing out of the normal realm at this juncture to comment on. What I would say is in the quarter, just to reiterate Bill's comments, is the performance of the larger hedge funds are doing well, up about 2%.

Ann Dai - *KBW - Analyst*

Thanks much.

Operator

Michael Cyrpys, Morgan Stanley.

Michael Cyrpys - *Morgan Stanley - Analyst*

Good morning. A follow-up there for Bill on the deployment outlook. Just curious if you could share any additional color around what you think the catalysts could be that could potentially accelerate the deployment environment? It seems strategic M&A is picking up, corporate is putting assets up for sale, which could present carve-out opportunities for Carlyle, and also with the dollar strengthening. How does that impact your thinking, and has there been any thoughts on maybe creating a global buyout fund as well?

Bill Conway - *Carlyle Group LP - Co-CEO*

Last part of the question, could you repeat that?

Michael Cyrpys - *Morgan Stanley - Analyst*

Last part was just thoughts around creating a global buyout fund.

Bill Conway - *Carlyle Group LP - Co-CEO*

In terms of the deployment opportunities and what might the catalyst be to move the level up, I think if you talk to the people at a lot of the big banks, M&A activity is down significantly, or at least PE and sponsor is down significantly. The M&A activity by the strategic buyers, of course, cut both ways. To some extent they can outbid us on some assets if they choose to when they become buyers. When we're trying to sell, they can be a good buyer for assets that we want to sell.

I would say that I find that we are disturbingly in the consensus with regard to the investment and the economic environment. By that I mean interest rates feel like they are low and they're going to stay low. Asset prices feel like they're high and they're going to stay high.

Energy prices are way down and I don't see a big bounce moving up. The dollar's strong against other currencies, not as strong as it was maybe two or three weeks ago, but relatively a very strong currency over the last 12 months. I expect that to continue.

Now, having said that, I think we all have an anchoring bias that is caused by the recent past. People always expect that today is going to be like yesterday and tomorrow is going to be like today. And obviously it is most days, but some days it isn't.

I think the catalyst that could happen, and you may even be seeing a little bit of it right now, is the strength of the dollar. The Commerce Department just reported the growth rate in the first quarter was about 0.2%.

That is less than expectations, that's less than our expectation. And so we think that a lot of that may be caused by the strength of the dollar. Of course, in the first quarter there are a lot of other things going on with bad weather and ports and lots of other things. But exports were way down in the first quarter, and that was a significant part of it.

I think a dollar strength can lead to a lot of different issues for a lot of different people. For example, earnings reported by US companies of oversees profits are reduced by the strong dollar.

You saw that in Carlyle's own results when we were talking about our fee-earning assets under management, or assets under management. They were down about $4 billion, just caused by the movement in the dollar. It isn't like we're managing less dollars. We're managing -- we are managing less dollars, but still managing the same amount of funds.

That can begin to ripple through a lot of people's different business models. In addition, a lot of people borrow to dollars. For example, Russia probably has over $500 billion of dollar-denominated debt in a world where the ruble's fallen and energy prices are way down.

You could see some action there. You could see action from the strong dollar beginning to affect emerging markets as well.

So I think that that is a possible catalyst for change. Frankly, the most likely prospect is that the dollar stays strong and nothing blows up, and it's just over time we grind our way to find more good deals to invest that meet our goals.

Operator

Patrick Davitt, Autonomous.

Patrick Davitt - *Autonomous - Analyst*

It was recently reported that you were shuttering two of your retail mutual funds, which some of your competitors have had to do in the past as well. Can you walk through why you think that particular structure didn't work for you, and maybe what you learned as you go back to the drawing board to better tackle the retail opportunity?

David Rubenstein - *Carlyle Group LP - Co-CEO*

This is David. In that particular case, we really hadn't raised very much money in that particular area. We had decided to pursue probably two different liquid alternative vehicles.

As we began to look at which one was likely to do better and was performing better, it was one that was run by our DGAM arm, which is part of solutions. And we just felt that that would be one that would have much greater investor interest. It was doing quite well.

The other was relatively small. And while we had filed to do a mutual fund with it, we didn't really put any real effort into getting that off the ground. And as we saw the performance of the DGAM product likely to do much better, we decided we would put our eggs in that basket.

So we are a big believer in the liquid alternatives opportunity. A lot of our investors are quite interested in it. And we thought it would make it easier for everybody to understand that we have one vehicle in that area and not several.

Bill Conway - *Carlyle Group LP - Co-CEO*

I think there was some confusion across the firm in terms of the two vehicles. They were pretty similar. So we decided to pick one and drive that, and that was the DGAM vehicle.

Patrick Davitt - *Autonomous - Analyst*

All right. Makes sense. Thank you.

Operator

(Operator Instructions)

Ken Worthington, JPMorgan.

Ken Worthington - *JPMorgan - Analyst*

Thank you for taking the follow-up. I want to dig into a little bit, the real estate business. So CRP V is back in carry. The unrealized (inaudible) is high. It's an older fund. We have CRP VI doing extremely well.

I would assume that CRP V coming back into carry accelerates the realization process, all else being equal. First, is that fair? And can you compare the environment for real estate exits today in the markets in which you participate in real estate versus where it where, say, a year ago? And that'll help us to form a better outlook.

Bill Conway - *Carlyle Group LP - Co-CEO*

This is Bill. I don't think the realizations are affected by -- or our realization strategies is affected by whether or not the fund is in carry or not. Our realization are a function of, is it the right time of sell, are we satisfied with the value, what's in the best interest of our LPs? And then we decide to sell. It's not whether it's carry or not that would determine that.

The real estate business is actually, in responding to the first part of your question, I'd say the real estate business has been pretty steady for the last year of so in terms of our ability to put money to work and our ability to get access. Obviously, we were heartened by the sale in April of a part of the CoreSite's position, which is in, I think, Real Estate Funds III, IV and V. That's a part. But generally I'd say it's been a relatively steady market for both asset acquisition and asset disposition acquisition in real estate.

Ken Worthington - *JPMorgan - Analyst*

Okay, great. Thank you again.

Operator

Mike Carrier, Bank of America Merrill Lynch.

Mike Carrier - *Bank of America Merrill Lynch - Analyst*

Two quick follow-ups. From the GMS business, you mentioned the hedge fund performance for the quarter, but you also mentioned some of them not above the high watermark. Just wanted to get a sense, do you have any new details on what percentage of the assets are within a few percent of that versus more?

And then on the $10 billion or so that's not generating fees, and particularly the energy bucket, is there anything that we should be looking at in terms of catalyst to think about when the assets will start generating fees? Is it more opportunistic or is certain funds being deployed and then that kicks in? Just wanted to get a sense of that $10 billion, and when we can expect the revenues.

Curt Burser - *Carlyle Group LP - CFO*

Mike, it's Curt. Let me try it first. On the GMS piece with respect to the hedge funds, the thing to focus on is last year we talked about the challenges that our large hedge funds faced. We reversed the performance fees that they had accrued in the third and fourth quarters. We talked about the redemptions.

Here in the first quarter, actually performance is good. It's up 2%, but we're below the high watermark. It'll probably take probably the better part of the year to get back above, but predicting the exact timing -- really hard.

But I think if they continue to do what they've been doing, we'll be in good shape. And what you're seeing on the numbers is really the comparison of a year ago when it was still in a crude carry versus now when obviously reversed last year.

With respect to looking at the energy funds and when they will begin to contribute, the first thing that I would say is, on the dry powder that we have, we have to put that to work and then see the appreciation. The thing that I always focus on is really the appreciation from the underlying funds. And while NGP can, which has been invested had a little bit of a decrease, it's still a fund that's in very good shape and still has actually in dry powder to invest on a follow-on basis.

And most of the rest of that dry powder has really yet to go in. But there's been -- what has gone in, especially in the power space and international energy, we're seeing increases in value. And Bill mentioned that in his opening remarks.

Bill Conway - *Carlyle Group LP - Co-CEO*

I just might to add, Ken, that the dry powder gets turned on for usually one of two reasons, or three maybe. First reason would be you're investing fund II and then you're raising money for fund III. As long as you're investing fund II, you're usually not charging a fee on fund III. That could be one reason.

The second reason could be on some funds we might say, we're not going to start charging a fee until the money has been invested. So invest the money, you're in the fee.

And on some of those same fees, there might be a second trigger, which is the passage of time. So the fund would begin accruing carry on the earlier of -- or not accruing carry, earning management fees on the earlier to occur of the deployment of the capital or the passage of time.

I think most of them, the time passage would occur within a minimum -- a maximum of the next year. The pace at which we put the money to work would be how easy it is to find good places to put it to work.

Mike Carrier - *Bank of America Merrill Lynch - Analyst*

Okay. Thanks a lot. That's helpful.

Bill Conway - *Carlyle Group LP - Co-CEO*

And by the way, it isn't just energy. It's at other parts of the platforms as well.

Mike Carrier - *Bank of America Merrill Lynch - Analyst*

Yes.

Operator

I am showing no further questions. I will now turn the call back over to Daniel Harris for closing remarks.

Daniel Harris - *Carlyle Group LP - IR*

Thank you for your time and attention today. Please contact Investor Relations if you have any follow-ups after this. And we look forward to speaking with you again next quarter on the earnings call.

Operator

Thank you, ladies and gentlemen. That does conclude today's conference. You may all disconnect, and everyone have a great day.