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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Carlyle Group second-quarter 2016 earnings conference call.

(Operator Instructions)

I would now like to introduce your host for today's conference, Mr. Daniel Harris, Head of Investor Relations. Please go ahead, sir.

Daniel Harris - *Carlyle Group LP - Head of IR*

Thank you, Christy. Good morning, and welcome to Carlyle's second-quarter 2016 earnings call. In the room with me today on the call are our Co-Chief Executive Officers, David Rubenstein and Bill Conway; and our Chief Financial Officer, Curt Buser.

Earlier this morning, we issued a press release and detailed 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. To ensure participation by all those on the call, please limit yourself to one question, and return to queue for any follow-ups. 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'll 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 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*

Good morning, and thank you for joining our call today. The second quarter was a strong quarter for Carlyle, as we generated $0.84 per unit in after-tax distributable earnings and we are declaring a $0.63 per unit distribution. Our results continue a long-term trend of producing solid cash earnings for our unitholders, deploying a significant amount of capital and attracting large amounts of new capital into our funds. In short, the second quarter highlighted many of the strengths that we speak about every quarter, and we believe it also highlights the durability of our business model over many quarters and over many years.

Before providing additional color on our strong quarterly metrics, I want to highlight the backdrop into which our various funds continue to operate and to deliver out-performance for our investors, and ultimately, distributions for our unitholders. Equity markets remain in a period of low appreciation, with the S&P 500 up a modest 2% in the first half of 2016, and appreciating at an annualized rate of just over 3% the past two years. Even with that relatively low appreciation level, US equity markets nonetheless outperformed broader global equity industries, which were flat to down over the past two years.

Furthermore, more than $10 trillion of global sovereign bonds are carrying negative interest rates, equivalent to roughly a third of all global sovereign debt. And the US 10-year Treasury yesterday was at only 1.55%. Thus, all types of investors are finding it challenging to meet their return objectives. In this context, Carlyle's performance stands out, and is a major reason that our fund investors continue to entrust more and more capital to us.

The United Kingdom's vote to leave the European Union created additional market uncertainty and complexity, especially in the UK, but more broadly throughout the EU. Curt will provide incremental context around our exposure to the UK. But broadly, we feel confident that for Carlyle, the impact of Brexit will be modest, assuming it does not lead to broader negative impact on global growth.

Moving on to our quarter's results, distributable earnings for the second quarter were $288 million. Since the first quarter of 2011, our pre-tax distributable earnings have averaged over $210 million per quarter, and we've had six quarterly instances with distributable earnings over $250 million. Thus, this quarter does not represent a peak or an outlier, but rather a confirmation that our platform can regularly generate healthy cash earnings for our unitholders across extended periods. Over the last 12 months, we have distributed $1.74 per unit, or about a 10% trailing yield on our recent unit price. And our first half of 2016 distribution of $0.89 puts us in a good position for a solid 2016.

Today, three of our segments -- Corporate Private Equity, Real Assets and Investment Solutions -- are performing well. The other, Global Market Strategies, is underperforming our expectations, and we are therefore reviewing various options to improve performance and to grow our credit business.

We realized proceeds for our fund investors of approximately $5.3 billion in the quarter. We closed several sales across our European platform, including RAC and European Buyout, [Morrow] and European Technology, and the White Tower real estate asset in European real estate. We also completed secondary sales in Axalta, Booz Allen, CommScope, Coresite, NXP and Applus.

Over the past 12 months, we have realized more than $16 billion in realized proceeds for our carry fund investors, similar to levels over each of the past five years. We invested a solid $2.9 billion of equity during the second quarter. Over the past year, we have deployed $12.7 billion in our carry funds into attractive investments, or about 35% higher than our average annual deployment over the past five years.

Our carry funds appreciated by a healthy 5% in the quarter, aided by a strong recovery in natural resource equities and underlying commodities. Specifically, NGP's 10th and 11th funds together appreciated 19%, and we saw solid appreciation in our International Energy fund. We also saw continued strength in our Real Estate funds, which appreciated 8% in the quarter and are up 28% over the past year.

Corporate Private Equity carry funds were up 4% in the quarter as a result of gains in several announced M&A transactions, which helped drive 5% appreciation in our private holdings. Notably, our latest vintage US buyout fund, Carlyle Partners VI, appreciated 15%, and we saw strength in our new Asia buyout fund, among others. Because of Carlyle's strong relative appreciation, we anticipate that future fundraising efforts will be positively impacted. Other than our US Real Estate funds, most of the appreciation this quarter was in funds not yet in carry. Although this meant somewhat lower accrued performance fees in the quarter despite the good appreciation across the platform, the overall result obviously better-positions a number of funds to contribute carry in the future.

Moving on to fundraising, we continued to be successful in attracting capital for the funds that we have in the market. And we are in a good position to reload even more during our next major fundraising period, which should begin after the first half of next year, and will accelerate thereafter. At that point, we would expect that fee-earning assets under management will grow to reflect that fundraising.

We raised a net $3.6 billion of new capital in the second quarter. On a gross basis, we raised $5 billion in new commitments, offset by approximately $1.4 billion in outflows across our hedge fund, commodities and fund of hedge funds platforms, all of which we had anticipated. We have raised over $7 billion in gross new commitments in the first half of 2016, and we should be able to generate approximately $15 billion in gross commitments throughout the year.

Turning to some additional color on our fundraising in the quarter, we held a second close on our new distressed debt investment fund in late June, bringing commitments to over $1 billion, a level which is already more than 30% higher than the predecessor fund. And there is still significant runway in front of this fund. We raised over $1.3 billion across three CLOs in the second quarter. Once again, loan markets remained volatile, but we continued to capitalize on our leadership position and our strong track record in this strategy.

We held our first close on our new core-plus Real Estate fund, and we see this fund as being in an area of real growth for us over the next several years. We raised over $200 million in the quarter in a final close on our second power fund, which closed at $1.5 billion. And we raised over $1.7 billion for our latest ALPInvest Secondaries fund and associated strategies.

We have also added several new fund heads for certain new and ongoing funds. Pete Taylor, who recently had a successful 15-year history in infrastructure investing, has joined us as a Co-Head of a new global infrastructure opportunities team, which has already commenced fundraising. And Brian Schreiber, who spent 20 years at AIG and most recently was Deputy CIO at AIG, will also join us late this summer as our new Co-Head of our FIG team. This is in addition to several new initiatives we are pursuing in different parts of our business. Carlyle continues to opportunistically attract leading investment professionals to our platform to partner with longtime Carlyle professionals to manage investor capital.

Lastly, we also continue to see increased interest in large, strategic relationships for many significant LPs. And in fact, this quarter, we signed one of our largest-ever strategic relationships from a large institutional investor. As you can see, we had an active and highly successful second quarter, and remain opportunistic there is more to come. With that, let me now turn it over to Bill.

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

Thank you, David. In prior quarters, I had spoken about specific investments and completed exits. This quarter, while our activity remained high on announced and completed exits, as well as new investments, I would like to focus on the broader outlook for Carlyle over the near and longer term.

In the near term, we continue to see opportunities to realize asset sales out of many of our carry funds. As David mentioned, our realizations were approximately $5.3 billion in the quarter. Of this amount, about $2.5 billion resulted from secondary or blocked transactions on eight investments. And while the IPO market has generally been dormant, we have built a pipeline of five companies currently in the IPO process in markets around the world. And in June, Solasto Corporation, a company in our Japan buyout fund, went public on the Tokyo stock exchange.

As of quarter-end, we owned investments in more than 250 companies, both public and private, in our carry funds, and over 350 assets in our real estate and energy funds. Given the size and diversity of our portfolio, we have the capacity to continue to exit at a reasonable pace, though of course, we will naturally be more active in some quarters than others. More recently, and not closed to the second quarter, we have announced sales of several portfolio companies, including Vogue, a producer of hair care products; Centennial Resources, an energy producer is in the Permian Basin; and Sagemcom, a European manufacturer of TV set top boxes.

We are regularly asked if our recent realization activity represents a peak for our funds. The answer is no. For the past five years, we have been operating at a robust exit pace, ranging from $15 billion to $20 billion per year since 2011. Our firm structure, with funds in various geographies presuming different strategies, enables us to consistently monetize positions. We're not reliant upon one geography, one exit strategy or one market to drive results.

Another question we commonly hear is whether we are changing our investment process or our underwriting approach. With regard to our investment process, there's been no change. We continue to follow our long-term strategy of utilizing deep industry expertise to design a specific value-creation plan for each investment, and working to achieve that plan.

Our nearly 30-year experience through a variety of economic and investment environments tells us that our approach has delivered superior outcomes through various cycles. Over that period of time, on our private equity life funds, we have targeted and generated 20%-plus gross returns. Our recent performance has benefited from today's high multiples and asset prices by selling investments made in past years, at what we believe to be attractive prices. Earning such returns on new investments in the present market environment will be much more difficult than in the past.

Two of our larger investments in the quarter were an ION investment group, a producer of mission-critical software for the financial industry, and NEP Group, which provides mobile broadcasting and those incredible, huge displays one would see at a rock concert or a sporting event. Both of these investments are in high-quality businesses with stable earnings and cash flows. And they're both minority stakes in which we have structured the majority of our investment as preferred equity, or structured securities, to limit our downside risk.

Turning to Real Assets, in the second quarter, we invested almost $1.4 billion in this segment, which includes energy, power and real estate. This quarter, we saw a partial recovery in energy prices, with crude oil up 29% and natural gas prices up 38%, after six consecutive quarters of decline. Of the $1.4 billion invested in Real Assets, NGP invested over $450 million in a wide variety new and follow-on investments. Our power fund made the largest single investment in the Real Asset segment -- over $350 million in Nautilus Generation, a diversified portfolio of 11 power generation plants along the east coast of the United States. Our power funds now have investments in 28 power facilities, aggregating 5,800 megawatts of generating capacity.

Our Real Estate funds invested more than $400 million in a wide variety of assets, primarily in the United States. Our most recently fully invested US Real Estate fund, CRP VI, already has a 23% net IRR. As of quarter-end, we had $59 billion of remaining fair value of our carry funds in the ground, with more than 34% of that over four years old. We have invested over $41 billion since the beginning of 2012, and we have a substantial $40 billion in carry fund dry powder.

To put our ability to generate great returns into context, I'd like to share with you a few brief case studies. First, three years ago, we purchased the performance coatings business of DuPont. This was a complicated carve-out where we recruited an outstanding CEO who both managed costs and invested strategically. Today that investment, now a public company called Axalta, is valued at over 4 times our initial investment, including previous set distributions.

Second, just over two years ago, we purchased a minority stake and partnered with the founder and CEO of Vogue, a specialty hair care products company, and the first investment in Carlyle Partner VI. During our ownership, our sales grew 92%, and market share grew significantly. The CEO did a great job. We closed the sale of the company to Johnson & Johnson early in the third quarter for more than 3.5 times our investment.

Finally, another investment that we fully exited during the second quarter is in Applus Services, a testing, inspection and certification business headquartered in Spain. Which we invested in through our Europe II and Europe III buyout funds beginning in late 2007, just as the financial crisis was beginning. At times, the investment was marked below cost. It took us nine years -- much longer than we originally anticipated -- and significant changes, but with persistence and the strength of our strategy, we were able to exit our final block of shares in the company at a total return about 2 times cost for our investors.

Unfortunately, not all of our investments and transactions work out as well as these three deals. Sometimes you underestimate the risks with the competition, or overestimate your abilities of the strength of your management teams. For example, in Carlyle Partners V, out of the 23 deals in which we invested, there will probably be two or three that, despite all our efforts, lose money. In total, that fund is currently marked at about 2 times -- at almost 2 times cost.

Longer term, we believe there will be investment opportunities for us in the strategies where we have ample levels of capital. Investing in generating great returns is not easy. In fact, it's our most challenging job. Certainly, you do not earn returns of 20% or more without taking what you think are intelligent risks, hiring and training skilled investment professionals and management teams, operating in reasonable markets, and undoubtedly benefiting from some good fortune.

Our carry fund platform, the backbone of our business, is growing across every segment. Our basic strategy is to grow our existing fund groups, which we are doing successfully, and selectively add new funds where we think we will have the skills to be successful. Larger funds and new funds should lead to more deployment, which should yield higher performance fees relative to recent levels. And we expect our net realized performance fees will become more diversified across our platform over time.

In sum, we had an excellent quarter with respect to realizations, fundraising, appreciation and capital deployment. While any firm of our size and complexity will have challenges somewhere in their business, as we do, we expect to be able to continue to deliver attractive returns to our LPs in this environment, and in turn, healthy production of cash for our unitholders. With that, let me turn it over to Curt Buser.

Curt Buser - *Carlyle Group LP - CFO*

Thank you, Bill. I'm going to make three general comments before discussing specific segment results. First, we said this would be a good quarter, and it was. Distributable earnings were $288 million in the quarter, reflecting continued generation of net realized performance fees of $233 million, and fee-related earnings of $45 million. I'm very pleased with our results for the first half of this year, especially given the market environment.

Second, we delivered on the two most important performance measures for future growth -- fund performance and investment pace. We had strong performance across our carry fund portfolio, with 5% appreciation in the quarter, reflecting the same in both our public and private portfolios. Even with the stronger appreciation, our realized carry exceeded the new carry accrual generated in the quarter, resulting in a modest decrease in our net accrued performance fees to a still-substantial $1.2 billion. The lower unrealized carry generated in the quarter is due in part to much of the appreciation of our carry fund portfolio occurring in funds that are not yet in carry. The good news is that the significant appreciation in early- or mid-stage funds, such as Carlyle Partner VI, Carlyle Asia Partners IV, and NGP Fund XI, is akin to an investment in future earnings.

This quarter's appreciation also reflects careful consideration given to Brexit in our valuation process, which automatically factors in the effect of foreign exchange, but also reflects judgments on broader macro dynamics. Other than for a handful of investments and the impact of foreign exchange, the valuation impact of Brexit was nominal in the quarter.

For context, only 13 companies out of more than 250 in our Corporate Private Equity and Real Assets carry fund portfolio, and four real estate investments, are denominated in British pounds -- together, only accounting for about 3.5% of our remaining fair value. These metrics only reflect our carry fund portfolios, and also don't fully factor in investments that are not denominated in pounds, but they may still have operating exposure to the UK. However, it's simply too early to tell how the uncertainty associated with Brexit will effect the broader British, European or global economy.

We invested $2.9 billion in the quarter, for a total of $12.7 billion over the last 12 months. This quarter reflected no single large bio transaction. In Corporate Private Equity, for example, we made six investments with an average check size of about $150 million. The diversify of the Carlyle platform is fairly reflected in the diversity of our investments this quarter. If we're successful in the deploying larger amounts of capital while maintaining superior performance returns, we will be in a good position to deliver earnings growth for our unitholders.

Third, we continue to focus on managing our cost structure. The second-quarter cash compensation expense of $147 million was down 7% from a year ago, and first-half cash compensation expense was also down 7%. About half of this reduction reflects lower internal fundraising compensation. Meanwhile, equity-based compensation is up only $2 million for the first half of 2016, or about 3%. General and administrative expenses were $79 million this quarter, roughly in line of our recent quarterly average expense of $78 million, but well-below the $94 million incurred a year ago, as fundraising costs in the quarter were lower than a year ago.

Now let's turn to a review of our business segments. I want to start with Global Market Strategies, as this is the business segment where our performance did not meet our or our investors' expectations. Distributable earnings in GMS was $7 million in the quarter, up from $4 million a year ago. But fee-related earnings remained disappointing at about $1 million, although it was somewhat better than the loss of $2 million a year ago. We had expected GMS to be a larger contributor to distributable earnings and fee-related earnings at this point than it is.

But the Claren Road Asset Management and Vermillion hedge funds and associated commodity products continue to generate losses within the segment, and we're continuing to invest in new products and strategies as we should. We are conducting a review of this business segment, and currently anticipate greater operating losses from some of the hedge funds and associated commodities products than we previously expected.

That said, our CLO business remains strong and well-positioned, and our energy mezzanine and distressed strategies are growing fast. However, we now expect that GMS will operate at an FRE loss for the balance of the year. If that occurs, it will cause us to fall short of our quarterly fee-related earnings guidance of approximately $43 million for the balance of this year.

Now, as David mentioned, our other three segments are operating well or showing signs of improvement from prior periods. Let me start with Corporate Private Equity, which had a great quarter, with distributable earnings of $235 million. A year ago, Corporate Private Equity had its best quarter ever, with $345 million in distributable earnings.

Fee-related earnings in Corporate Private Equity were $23 million this quarter, down $15 million from $38 million in 2015, reflecting $27 million in lower fee revenues, offset in part by lower compensation and G&A expenses. The lower fee revenues in the current quarter reflect the fall-off in catch-up management fees, from $28 million a year ago to none in the current quarter. Net realized performance fees of $195 million were lower than the year-ago, when CPE realized proceeds of $4.5 billion, as compared to $4 billion in the current quarter.

Also as I noted last quarter, contributing to the lower net realized performance fees is the carry rate we are using for Carlyle Partners V, one of our US [-filed] funds, whereby we realized carry at 10% rather than the traditional 20%, which we were taking a year ago. We expect this fund to increase its carry rate to about 15% on its next major realization. And going forward, the rate at which we realize carry will, of course, depend on the performance of the fund and its remaining investments.

Moving onto Real Assets. Real Assets produced distributable earnings of $39 million, with higher fee-related earnings and higher-realized performance fees than a year ago. Fee-related earnings were $15 million as compared to $12 million a year ago, reflecting higher revenues from activating fees on NGP Fund XI and our second power fund.

Our Real Estate funds drove realized carry for the quarter in the segment. Appreciation in our Real Estate funds remains strong, and valuations also rebounded across Natural Resources. Unrealized carry exceeded our realizations in the segment, resulting in higher net accrued performance fees for Real Assets. The net realized investment loss in the quarter for this segment reflects the loss from Urbplan, which is our consolidated real estate investment in Brazil that we have previously discussed.

In Investment Solutions, our financial results show continued improvement. Distributable earnings were $7 million in the quarter, with $6 million in fee-related earnings, as compared to breakeven a year ago. Improved results are generally tracking as we expected upon the implementation of the profitability initiatives we commenced at the beginning of the year, including the wind-down of DGAM, while fund returns in many of Investment Solutions products remained strong.

One final comment on our unit re-purchase program that we launched in the middle of the first quarter. We purchased approximately 1.9 million units in the second quarter for a total price of about $30 million. And for the first six months of the year, we re-purchased about 2.3 million units for a total of $36 million. With that, let me turn it back to David for some closing comments.

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

Thank you, Curt. As we have tried to convey this morning, by most metrics, Carlyle had a strong quarter. While there are certainly challenges ahead of us, we are confident that Carlyle is well-positioned for continued global growth and profitability. Now we are pleased to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question is from the line of Ken Worthington of JPMorgan. Your line is open.

Ken Worthington - *JPMorgan - Analyst*

Hi, good morning. In terms of the restructurings, can you update us on what you're doing in the solutions business, and how this is anticipated to impact FRE and DE in coming quarters? And as you think about the changes needed to right-size GMS, I know you said this is under review, but even on a higher level, how might the business be returned to positive FRE? Thanks.

Curt Buser - *Carlyle Group LP - CFO*

Ken, it's Curt. Hey, good morning, and thanks for your question. So with respect to solutions, at the beginning of year, we looked at really kind of the whole operation there. One the things we chose to do was to get out of the fund of hedge funds business, as well as some of the liquid alts products that we had. And so we commenced the process of winding down DGAM, and that has gone well. And you can kind of see the results really in the improvement in fee-related earnings.

The other thing that we're been doing in the solutions business is, we've been actively fundraising, especially in the secondary space. That's gone really well this quarter. What I really like about that is, we're replacing, I'll say, lower-yielding AUM that's been burning off in that space, with higher-yielding AUM. And that's going to continue to show improvements in the future.

The other thing that I would say, long term in solutions, remember we didn't buy the embedded carry when we bought out AlpInvest. So you look forward, our participation in their performance fees is going to increase over time. I don't think that's going to be a near-term phenomenon, but a couple years out, that will start to really matter. And of course, in any kind of business, the performance isn't exactly linear every quarter, but the trend thus far has been good.

Turning to GMS, there, what I would say, is -- you know, we've, quite frankly, just as I said just a minute ago, we've been disappointed with kind of where we've been, But the broader piece of this business is still doing well. There's many components to it. First, the CLO business remains very strong, and we're continuing to grow that. Second, the carry fund platform, both in terms of our distressed business as well as the energy mezzanine business, those funds are much larger than they were in the past, and we're very pleased with that.

Third, the BDC continues to grow. It's our middle-market credit business, and we're very happy with that. Some of the hedge funds, as well as the commodities business, they -- quite frankly, the losses there have been greater than we anticipated. And you know, we're thinking through what the next steps are there. But overall, you know, this is an area where we're looking to -- how do we balance continued investment for growth with actual current-term profitability? That's the analysis that we're continuing to undertake.

Ken Worthington - *JPMorgan - Analyst*

Okay, great. Thank you very much.

Operator

Thank you. Our next question is from Bill Katz of Citigroup. Your line is open.

Bill Katz - *Citigroup - Analyst*

Okay, thank you very much. Bill, I think you mentioned in your prepared remarks that it's getting a little more difficult in Corporate Private Equity. I was wondering if that's acute to generate returns. I was wondering if that was a generic comment or specific to Carlyle? Or maybe you could talk a little bit how you see Carlyle on a relative basis as you look out over the next couple of years?

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

Okay, thanks, Bill. I would say that right now, that it is tough to earn returns of 20% or more in the private equity business. And my comments will kind of concentrate on that part of the business, as opposed to energy and natural resources and real estate. In the private equity side, and frankly across all asset classes, you have the risk-free rate that has been driven down near zero all over the world by the central banks, compounded by a continued reduction in the risk premium. So you have a very low base rate and you have a very low-risk premium.

We have continued to earn, I'd say over the years, significantly more than what the curve between risk and return might say we should earn. We've got a good team and good markets and good strategies that have really helped us there. But let's imagine that we have exceeded that line by some number of basis points -- 1,000 or 500, or some huge number, over a long period of time. With a big drop downward in risk-free rate and the drop in risk premium, to out-earn that rate by enough to get us to 20% will be very difficult today.

Now, the line moves all the time between risk and return. What we will not do, Bill, is take undue risk in an effort to achieve a 20% or some other magic number kind of rate of return. We know the part of the risk spectrum that we're good at, that we're comfortable operating in, and to move outside of that is not something that we would do -- at least not on purpose. And hopefully, we wouldn't do it at all.

I'd say, if you look around the world, it isn't unique to the United States that these returns are under pressure on new deals. That, we're constantly outbid around the world by other private equity firms and strategics. A few years ago, the strategics were not really very much competitive, with Carlyle and the other private equity firms, for assets. They were licking their wounds after the global financial crisis. And I would say now, that they are much more in a mode of competing with us for products.

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

Good. David. I would just say the flip side of that is investor expectations. Over the last year and a half, more so than any time over the last 30 years, I have noticed that investors are willing to accept lower rates of return from all private equity firms. Because they recognize that the opportunity to get private equity returns from almost any other asset class is just not there. And as low interest rates continued for quite some time, much longer than people ever anticipated, people are now making investments in private equity and other alternatives -- willing to take lower rates of return than the kinds that we've averaged over our history.

And so yes, we're under pressure to get good rates of return. But investors are actually willing to put a fair amount of money into private equity across the board, not just with us, even though the rates of return may come down. Because it's so difficult now with low interest rates and low-equity market appreciation, to get these kind of returns anywhere else.

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

And then let me add a final comment. Despite our struggles to earn the types of returns we want to earn, I'd say that we still invested $12.7 billion over the last 12 months, which was a lot of money to put to work. And I'd say if there's been one trend, Bill, it's that we've probably tried to move up in quality, and up in the capital structure in the types of deals we've done. In my prepared remarks, I talked about ION technology and [P] group, where we moved kind of into structured securities to get us a lot more downside protection, we think.

So it's tough to do. You have to evolve in our business. We're not changing a risk that we're willing to take. But in the current environment -- which, who knows how long it will last, you know, maybe it's, as I said, maybe there's a time to sew and a time to reap. And right now is a pretty good time to reap, frankly.

Bill Katz - *Citigroup - Analyst*

Okay, thank you for that perspective.

Operator

Thank you. Our next question is from Craig Siegenthaler of Credit Suisse. Your line is open.

Craig Siegenthaler - *Credit Suisse - Analyst*

Hey, good morning, everyone.

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

Good morning.

Craig Siegenthaler - *Credit Suisse - Analyst*

It looks like several of your larger flagship private equity funds, like Carlyle Partners VI and Asia Partners IV, could be closer to reaching their deployment threshold later this year in 2017, where we could actually start seeing the next series of these products in fundraising mode. Can you provide us an update on how you're thinking about the fundraising cycle here?

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

Yes. We generally try to take our largest funds and not have them in the market at exactly the same time, because there's obviously a duplication of resources and so forth. It's a challenge to kind of get raised three large buyout funds at the same time. But obviously the market is what it is, and when we are available and the funds are, you know, need to be raised, we'll go out into the market.

I expect that of those three big funds -- US buyout, European buyout and Asian buyout -- at least one of them will be ready to go into the market, certainly pre-marketing, by the middle of next year. And probably one of the others probably will be ready by the end of next year. I can't say for certain, because we don't know what the investment pace will be.

But we do think that there's so much demand for our products in these space these days, that if we were to have two of them in the market, or even three in the market at the same time. While it will be challenging for our fundraising a bit and for our fund heads, who have to make all these presentations and schedule everything, we think we could get it done.

There's a fair amount of demand out there for quality products now. Now, I can't say it will be there a year and a half from now. But right now, we're not that concerned about it. And I would say, you're probably right in the suggestion that probably in the middle to the latter part of next year, we'll probably be out with at least one of them, if not both of them.

Craig Siegenthaler - *Credit Suisse - Analyst*

Great. Thanks for taking my question.

Operator

Thank you. Our next question is from Michael Cyprys of Morgan Stanley. Your line is open.

Michael Cyprys - *Morgan Stanley - Analyst*

Hi, good morning. Thanks for taking the question. I just wanted to dive in a little on CP6. It seems that fund appreciated a lot in the quarter. I thought heard you say 15%. I just want to make sure that was right?

And then can you just give us an update just on where the IRR is for that fund? I don't think I saw that on the fund table. And how much more does it need to appreciate from here in order to cross and to carry? And how should we think with the catch-up on that? I realize you're a bit conservative once your funds [you value] move into carry.

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

Well, let me give you a few metrics on CP6. This is Bill. We've invested in about 10 companies in the portfolio, about $6 billion. So the average size of the investment has been $600 million. You know, the biggest of those was the cost at Veritas. The fund-size total is, of course, about double that. So we're less than 50% invested in terms of the investment pace.

It did have good appreciation in the recent quarter, but you know, that can vary from time to time. The biggest source of that appreciation was in Vogue, where we had it marked in at a certain price where we thought it was reasonably valued. We took it, together with the CEO, to market. And there were a number of strategic buyers who were really intrigued by the growth in the business, and the growth in market share in Vogue's products. And we sold it for a lot more than we had it marked, so that was a big source of the growth in the recent quarter that's responsive.

Curt Buser - *Carlyle Group LP - CFO*

Mike, it's Curt. Just to add on to that, I'll confirm the 15% of appreciation for CP6. In the current quarter, you'll see, in total, it's marked at about 1.2 times cost as of June 30. And it's on the verge of being in carry, but not really solidly there yet. But it was really great performance here in the quarter.

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

Yes, let me just talk a minute about taking carry, if I can. The one thing that we've learned in doing our investments for the last 25 years or more, is that our investors really hate clawbacks. They hate wherein a situation where we might have to pay back money that we've taken in carry. So Carlyle has a belief that we want that never to happen. I'd say it very rarely does happen. And it's an example, we try to be a little bit cautious when we're deciding how much carry to take.

Michael Cyprys - *Morgan Stanley - Analyst*

Could I just follow up there, just on that point? You know, how do you manage that process in terms being cautious? You know, any sort of color around your process around -- you know, is it just formulaic, it hits a certain amount of IRR after a certain period time, then it just goes right into the carry, and the catch-ups start coming through? Just any color, if you could just flesh that out, that would be helpful.

Curt Buser - *Carlyle Group LP - CFO*

Sure. Mike, it's Curt. So we go through a number of things. First, obviously the fund has to have, you know, surpassed its pref hurdle. But that's really not really where we want to be. We really want to see that if we -- you know, and then you have to have obviously exited something at a gain in order to take carry, so there's just some basics there. Once you're there, though, you're really going to then say -- okay now, are we really going to then flip back into -- or flip out of accrued carry, you know, in the next quarter or so, just by the pure running of the pref? And you really want to have some runway with that. So you don't want to be in a place where you've got downside.

So you're really kind of looking at kind of -- where has the fund performed? Are we profitable? What's the challenges in the remaining portfolio? And do we really kind of see that if we take carry, that our risk of clawback is low? It's always going to be there, and you can't protect against anything, but you always want to be thinking about it.

The other thing that we'll generally do is, we'll try to think through the carry rate. So you know, early on, when we were first doing it, you know, sometimes we'll be entitled to a big catch-up. We won't take all of that catch-up early on. We'll be more modest with where we're going. We'll generally be somewhere around 20%. And then we'll think about that to try to keep that rate at which we take carry kind of balanced.

One of the things you'll notice here in the current quarter on CP5, we've really been kind of in a situation where we've been taking carry at a lower rate of 10%. We'll step that back up to 15% here upon the next major realization.

Now, everything I've just been talking about in terms of taking carry is on distributable earnings. That's the whole realized number. ENI, it's just what's the mark at the date when we report? And boom, that's the math. And so if you sell, if you were to liquidate the remaining portfolio on how it's marked, that's going to be kind of what comes through in terms of the approved carry numbers that are in ENI.

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

Let me just add that partnership agreements are fairly precise on things, but if there's one area that they're not that precise in, is the general partners' ability to take carry or not. Obviously it's dealt with in the partnership agreements. But the general partner has some flexibility in deciding when to take carry or not. We've tried to be very conservative in this, and I think over the years we've probably invested over $100 billion of equity across our funds, and probably distributed back maybe about $80 billion or so. I think we've had a clawback of maybe $25 million or $30 million in the Firm's history.

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

It's about $50 million.

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

$50 million -- sorry. So $50 million has been clawed back out of about $80 billion distributed back to investors. So obviously we're very conservative in that. And I would add to what Bill said. The investors aren't happy with clawbacks, but the professionals in our Firm are even less happy when you have call it back. So we're very cautious about that.

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

Yes, and extra, final point I would say is, remember, we've got $1.2 billion of accrued carry. So in some theoretical world, the investors owe us $1.2 billion. And it isn't all that theoretical -- they will pay it. And the question is, over what period of time, and when?

Michael Cyprys - *Morgan Stanley - Analyst*

Great. Thank you very much.

Operator

Thank you. Our next question is from Michael Carrier of Bank of America Merrill Lynch. Your line is open.

Mike Gainam - *BofA Merrill Lynch - Analyst*

Hey, good morning, everyone. This is Mike [Gainam] in for Mike Carrier. So performance from CPU was pretty good in 2Q. I was wondering if you could talk about how the portfolio companies are doing, both in terms of revenue and EBITDA growth? And then I was just hoping you could expand on the opportunities in the CLO market, how much you think you can raise on an ongoing basis, maybe the contribution to your fee base? And then how US risk retention rules might impact your business?

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

Well, there's a man who's making good use of his one question, would be my first observation. (laughter) In terms of revenue growth and across the portfolio, without getting too specific, I would say revenue growth is tough to come by. We have slow growth around the world.

Yes, there will be some industries and business -- healthcare, for example, is a business that continues to show reasonable growth. Some tech businesses show pretty good growth. But a lot of the other parts of the portfolio -- energy, industrial businesses -- they are not really showing any growth. And frankly, the only way you can generate returns there is cash flow, debt pay-down and margin improvement.

And I would say that I haven't seen any improvement in the revenue growth metric over time. Can't really comment right now on the EBITDA across the portfolio, except that we do tend to grow EBITDA more than we grow revenues, just as a general rule.

In terms of CLOs, we have about a $20 billion CLO business around the world. I would say that CLO business kind of is roughly flat in size. It has grown a little bit. But we tend to have a lot CLOs that run off, and they run off periodically and we replace them with new CLOs. And we've been very successful. Last quarter, we did three CLOs. Average size of those CLOs is between $400 million and $500 million, both in the US and Europe.

The challenge of the CLO business right now is finding enough good loans and enough high spreads to put in the CLO platforms. So even if you could theoretically raise CLOs -- and we can, and we do -- it's tougher now to find the right assets. An earlier question talked about a formulaic approach to taking carry.

In the CLO business, one of the advantages of the CLOs is that they are very robust structures. Throughout the entire global financial crisis, all of Carlyle CLOs survived. There was no problems with any of them. One or two of them may have more or less defaults. But they made money, all of them, and all of them survived because of the robustness of the structure.

That robust structure is generally based to make numbers up, but not be too far off, on a $500 million CLO, to have a hundred different names in that CLO with $5 million a piece. And so it is very diversified you have to get. And so in order to put a new CLO in place, you have to be able to find -- can we find 50, 75, 100 issuers in order to which make the loans?

We like the business. It's good for our fee-related earnings. There are new risk retention rules, as you know, in the CLO world, where people like Carlyle or sponsors of the CLOs have to retain 5% of the risk. On a $20 billion portfolio, over the course of -- if we keep it at that size, and hopefully we'll grow it -- that's $1 billion in capital that we're going to have to come up with. I think right now, we have $120 million off the Firm's balance sheet investing in CLOs.

And of course, my partners and I are also big investors in the CLOs as well. We think our capital size, track record, quality of the team, over time -- and plus these risk-retention rules -- over time will cause us to be a big profitable player in this business.

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

Let me just add to that, if I could, that when the great recession happened, there was concern that CLOs might not, as a business, really survive, and may not be all that enduring a business. But it turned out that they did survive, as Bill suggested. But now what you're seeing is this -- the fragmentation of the business is consolidating because of the risk-retention rules. So I think a lot of people who issued CLOs before will not have the financial strength to do so in the future.

So some of them are getting out of the business, and then the people who want to invest in these are tending to go to the bigger brand names. I think we're one of the two biggest issuers of these. And therefore, I suspect there will be a lot of consolidation in the future. It's a business we're committed to being in, and we have the capital to provide the required equity capital. So I suspect it will be a growth business for us going forward, as we take advantage of our strength in the market and our reputation as an issuer of CLOs.

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

And this business isn't going away. You know, 10, 20, 30 years ago, banks were in the business of making loans and keeping them on their books. Today, banks are not in the business of keeping them on their books. They buy loans that they can sell. They make loans that they can sell.

It's not -- is it a good loan or a bad loan? It's -- can I sell it to somebody else? A lot of times, the buyer of those loans is the CLO market. So the banks need the CLO market to be big, vibrant, open, because it is a major buyer of bank loans off the bank portfolios.

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

C in CLOs doesn't stand for Carlyle, though, right? It's collateralized on a (laughter). But if could stand for Carlyle.

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

It could be.

Mike Gainam - *BofA Merrill Lynch - Analyst*

Okay, thank you.

Operator

Thank you. Our next question is from the line of Gerald O'Hara of Jefferies. Your line is open.

Gerald O'Hara - *Jefferies & Company - Analyst*

Great, thanks for taking my question. Just looking at the energy portfolio, or I guess, just returns in general, it looks like there was a generally positive rebound in the quarter, but also some marks taken in the energy mezzanine funds. I was just sort of hoping you might be able to discuss some of the differences there, and you know, how the backdrop earn environment is affecting those two portfolios? Thank you.

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

Sure. The energy -- yes, there was a rebound in energy prices. NGP and US buyout both benefited, frankly, from one the sale of one of the portfolio companies, Centennial, when it went public in the quarter. And you've seen, frankly, the equity of some of the energy companies actually trade better than the debt of those portfolio companies. And I'd say that we have a similar experience in our energy mezzanine fund, where, you know, we were constantly looking it what's the value of the collateral that we have, and the value of those funds. And we just really played it straight down the middle when we got to the valuations. I think sometimes the collateral did not move up as fast as the equity markets did.

Curt Buser - *Carlyle Group LP - CFO*

And just to add to that, Bill, I think that there's a little bit of what you'll see -- if you look back in time, you'll see that as energy prices came down, our energy funds, and in particular, natural resources, you'll see that our marks went down. This quarter, those marks rebounded back up. But credit generally has lacked. So if you go back in time, you'll see that energy mez lagged where the energy funds were, and it took its write-down deferred later in the cycle. And this isn't unique to energy mez. This is the general trend that happened. And so while I can't predict what will happen in the future, you know, assuming again that rebound happens, it wouldn't surprise me if the credit markets rebound in energy as well, and that you'll see recovery in that space.

Gerald O'Hara - *Jefferies & Company - Analyst*

Great, and thank you. And forgive the fire alarm that's going off in the background of our building at this point.

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

We're glad it's not here.

Curt Buser - *Carlyle Group LP - CFO*

Is it a real fire, or is it an alarm?

Bill Katz - *Citigroup - Analyst*

(Laughter) Let's hope for the latter. All right, thanks.

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

Thanks, Jerry.

Operator

Thank you, our next question is from Alex Blostein of Goldman Sachs. Your line is open.

Alex Blostein - *Goldman Sachs - Analyst*

Hey, good morning, guys. Thanks. I wanted to follow up on the question around the lower returns in the private equity business that investors are -- obviously have to, I guess, accept, given the rates backdrop. Does any of that translate into any of the signs of fee pressure on the business?

And I guess as you're thinking about fundraising, the other trend that we've been seeing over the last several quarters obviously now is the pressure on the hedge fund businesses. And I just wonder to what extent any of the LPs are willing to change their allocation? Let's say give up some liquidity from invested in the hedge fund part of the alternative spectrum, and move down to the private equity spectrum? Thanks.

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

There's no doubt that money is moving out the hedge fund sector right now. That's historically been the case when returns are down. And maybe when returns come back up in that sector, money might flow in. But I think everybody would recognize that money is flowing out of hedge funds to some extent. And I think some of it is winding up in longer-term kind of private equity vehicles by some investors.

In terms of fee pressure, I think that the fee pressure -- there's always going to fee pressure from people paying fees. I suspect that people always like lower fees. But I think there's generally been an equilibrium that has now been reached. After the Great Recession, there was considerable fee pressure on transaction fees and other kinds of fees, but I think it's relatively stabilized now.

And I wanted to say that the general partners have been much more, I would say, transparent about what the fees are than they've ever been before. And I think that's a good thing. We have been a leader in transparency, working with ILPA and making sure everybody knows what the fees are that are being charged.

In terms of fee pressure, the way I think that people should look at it is that the management fees are really varied, depending on the size of the fund. A larger fund will probably have a lower manager fee, and they're relatively consistent now in that relatively 1.2%, 1.3%, 1.4% range for larger funds. Smaller funds might be 1.5% to 1.75%, even 2% for some venture-type funds.

I think that the preferred return is kind of an important part of the element too. We have seen preferred returns stay relatively high, even though interest rates have gone low. And so you can say that's kind of a backdoor fee constraint at the bit, but that's what the business is. I think I don't see any real diminution in the interest in limited partners, in having us to get the 20% carried interest after some preferred return. And the management fee has been repaid.

But generally, I think there's an equilibrium now, and I think people recognize that getting into the better funds is going to require, you know, some challenge on the part of some investors. And therefore, I think they are accepting pretty much what's been proposed by the general partners. There's always some negotiation. But I don't really see any gigantic fee pressure from this point forward. Always people will, you know, ask for some kind of reduction.

And I would say, one final point. A major change since the Great Recession has been this -- it used to be before the Great Recession, if you came in at $5 million in a fund, you paid the same fee as a $500 million investor. Now, larger investors are typically getting some kind of modest discount. And it used to be the case, if you came in at the last closing, you paid basically with interest charges the same fee as somebody who came in at the beginning. Now, if you came in earlier, you get some modest fee discount.

And so there have been some discounts in terms of fee coming in earlier, in size. But generally, I think that the basic economic construct of the private equity business is pretty-well established. I don't think any undue fee pressure is likely to come forward from this point forward. Bill?

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

Nothing to add.

Alex Blostein - *Goldman Sachs - Analyst*

Great, thanks so much.

Daniel Harris - *Carlyle Group LP - Head of IR*

Thanks, Alan.

Operator

Thank you our next question is from Robert Lee of KBW. Your line is open.

Robert Lee - *Keefe, Bruyette & Woods - Analyst*

Great, thank you. Good morning, everyone.

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

Good morning.

Robert Lee - *Keefe, Bruyette & Woods - Analyst*

I'll apologize up front if you covered this earlier. I got on the call a little bit late. But you know, a lot -- I mean, obviously you have your BDC business, and your CLO business has been performing nicely. I mean, a lot of your peers have highlighted the direct lending business more broadly, as both a secular opportunity for investment, as well as raising assets. And it's not as much an area.

Obviously you have energy mez and some other things that you've highlighted as much. Can you maybe talk about your thoughts on broadening out some of your direct lending capabilities? Is that part of the GMS review that you're kind of going through now?

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

This is Bill. I think generally that the ability to originate loans is a good skill set to have. My earlier comments about the banks depending upon the CLOs to be buyers of their portfolios was true. But I think that generally, we, you know -- there's a lot of background noise there. But I would say, generally, we will be trying to build out. We've increased the origination capability already. We need to do much more, and that's one of the things we'll be looking at in our review of that platform.

Robert Lee - *Keefe, Bruyette & Woods - Analyst*

Great. That was it. Simple enough. Thank you.

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

Welcome.

Daniel Harris - *Carlyle Group LP - Head of IR*

Thanks, Rob.

Operator

Thank you. And that concludes our Q&A session for today. I would now like to turn the call back over to Mr. Daniel Harris for any further remarks.

Daniel Harris - *Carlyle Group LP - Head of IR*

Yes, thank you for your time and attention today. If you have any follow-ups, please contact Investor Relations. Otherwise, we'll look forward to talking to you again next quarter.

Operator

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