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William E. Conway – Co-Chief Executive Officer, Co-founder Washington, DC
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Other Participants

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Michael R. Carrier – Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.
Matthew Kelley – Analyst, Morgan Stanley & Co. LLC
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Roger Anthony Freeman – Analyst, Barclays Capital, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to The Carlyle Group Fourth Quarter 2012 Results Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Daniel Harris, Head of Investor Relations. Sir, you may begin.

Dan F. Harris, Managing Director, The Carlyle Group LP (Corporate Private Equity)

Thank you, Shannon. Good morning and welcome to Carlyle's fourth quarter 2012 earnings call. My name is Dan Harris, and I'm the Head of Public Market Investor Relations at Carlyle. With me on the call today are our Co-Chief Executive Officers, Bill Conway and David Rubenstein; and our Chief Financial Officer, Adena Friedman.

If you have not received or seen the earnings release, which we published this morning detailing our fourth quarter and full year results, it is available on the Investor Relations portion of our website and on Form 8-K filed with the Securities and Exchange Commission.

Following our prepared remarks, we will hold a question-and-answer session for analysts and institutional unitholders. This call is being webcast and a replay will be available on our website immediately following the conclusion of today's call.

We will refer to certain non-GAAP financial measures in today's remarks, including distributable earnings, economic net income and fee-related earnings. These measures should not be considered in isolation from or as a substitute for measures prepared in accordance with generally accepted accounting principles. Reconciliation of these non-GAAP financial measures to the most comparable measures calculated and presented in accordance with GAAP are included in our earnings release.

Please note that any forward-looking statements provided 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 that could cause actual results to differ materially from those indicated, including those identified in the Risk Factors section of our registration statement on Form S-1, and such factors may be updated from time to time in our SEC filings. Carlyle assumes no obligation to update any forward-looking statements.

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

David M. Rubenstein, Co-Chief Executive Officer, Co-founder

Thank you very much, Dan. We have a good deal of information that we'd like to cover today, but we'd also like beyond the numbers to leave you this morning with four overarching messages. The first is that our performance in 2012 reflects the strong operation of the Carlyle engine, which continues to run as described at the time of our initial public offering.

We said then that Carlyle was prepared to operate as a public company with all of the expectations and transparency this now entails, and we believe that we have shown this to be the case. The second message is that our achievements in 2012 reflect our ability to deliver the steady and attractive strength in the key metrics by which we are judged, and most importantly, the metrics we most focus on internally, distributions to our fund investors and distributable earnings for Carlyle.

The third message is that, 2012 was, in comparative terms as well as in absolute terms, an outstanding year for Carlyle. And we believe our performance last year creates a foundation for us to do even better in 2013 and beyond.

And the fourth and final message is that for the entire alternative investment industry, last year was a strong year. That was not an aberration, but a reflection of the industry's increasing maturation and of a general recognition by investors of the increasing attractiveness of the industry as a place in which to invest. On the latter point, we believe there is a growing view in the investment community that well run stable alternative investment management firms represent a solid, predictable growth and earnings story.

Now, let me get to the numbers, and most importantly, three numbers we want to highlight today. The first is $18.7 billion, that is the amount of proceeds we realized in our carry funds in calendar year 2012. We realized $17.6 billion in 2011, creating a total of $36.3 billion in the last two years. A considerable portion of these proceeds were profits on investments realized by our funds and on which we realized some carry. But these proceeds also represented a number of transactions where there were both gains and a return of invested capital from Carlyle funds, which are not yet distributing carry.

As a result of our 2012 efforts and assuming our investments continue to perform well, we expect these funds to be in a position to generate and distribute carry in 2013 and beyond. One example is Carlyle Partners V. We realized proceeds in 2012 of $2.6 billion in Carlyle Partners V, a fund that as of the end of last year had accrued more than $800 million in carry, let me repeat that, $800 million, but has not yet distributed any carry.

However this year, we expect that CP V will be in a position to distribute carry, and given the size and strong performance of that fund to-date with continued strong performance, we should also be able to distribute a significant amount of carry in the years to come. In total, we have 25 funds in carry with 11 funds that we are actively realizing carry as we exited 2012. In total, we have gross accrued carry of $2.1 billion across the firm.

The second number to focus on is $14 billion. This number represents the level of new capital commitments to our platform in 2012, including $4.6 billion in the fourth quarter. For the year, we more than doubled the $6.6 billion we raised in 2011. We have final closes on three carry funds and launched six new carry funds, four of which held closings in 2012. We also saw a solid net inflows of $1.8 billion into our hedge funds. We launched four CLOs with an aggregate value of $2.3 billion, strengthening our position as a leading global CLO manager.

And the third number, $1.12 represents our total post-tax distribution per common unit for the eight months that Carlyle was public in 2012, including an $0.85 distribution for the fourth quarter. In total, we are distributing 80% of post-tax, post-IPO distributable earnings to unitholders, right in the middle of the 75% to 85% range we discussed at the time of our IPO.

Overall, we believe 2012 was a very solid, very strong year for our company, for our fund investors and for our unitholders. Let me review the key parts of the Carlyle engine. First fund raising, we raised $14 billion in new commitments across our platform. Second, investment. We invested $7.9 billion of equity, including $3.3 billion in the fourth quarter, and committed more than $2 billion to transactions that had not yet closed at the end of 2012.

Third, appreciating assets. Our carry funds appreciated by 14% for the year, including 4% in the fourth quarter. That appreciation is on top of a reasonably high base. Our assets appreciated 34% in 2010 and 16% in 2011. And fourth, exiting. As noted earlier, we realized $18.7 billion in proceeds in 2012.

We also continued during the year to build and invest for the future in three key ways. First, we significantly built out our global energy and natural resource platform by investing in NGP Energy Capital Management, by enhancing our energy infrastructure capabilities through the purchase of Cogentrix in our infrastructure fund, by closing on our $1.4 billion Energy Mezzanine Fund, and by acquiring 55% of commodities based investment manager, Vermillion Asset Management.

Second, we strengthened our balance sheet through our IPO in May and the issuance this January of $500 million of 10-year senior notes. And I think it's fair to say that both our equity and fixed income offerings were by any standard well received by the marketplace. And third, we enhanced our fundraising capabilities and our ability to better serve our fund investors through the hiring of additional product and geographic specialists by our fundraising team and by adding resources to provide our investors with market and portfolio insights and data that they are increasingly seeking from companies like ours.

These enhancements last year did not change our core mission of serving our fund investors while maintaining our one Carlyle culture. We're certainly grateful to those investors who had the confidence in us to buy common units in our IPO, and we worked hard throughout 2012 to leverage the strengths and unique characteristics of Carlyle that we described to you on the road show.

Specifically, first, our diversified multiproduct global platform became even broader with our expanded natural resources investment platform, with a broader realty credit capability and with deepened commitment to the emerging markets. Second, we continued our strong investing performance and made a range of promising new investments. In our corporate private equity funds for example, we completed final exits of 24 investments during 2012, with an average multiple of invested capital of 2.4 times, in line with our 25-year average of 2.5 times. We invested in more than 40 new companies and nearly 40 new real estate investments and in a variety of energy and infrastructure investments. And we also pursued new strategies through our hedge funds.

Third, we enhanced our fundraising capabilities by capabilities by doubling our fundraising from 2011. And fourth, we delivered a cash rich earning stream through full year distributable earnings of $688 million and a distribution to common unitholders of $1.12 per unit for the part – for the partial year post IPO.

For those investors who participated in our IPO, a pro forma full year distribution produced a 7% annual year. In other words, while we have not only – while we have only been a public company for a short time, we're proud of fact that we did what we said we were going to do during our public offering and we did so in a steady matter. And we are committed and have the capability to continue doing so in the future.

Now, a few comments on fundraising. The fundraising environment remains a challenge for everyone. Still, we are finally sensing that institutional LPs are at tipping point in terms of wanting to deploy much more capital in the alternative space. Their public market portfolios have appreciated considerably, mitigating the denominator effect. Their risk appetite is increasing, and in 2012, they benefited from appreciably stronger distributions in alternatives portfolio than in previous years. And beyond the large institutional investors, we saw in 2012 a continued growing interest in alternatives by high net worth individual investors. We expect this trend among individual investors to continue as these investors seem to have concluded that private equity and other alternative investments offer far better risk adjusted returns, especially in a low interest rate environment.

Increased investor interest demonstrated itself in several ways. We continue to make progress on our latest U.S. buyout fund, including closing this year, we are already 60% of the way to our $10 billion target. We exceeded our fundraising targets for our mid-market buyout fund and almost doubled our initial target for Energy Mezzanine fund. We reached the final close on our latest real estate credit fund. We achieved one or more interim closes on a variety of funds, including our latest Asia buyout fund, financial services fund, sub-Saharan Africa fund, distressed funds and AlpInvest secondary fund. We recently had a final close on our first Peru Fund with commitments in excess of $300 million.

We also launched a number of new or successor funds including our latest European buyout fund and an Asian real estate fund, and we realized net inflows of $1.8 billion into our hedge funds.

At the start of 2007, we had around 1,000 investors in our carry funds. At the time of our public offering, that number had increased to 1,400 investors. Today, we have almost 1,500 investors from 76 countries. We also have successfully developed relationships between long time Carlyle fund investors with our hedge funds and with AlpInvest, and we believe we can in time do so as well with NGP. We've also strengthened our capacity to attract high net worth investors that we've only scratched the surface in this regard.

Before turning to Bill, let me mention one other important thing here. Since our firm's inception, Carlyle and our professionals have committed over $6 billion in capital to our funds. More than 90% of such commitments were personally made by Carlyle professionals, operating executives and advisors as opposed to our balance sheet. In 2012 alone, we increased our total investment commitments to Carlyle funds by over $1.4 billion, more than any other year in Carlyle's history. We believe these numbers are a very strong indicator of the internal confidence in our future.

While we are pleased with the progress we made in 2012, there is certainly much more to do, and we believe that we are in a strong position in 2013 to deliver growth through a steady continuous level of improvement in performance among the key metrics by which we are measured.

For more about all this and related subjects, let me turn to my co-CEO, Bill Conway. Bill?

William E. Conway, Co-Chief Executive Officer, Co-founder Washington, DC

Thank you, David. Looking back at this time a year ago, the only thing certain about our global economy was continued uncertainty. Would the Congress allow the U.S. economy to fall the fiscal cliff, would Japan recover from Fukushima, would the Eurozone fall part, would China crash in a hard landing, would the central banks bailout their economies and so on.

As I rattle off these questions, I think that today we actually have answers. The U.S. averted the fiscal cliff, the Japanese people responded resiliently and are focused on jumpstarting their economy. The Eurozone crisis has generally stabilized for now. China not only didn't experience a hard landing, but it's arguably experiencing a late year boom, and the central banks continue to promote world awash in liquidity.

So while 2012 was a year of uncertainty, the world has started 2013 with much more certainty, which has clear implications not only for our business, but also for the global economy. With that said, I'll briefly focus on three topics. First, insight from our recent data on the global economic environment, second highlights of our 2012 and fourth quarter activity, and third, our outlook for 2013.

With respect to the economic environment, our proprietary data from over 200 portfolio companies has been generally encouraging. The U.S. economy continues to grow, albeit slowly. We continue to see four drivers of the economy, the housing recovery, the energy revolution, the resilient U.S. consumer and the abundance of low-cost of credit. Yet there remain risks, starting with the stalemate in Washington, but I'm more optimistic about the outlook for the United States in 2013 then I was at this time last year.

Turning to the rest of the world. As I noted, we're seeing some very positive economic changes in China and a low in the first three quarters of 2012 – after a low in the first three quarters of 2012, China is now booming, with our internal data suggesting that China's growth is at an impressive rate. Excuse for the phone in the background. There is internal data suggesting that China's growth is at an impressive rate, similar to estimates from late 2010 and early 2011. We'll see if this continues.

Europe had a weak fourth quarter of 2012, but most of our internal data now show the classic signs of economy in the process of bottoming or having already bottomed. The ECB deserves an enormous amount of credit for saying, it would do whatever it takes to defend the euro.

Finally, the rate of contraction in Japan seems to have moderated significantly since October. This fact coupled with the Japanese central banks newly accommodated monetary policies has improved our outlook for Japan.

Turning to our activity when I think about it, I think about our business models as David has noted. We invest, we drive value, we exit, then we fund raise to do it again. When it comes to early 2000 – when it comes to our activity in 2012, I would say I'm pleased but not satisfied, especially with regard to our investment pace.

We deployed approximately $8 billion of capital in 2012, down from the previous year and below our five year average of approximately $9 billion per year. 57% of the capital we invested flowed to transactions in the United States, followed by 18% in Europe, Middle East and Africa, 16% in Asia and 9% in the rest of the world. While we continue to invest heavily in the United States, we believe Carlyle is well positioned to capitalize on opportunities across the globe.

We've spent years building out our global network of 650 investment professionals, industry experts and operating executives, and today, we believe we have the right teams in the right places. In the fourth quarter of 2012 and this is just the fourth quarter alone, we deployed $3.3 billion in equity in 96 new and follow-on transactions from 24 carry funds. Among our investments, we closed four investments in our U.S. buyout business, Hamilton Sundstrand, Landmark Aviation, Getty Images and Genesee & Wyoming.

We closed our first investment in sub-Saharan Africa in a fast-growing agricultural trading company. We closed our investment in Diversey Japan, a cleaning supply business, closed two growth investments in the United Kingdom and Germany and closed our investment in Tok & Stok, a leading Brazilian furniture retailer.

We closed our investment in Cogentrix, the power platform on which our infrastructure team will pursue additional power investments. And we continue to actively invest in real estate projects in the U.S., Europe and Asia. We also committed to a number of new investments during 2012, which have or will close early this year, including DuPont Performance Coatings, TCW and Duff & Phelps.

In terms of our performance, I would like to highlight two key drivers of value, first in our real estate sector and second in the financing markets. In the real estate sector, it is now widely accepted that the housing sector is in an active recovery. But our U.S. Real Estate Group began to pursue this thesis three years ago in two ways. First, we invested a significant amount, well in excess of $1 billion in distressed residential mortgage-backed securities at heavily discounted prices. And second, we invested or committed in excess of $900 million in multi-family rental and senior living properties. We expect that both of these early efforts will benefit our fund investors and ultimately our unitholders.

Second, in the second half of 2012 and in the early weeks of 2013, credit has been both inexpensive and abundant. Although people could argue about whether or not the enormous global liquidity is a good thing or a bad one, we would be derelict if we did not take advantage of the present situation. In last quarters call, I mentioned that the high-yield markets had become the low yield market, and that weighted-average cost of debt on our Getty Images investment was only 5.25%. Since then, we've structured other new investments with similarly favorable financing arrangements.

And in 2012, 25 companies in our portfolio tapped debt markets to reduce interest expense, extend maturities, adjust covenants, finance acquisitions or pay dividends. Furthermore, in 2013, we're in the process of tapping the capital markets for at least another 10 portfolio companies.

In terms of exit activity, in the fourth quarter alone, our activity resulted in $6.8 billion in realized proceeds from 155 investments across 39 different carry funds. These included by our U.S. real estate team, the sale of retail assets of 666, Fifth Avenue in New York, one of the most attractive retail locations in the world.

Our distressed-investing fund turned around and sold Metaldyne, a specialty manufacturer of auto components. Our Asia buyout team sold our interest in Sinochem, a Chinese tire chemical company, to a large Chinese state-owned enterprise. We sold positions in a number of publically traded companies totaling $2.7 billion, including Kinder Morgan and Hertz in the United States, Qualicorp in Brazil, HDFC in India and Kaisa Group and Nantong Rainbow Heavy Industries in China.

We realized dividends in excess of $1.7 billion from a number of companies in our portfolio, including RAC in the United Kingdom, PPD, NBTY and CommScope in the United States and Sagemcom in Europe.

We've continued to be active in realizing proceeds in the first six weeks of this year, with our final exit from China Pacific Insurance; sale of the European marketing firm, LBI International, and block sales of a portion of Neilson and Cobalt International. Clearly, today's environment is favorable for our business. It has become a more certain environment with credit markets that are robust and we have various channels to realize on our investments.

Finally, let me turn to our outlook for 2013. On fundraising, David has already discussed the improving fundraising market. On investing, we have a significant amount of dry powder, approximately $25 billion in our carry funds and $15 million in our fund-to-funds vehicles. I expect that we will invest more in 2013 than we did in 2012.

On driving value, our portfolio was in great shape with an in the ground value of more than $60 billion. And on exiting, we'll work to realize proceeds through outright sales, IPOs, dividends and sales of certain portions of our $14 billion publicly traded portfolio.

Absent unforeseen circumstances, our goal and expectation is that we will do what we have done for the last 26 years, but we will do more of it in more places and in more assets around the world. 2012 was a really good year for Carlyle, and I thank everyone of our unitholders, our fund investors and our employees.

With that, let me turn it over to Adena Friedman.

Adena T. Friedman, Chief Financial Officer, Managing Director Washington, DC

Thank you, Bill. Carlyle continued to show strength in its core business and its operating metrics. Carlyle posted a strong quarter with a $188 million in pre-tax distributable earnings or $0.49 per common unit on a post-tax basis and pre-tax economic net income of $182 million or $0.47 per common unit on a post-tax basis. For the full year, Carlyle produced distributable earnings of $688 million and economic net income of $736 million.

Before reviewing the detailed financial performance, I would like to drilldown on the relationship between realized proceeds and distributable earnings. To help explain the year-over-year differences in distributable earnings, it is important to examine the nature of the proceeds that we realized as well as the carry characteristics of the funds that generated the realized proceeds.

In 2012, 78% of the realized proceeds were from sale activities versus 88% in 2011. Throughout 2012, because of the strong performance of our portfolio and the attractive capital markets, some of our younger portfolio companies issued meaningful dividends, which improved the underlying performance of our funds but were not carry generating events. On a related point in 2012, we had more distribution activity coming from our younger funds. And therefore 58% of the proceeds in 2012 were produced by funds actively realizing performance fees versus 64% into 2011.

Overall, our 2012 realized proceeds better positioned our funds to generate and distribute significant amounts of cash carry in future periods. Specifically, after having generated $869 million in total realized performance fees in 2012 with $502 million net to the firm, our total accrued performance fees net of giveback obligations grew to $2.1 billion at the end of 2012.

Now, turning to our results for the year and starting with our year-end distribution to unit holders, Carlyle declared a quarterly distribution of $0.85 per unit, which included our base $0.16 distribution and a $0.69 true-up distribution to cover the period between our IPO and year-end.

The distribution is scheduled to be paid to our common unitholders on March 13 with a record date of March 4. Each year, our intention is to pay out a range of 75% to 85% of post-tax distributable earnings, absent any unusual cash requirements from acquisitions, debt pay down, fund investments or cash requirements to support and grow our business throughout the year.

Our general approach remains to distribute a significant majority of our cash earnings to our unitholders after taking into consideration the caveats that I just mentioned. Last year, for the eight months that we were a public company, our post-tax distributable earnings per common unit were $1.39 and we distributed $1.12 per common unit for a distribution ratio of 80%. We utilized cash and debt to fund the accretive investments in Vermillion Asset Management and NGP Energy

Capital Management, and we used our cash to fund certain operating requirements and fund investments.

Shifting to our firm level financial results, Carlyle's fourth quarter 2012 pre-tax economic net income or ENI of $182 million compares to ENI of $254 million in the fourth quarter of 2011. Looking year-over-year, Carlyle experienced 4% quarterly appreciation in its fund performance in Q4 of 2012, versus 7% in Q4 of 2011.

On a full-year basis, ENI of $736 million in 2012, compared to $833 million in 2011, owing primarily to lower fund appreciation of 14% in our carry funds in 2012 versus 16% in 2011, as well as differences in the composition of our funds experiencing appreciation. Specifically our funds not yet accruing carry experienced greater appreciation in 2012, whereas our 2011 appreciation was more concentrated in carry generating funds.

Our pre-tax fee-related earnings were $55 million in the fourth quarter of 2012, compared to $14 million in the fourth quarter of 2011. Inclusive in this quarter's results is an $18.5 million reduction in G&A associated with an insurance settlement to recover recent expenses related to ongoing litigation. On a full-year basis, our fee-related earnings were $170 million in 2012, compared to $121 million in 2011. Fee-related earnings were aided by improved revenues from the full-year effect of our acquisitions and growth in assets under management in our hedge fund partnership and CLO vehicles, as well as lower G&A and interest expenses.

Our Q4 2012 results include negligible impact from our announced NGP transaction, which closed on December 20, and we expect our 2013 result to be positively impacted by approximately $50 million of annual fee revenues starting in Q1 of this year. While this investment will be booked in the realized investment income from a GAAP perspective, we intend to reflect its impact in management fees in the real asset segment on a non-GAAP perspective.

Turning to our funds four segments. Our Corporate Private Equity segment continues to be the cornerstone of our business. This segment produced distributable earnings of $74 million in the fourth quarter and $399 million for 2012, due to strong exit activity throughout the year. For the year, distributable earnings from Corporate Private Equity accounted for 58% of firm-wide distributable earnings compared to 65% in 2011. Fourth quarter funds in this segment appreciated 5% and for the full year appreciated 16%, in line with the 16% appreciation in 2011. And throughout 2012, the segment generated $12.1 billion of realized proceeds from 21 different buyout and growth funds.

Global Market Strategies or GMS continues to play an increasingly important role in our overall platform, and now accounts for nearly one quarter of our overall distributable earnings with $86 million in distributable earnings during the fourth quarter and $168 million for the full year.

The fourth quarter results included a full quarter impact from the October 1 acquisition of a 55% interest in Vermillion Asset Management, which had $2.3 billion in AUM at the time of our acquisition, and our largest new CLO of the year was $620 million in new assets. In each year's fourth quarter, GMS realizes annual performance fees from its hedge fund partnerships, and in 2012, these fees were lower than in 2011. Turning to the GMS closed-end carry funds, the funds appreciated 5% in the quarter and were up 23% in 2012 compared to 9% in 2011.

In Real Assets in 2012, we invested heavily in the future of the segment, including repositioning our infrastructure platform with the acquisition of Cogentrix in our infrastructure fund and a significant investment in our core energy strategy with our partnership with NGP. This segment for the fourth quarter contributed $22 million of distributable earnings and for the year contributed $102 million.

During 2012, Real Assets distributable earnings were 15% of the firm wide distributable earnings, up from 10% in 2011. The real estate and legacy energy funds appreciated 1% during the fourth quarter and experienced a respective 13% and 8% appreciation for the year. Upon the December close, we began accounting for the partnership with NGP Energy Capital Management in Real Assets and its $10 billion of fee earning AUM brings total fee earning AUM for this segment to $29 billion.

In our last segment Fund of Funds Solutions, we continue to gain traction in new mandates. Distributable earnings were $6 million for the fourth quarter, and we raised $350 million of new commitments to fund the funds vehicle throughout the quarter. Further, AlpInvest mandates have accelerated in their early stages of 2013, with over $1.5 billion committed thus far in February.

Shifting to expenses, excluding performance fee-related compensation expenses, our operating expenses were $215 million, up from $205 million in the third quarter of 2012, and lower than the $223 million from the fourth quarter of 2011. Fourth quarter 2012 expenses were positively impacted by the $18.5 million insurance settlement which offsets some cyclical increases primarily due to year-end bonus decisions and higher Q4 fundraising activity.

For the year, operating expenses were $837 million, roughly in line with the $840 million we experienced in 2011. Moving to the balance sheet at quarter end, we had $570 million in cash and $886 million of debt.

Our total accrued performance fees were $2.1 billion with net accrued performance fees of approximately $1.2 billion net of compensation. And on balance sheet investments attributable to unitholders were $310 million, exclusive of our investment in NGP.

On January 15, an indirect subsidiary of The Carlyle Group issued $500 million in 10-year debt at a coupon rate of 3.875% and used the proceeds to pay down a $386 million revolver draw, which had funded the NGP investment, as well as $75 million from our outstanding term loans.

After this bond issuance, we now have $925 million in total debt outstanding and our revolver is currently undrawn. In summary, we believe the 2012 was a tremendous year of execution across our funds and segments, which manifested itself in strong financial results for the year while also position the firm for continued steady growth in the years ahead.

Now, let me pass it back to David for some closing remarks.

David M. Rubenstein, Co-Chief Executive Officer, Co-founder

Thank you, Adena. Let me very succinctly summarize what we've been trying to communicate this morning. By any standard, Carlyle had a highly successful 2012 as well as a notably successful start as a public company. But our approach has never been one of patting ourselves on the back or sitting on our laurels.

We always believe that we can improve, and we believe this general perspective of ours is especially warranted in 2013 for we believe a number of factors are likely to coalesce to our benefit and to our fund investors and unitholders' benefit this year. One, our many well performing investments already in the ground, a fair number of which should be right for some type of exit during the year. Two, a considerably high level of dry powder now available to us to make new investments in whichever parts of the globe seem most appealing.

Three, the growing appeal of alternative investments to the institutional and individual investment community. Four, our well recognized ability to raise new equity capital and to do so on attractive terms and at attractive pace. Five, the widely recognized and growing value of the Carlyle brand around the world. And six, the generally more favorable macroeconomic and investment environments likely to be present in most of the areas in which we invest or in which we exit investments. For these reasons, we are very much looking forward to 2013, and are now happy to answer your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator's Instruction] Our first question is from Howard Chen of Credit Suisse. You may begin.

<Q – Howard Chen – Credit Suisse Securities (USA) LLC (Broker)>: Hi. Good morning, everyone.

<A – David Rubenstein – The Carlyle Group>: Good morning.

<Q – Howard Chen – Credit Suisse Securities (USA) LLC (Broker)>: Bill from listening to your commentary, it sounds like we could see that balance between 57% invested in the U.S. and 43% outside the U.S. shift a bit in 2013 and we could see you put more money out internationally. Is that a fair characterization, and if so, could you give us a sense of flavor for what you are seeing in the competitive landscape for assets internationally?

<A – Bill Conway – The Carlyle Group>: Sure, Howard. I would say that I do. The U.S. is a great place to invest, there's no question about that, and I talked about in my remarks the reasons why, and the fact that in 2012, we've done more than half of our investments in the United States. And that's our – it's where we started.

I'd also say that our investment professionals are roughly evenly divided around the world between the United States and outside the United States. But I think as I look at the activity now, our funds in the United States, of course, finished 2012 very strong with the deals I mentioned that we've done, Hamilton Sundstrand, Landmark, Getty, et cetera. But I think that the deal flow is very good outside the United States right now. Maybe there's a little more uncertainty, maybe some other people have withdrawn a little bit from those markets as the problems in the last few years surfaced, but I'm hopeful that – not that the United States will shrink in anyway in terms of our activity, but the relative share outside of the United States might grow a bit.

I might also tell you that I think the United States fund has the capability, of course, to invest a little bit outside of the United States as well. Under its terms, it can put up to 20% of its money outside of the United States. It's never come close to that. But some of its big winners in the United States fund have actually been in countries outside the United States done by U.S. buyout fund.

<Q – Howard Chen – Credit Suisse Securities (USA) LLC (Broker)>: Great. Thanks, Bill. And a bit on the competitive landscape for putting money in the ground outside the U.S.? I know you source a lot of deals [ph] proprietarily (36:56).

<A – Bill Conway – The Carlyle Group>: Sure. It's – the competitive landscape is – it's obviously competitive world all over. Remember, when David was talking about fundraising, Howard, one of the big things that people have to understand is that the money has to be invested somewhere. This world is awash in liquidity, interest rates are very low. I talked to you about the 35 companies or so that had refinanced or are refinancing in our portfolio around the world.

So, people have to invest the money somewhere. And they've began to see that private equity is a pretty good place to invest, particularly with the top firms which I'd like to think we are. So it's competitive everywhere. I would say that China has become more competitive. I would say Europe and Japan are less competitive. I would say that the other parts of the world are not nearly competitive as those. So, I think the Carlyle brand helps us. I think the fact that we have a tendency to all work together; these 650 investment professionals around the world can sometimes make us a lot stronger.

In addition, remember many companies today, we may think of them as American company or European company or an Asian company, but they really are global company. It's fine to say that

Coco-Cola is an American company, but it is really? So, I think that it's competitive everywhere. I like our positioning. When we build these teams around the world, it's not some person and an assistant sitting in an office somewhere. It is usually a big deep team that's supported by the rest of the Carlyle network.

<Q – Howard Chen – Credit Suisse Securities (USA) LLC (Broker)>: Good, great. Thanks for those thoughts. And then shifting gears, David and Adena, you both noted that the 25 funds of firm hasn't carried today the solid of performance of some of the younger funds. I'm curious, how do you think about the qualitative and quantitative thought process behind when to turn on fund carry. And then hopefully, you could comment specifically on CP V, given fair value just continues to appreciate on that big fund? Thanks.

<A – Adena Friedman – The Carlyle Group>: Sure. I think we'll actually have Bill answer that question. Bill?

<A – Bill Conway – The Carlyle Group>: Sure. You know, Howard, it's – I don't know about your business, but it's probably isn't all science, it's a little bit art. [ph] The same is true with ours (39:08). When we're thinking about when we start distributing carry, we always balance a number of factors. How far along is the fund in its investment period, how high is the fund above the hurdle rate, what is our perception about the level of clawback risk. And we've built our business for 26 years kind of earning the trust of our investors and they and we really hate clawbacks. And they've been pretty miniscule over the history of Carlyle, I think our distributions have been $50 billion, $60 billion, $70 billion, and clawbacks have been miniscule compared to that.

So we take all those factors into account and let me maybe turn return to CP V as an example as I can, and although generally we don't like to give a lot of information about any of our particular funds, CP V is our biggest fund. So let me roughly lay it out for you. It's a $13 billion fund. We've invested about $11 billion of that $13 billion. We've already distributed, as David said, in the – in 2012, $2.6 billion, and in the fourth quarter alone, we distributed $1.6 billion. And the remaining fair market value of that fund is over $10 billion. So we have, obviously, an enormous profit built into that fund so far, and Adena reported that the accrued carry on, or David did on the accrued carry alone on CP V was in excess of $800 million.

So, what I would say is taking into account – and by the way, I'm able to see – we're able to see the performance of the deals that we've done. We're able to see the performance of the recent deals, some of the deals have seasoned a little more that are in the fund. And then we make a judgment, are we going to be able to distribute carry? How much should we distribute it, and every time frankly that we have an exit event that can result in a carry payment, we then re-analyze at that time how much carry should we pay.

Sometimes for example, you could – let's say the gain on a transaction was 100. Well, you could say, we're over the hurdle, there's not any risk of clawback, everything is great. We're going to distribute 20 to us and 80 to the limited partners of the gain. Obviously, limited partners are getting their money back first with a preferred return. But on the other hand, sometimes depending upon prior events, you might do more or less than the 20%, based upon all those same factors that I stated before, which is why when we talk to people on our earnings call, you don't like to kind of say things that you can't deliver on and that's why we said that we expected CP V to begin delivering carry and distributing carry this year.

<Q – Howard Chen – Credit Suisse Securities (USA) LLC (Broker)>: Understood. Thanks for those thoughts. And then finally, again for you Bill on the realization outlook, just given this market that we live in today, do you see that balance between strategic sales, bringing new companies public and other forms of exit pivoting or shifting at all?

<A – Bill Conway – The Carlyle Group>: You know I – over the last couple of years, we've had about 20 IPOs. As I look at the pipeline today, it's between 5 and 10 or something like that around the world. So, I don't know that it's any less to that. I've been stunned still that the strategic players have not become more aggressive. We're beginning to see a little bit of activity in that regard. But I say to myself, they can borrow money at zero, they can buy earning assets. No matter what their PE is, these acquisitions are going to be accretive, and yet they have not been that active.

And that's – that means for example, it's a good thing and a bad thing in a way for us. It's a good thing in that they don't compete against us with deals. We brought Hamilton Sundstrand and I'm wondering where are the strategic players and, of course, somewhere there, but not perhaps as aggressive as I thought they'd be. On the other hand, they are not – they have not been aggressive acquirers of assets that we own. Also in the current environment, a big source of distributions has been the dividends and recaps that we've done. And they've been pretty well known, I mentioned them in my remarks. And I think for a while, that's likely to continue as well.

<Q – Howard Chen – Credit Suisse Securities (USA) LLC (Broker)>: Great. Thanks for all the thoughts.

Operator: Thank you. Our next question is from Ken Worthington of JPMorgan. You may begin.

<Q – Ken Worthington – JPMorgan Securities LLC>: Hi, good morning. First maybe for David on fundraising. You mentioned in your comments the tipping point for investors, so I'd love for you to further flush out those comments. And also, you're in the market for your big buyout funds, does it seem like the tipping comment applies proportionately across the carry funds relative to your maybe fundraising targets or is there a disproportional interest again relative to the fund size in certain areas?

And then lastly, how fragile is this enthusiasm, is this something that economic or macroeconomic conditions seems better today, but if things start to deteriorate somewhat, do your investors that you're targeting, do they kind of go back into a period of inactivity or much more conservativeness relatively easily, or once they're kind of back, they're in it for the – I don't know, intermediate haul.

<A – David Rubenstein – The Carlyle Group>: On the last question first, it's always difficult to say what motivates investors and how long that motivation will continue. Typically, you see trends that can take hold and they go into effect for six months, nine months, a year or so, and they don't really change overnight depending on headlines because many people who are making these investments are making commitments for essentially 10 years, 5-year investment periods very often and 5-year exit periods. So, you have 10-year commitments. And so generally, the people who are making these commitments are not as worried about ongoing headlines or things that might change the stock market in any given week or so.

So, I don't think it's quite that fragile. I do think that as there is generally now perceived to be a shift among global investors a little bit away from fixed income and a little bit more towards equities, in part because low interest rates are giving people such low returns. I think this is a trend that is going to go on for quite some time. The alternative investment world is benefiting from it, because we are perceived as doing even better than the public equities. And therefore as people moves more into equities, they are probably moving proportionally more into alternate equities than they had been before.

So, I don't think it's that fragile. Across the board, we see a pickup, not only as I was mentioning in my remarks among institutional investors, but high net worth individual investors who really feel that they have no great alternative now, because their bank deposits are essentially yielded nothing and the public market returns or mutual funds haven't done that well. I think this trend is one that's going to go on for a while, I can't say how long it will go on for of course.

And the funds we have in the market today, our flagship fund is CP V and that is moving forward to close at our targeted level on the schedule that we normally would see something like this closing on. The average private equity funds today take 16 months or 17 months to raise, and we'll probably take about that to raise CP V, though that's on average. CP VI, I'm sorry. That's on an average of fund that is a $10 billion fund. There are very few $10 million funds that have been closed if any since the great recession really started. I should say that funds that were started since the great recession started and then over the last couple of years, some funds were started before the great recession and continued for a while. But somebody starting a fund in the last one or two or three years and raising $10 billion, it's very rare. So, I think that our ability to do that and I'm pretty comfortable that we'll be able to do that this year is a pretty good indicator for the industry, but we're seeing a lot of interest in $1 billion funds too.

Our Energy Mezzanine Fund raised $1.4 billion. Our Small Buyout Fund raised a little bit more than about $1.2 billion. So we're seeing throughout the investment world interest in these what I'll call smaller funds, $1 billion funds, where investors can get their capital deployed a little bit more frequently or quickly than in the larger funds.

Overall, I would say, this is the best time I have seen for fundraising in at least the last five years. It's not easy and it still takes a long time to get these funds done, but it's not as if it was I'd say in 2008 or 2009 when people didn't even want to have meetings with you really or they just were very polite in the meetings, but they had no interest and no ability to invest. That really has changed now.

<Q – Ken Worthington – JPMorgan Securities LLC>: Thank you. And then, Bill, I think David mentioned in his comments the carry fund returns for the year were about 14%, mentioning it was off a high base. That kind of trails the S&P this year very modestly, but trails nonetheless and the U.S. market has kind of lagged global markets. We would expect carry funds to generate equity market beating returns.

So do you think the 14% return is below maybe the targeted 20%, because the markets are conservative or the valuations are conservative? Again your targets tends to be 20% IRRs and this is just one year, but maybe what are your thoughts on the 14% returns?

<A – Bill Conway – The Carlyle Group>: Well, first of all, 14% was the change in the valuation, which is different than the return. And in fact depending upon leverage and other factors that go on, you could actually have the return be different than the valuation increase. I think though Ken that remember the 14% followed on top of 16% the year before and 34% year-over-year. I think everybody either says their valuations are conservative or their accountants tell them, you can't use the word conservative. Our valuations are accurate. They are not conservative. And I don't know what the other firms do in terms of their valuation.

In the corporate private equity world, the valuations are actually up about 16% for the year, so a little better than that 14%. And of course, it's pretty impossible to predict how much they might be up or down this year. So, I was satisfied with the performance. Obviously, I wanted to be better. I don't see what would have been different about it, perhaps. We do have a big public equity portfolio. It's current about $14 billion, and we're obviously harvesting out of that from time to time. As I mentioned in my remarks, we sold a block of the Nielsen just recently.

<A – David Rubenstein – The Carlyle Group>: [indiscernible] (50:06) if you add up those three numbers that Bill mentioned, 36%, 16% and 14% for the three years, it's about 22% or so on over the three year average, which is not a bad number. But more importantly, many of the deals we did last year, we have to carry these at cost, and so there's no real appreciation of considerable amount of dollars that you invest in that year. So, the fact that we did some large buyouts and those large equity checks really are carried at cost kind of weighs down that number a little bit. So it's a little bit of apples and oranges.

<A – Bill Conway – The Carlyle Group>: And particularly with the $3.3 billion invested in the fourth quarter alone, it turns out although David said you carry them at cost, actually under the accounting rules, many of them are carried below cost.

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

Operator: Thank you. Our next question is from Bill Katz of Citigroup. You may begin.

<Q – Bill Katz – Citigroup Global Markets Inc. (Broker)>: Okay. Thank you for taking my questions everybody. One of your competitors recently changed their distribution policy, rather than having sort of year end true up, to move to more of a quarterly payout. And so, I was sort of curious about your thoughts on your distribution payout methodology?

<A – Adena Friedman – The Carlyle Group>: I can take that. I think that we feel comfortable, Bill, with the idea of a fixed distribution for the first three quarters and a true-up distribution at year end. We obviously always reserve the right to make a change in that, but we are going into 2013 with the same policy. And I think based on the way that we manage our cash through the year and the fund investments we're making with our cash, we feel more comfortable giving out a very good fixed yield throughout the year and then looking at our year, looking back over the year and determining what our true up is going to be.

<Q – Bill Katz – Citigroup Global Markets Inc. (Broker)>: Okay. And then, can we just about the fourth quarter. I know it's looking backward, but given your prior disclosure of your performance, it's just a little bit surprising to see the sequential decline in the performance fees. And I think, Adena, you may have addressed it a little bit in your prepared remarks. But can you just talk about some of nuances here between those funds that are in carry, those that are not? And maybe is there a way to think about allocations or any one or two funds that might be shifting out to more of a carry load from a modeling prospective?

<A – Adena Friedman – The Carlyle Group>: Well, I think that it is always good to go back to some of those stats that – the most important is that we do have 25 funds in carry, which means that they are in a carry position. In 2012, we had 11 funds actively generating realized carry as we exited the year. In any given period, we could have around 10 funds to 12 funds realizing carry. It obviously depends on whether there is actually exit activities and opportunities within that fund, and also where the fund is in its life, as Bill mentioned a few minutes ago.

And as Bill mentioned also, we are in a position now with CP V which is our largest fund to be able to generate carry this year, if exit opportunities present themselves. So, that'll obviously be beneficial to the firm, because we're still harvesting out of IV. We'll be harvesting out of V, and then we'll have additional funds all the time that are – that have opportunities for exit, so it will generate carry. So, I would say Bill, it's not a science in order to be able to look at your realized proceeds and determine what distributable earnings will come off of that. But as we look at – if you look at the exits that we do announce, you can look back on the funds that they're in and determine whether that will be in fact a carry generating event. And we'll continue to try to give some information and insight into that each quarter.

<Q – Bill Katz – Citigroup Global Markets Inc. (Broker)>: Okay. That's helpful. Dave, just a quick question for you. Just coming back to your commentary on to the tapping into the retail markets and getting into the high net worth area, any particular growth initiatives you have to tap into that and which product line or sets of products do you think could see the biggest lift in the near term?

<A – David Rubenstein – The Carlyle Group>: Okay. Let me divide for you the individual or market into retail market, individual market into four categories very briefly. One is, there are enormous number of family offices these days, people who are extremely wealthy. They have $500 million of net worth or more and they are not just in the United States, but around the world. These people are now investing more regularly in private equity alternatives than before, and they are coming directly because they can do our $5 million or $10 million minimums.

A very big influx now is now coming from a so called feeder fund market where JP Morgan, Citi, Credit Suisse, Morgan Stanley, Goldman Sachs and others are raising for us or others these so called feeder funds where people can probably put in maybe $1 million of a minimum towards the fund and they're rounded up, and that is probably the biggest percentage influx we're seeing, these feeder funds among the individual investors. That is a large growth business for us and I would suspect for our peers as well.

A third part is something called the mass affluent market and that is where people are being rounded off a bit by firms that are not quite the brand name of Goldman Sachs or Morgan Stanley or Credit Suisse or JPMorgan or Citi, more regional firms. And these are people that can put in $50,000 to a $100,000, maybe $200,000 per offering and they're rounded up as well and they obviously accrete to us less money, but it's still a significant factor.

And we're also seeing more money coming in directly from people who want to buy, individual investors that want to buy products that are more liquid. And we are working on some products that have more liquidity, so they could invest directly in a fund, any investor could invest, any individual investor could invest directly in a Carlyle fund and trade in and out of it perhaps more. It's difficult to describe it yet, but we're working on that.

We see that this is likely be a trend that'll continue for some time as just individual investors feel they don't have a lot of alternatives. Right now, they're not happy with mutual funds relative to what they were happy with before and they don't see anything coming from interest rates in their bank deposits. So we think this is something that we're putting more and more attention on. We don't have anything to announce now, but we are deploying more and more of our fundraising team and adding to our resources to deal with individual investors. And like in my own case, I'm spending as much time now making presentations to feeder fund groups as I am to institutional investors, and I think I made about 12 of them this past week.

On the carry point, I just wanted to add to the carry point that was discussed earlier. And I just – as everybody knows, everything – not everything, but this business is more and more transparent among the public companies. And we all do things many ways the same in the sense of the way we're regulated and we're disclosing information and so forth. But there is no common standard in the industry for when do you collect carry. Each firm does its own way own way. Everybody is going to say they do it conservatively. Nobody is going to say we have a very liberal carry policy, I'd be surprised if they did that.

So, if we say we are very conservative, I guess you might roll your eyes a bit. But the truth is as Bill indicated before, we have this obsession with not having clawbacks and we've had very little of it and so that's why our policy there we think is "conservative" and it's very difficult to judge how we take carry compared to the other firms, because they don't really have a stated policy any more than we have "stated policy" that is easily understood. It's a bit, as Adena said, an art more than a science. Anyway, I just wanted to clarify that our carry situation is one where we are following our own standard and there is no industry standard about when you take carry.

<Q – Bill Katz – Citigroup Global Markets Inc. (Broker)>: Okay. Well, thank you for taking my questions.

Operator: Thank you. Our next question is from Michael Carrier of Bank of America Merrill Lynch. You may begin.

<Q – Michael Carrier – Merrill Lynch, Pierce, Fenner & Smith, Inc.>: Okay. Thanks a lot. Adena, you mentioned just on the fee related earnings, there were a couple of moving parts. You said – you mentioned the legal benefit and then some elevated fourth quarter comp maybe on the bonus side and then on fund raising. Just when we look at the net impact, your margin was around 20%. If we look at those two issues and when we think about the run rate going forward, do those – and I understand things will be volatile, but do those somewhat balance each other out, and so when we start to looking into 2013, you can kind of reset those items?

<A – Adena Friedman – The Carlyle Group>: Yeah, I think that is probably about right, Mike. I mean we have ongoing litigation. We continue to have the ability to seek some insurance coverage for that. So, it's hard to know exactly how that will play, but yeah, I would agree that that generally speaking, those two things, the payout of bonuses, the fundraising tends to be a little bit more concentrated in the fourth quarter, and then you have the insurance settlement and they seem to kind of balance each other out.

I think that we're – if you look throughout 2011, after we went – sorry, 2012, after we went public, you're going to see a relatively stable run rate. And I think that you can assume that we're kind of operating in a run rate environment right now. And as I mentioned, the NGP investment will be accretive to us this year in terms of our fee-related earnings by about $50 million for the year. So absent that, I think you can probably look at a relatively stable run rate.

<Q – Michael Carrier – Merrill Lynch, Pierce, Fenner & Smith, Inc.>: Okay, thanks. And then just on the Real Assets segment, if we look over time, the performance has been favorable and positive. The fourth quarter, it seems like the return in that area was a bit weaker. And then the investment income, and that statement was negative. You guys mentioned some write downs. Just wanted to get some color on what happened in the quarter, and then just anything on the outlook

<A – Adena Friedman – The Carlyle Group>: Well, I think that within the Real Assets segment, the energy funds had about 9% appreciation for the year, which was a little bit lower than their average. They got off to a great start earlier in the year, and then they kind of – they basically had relatively flat performance. But they were distributing throughout the year. They were realizing investments and exiting. So their unrealized performance fees were becoming realized. And therefore, they were – basically, if you don't have a dramatic increase in performance at the same time that you're realizing, then your unrealized performance fees will go negative as they convert to realized.

So that really is what that trend is in the Real Assets segment for the last three quarters of the year, which is the energy funds and the real estate funds realizing investments against performance that was a little bit lower than they've had in prior years. I think that with the unrealized investment income, that's just an unrealized investment income associated with a particular investment that's on our balance sheet that we did write down, but I think that that's a one-time thing

<Q – Michael Carrier – Merrill Lynch, Pierce, Fenner & Smith, Inc.>: Okay. And then last one, just on the M&A front. So you guys have been pretty active with NGP and then Vermilion. Just when you look at the outlook across segments and the strategies that you have, where investors are looking for opportunities, do you see like the same level of activity going forward or do you feel like some of that has been built out and will be a bit more selective going forward just on the M&A front?

<A – Adena Friedman – The Carlyle Group>: David, do you want to take that?

<A – David Rubenstein – The Carlyle Group>: In terms of the energy specifically or the whole...

<Q – Michael Carrier – Merrill Lynch, Pierce, Fenner & Smith, Inc.>: No, I just...

<A – Adena Friedman – The Carlyle Group>: No, I think across the board.

<Q – Michael Carrier – Merrill Lynch, Pierce, Fenner & Smith, Inc.>: Yeah, broader.

<A – David Rubenstein – The Carlyle Group>: Well, we feel that our platform is – we have a broader global buyout platform than anybody else that I'm aware of, because we operate more buyout funds around the world than anybody else. We are in virtually every part of the world in which we want to be, but there is some parts of world that we're not and we have assessed whether we should go there or go back there, we haven't made in any final decisions.

I think what we are looking at in terms of building out and might consider is taking areas where we already are with, let's say, buyout funds or corporate private equity funds and taking advantage of the brand name we have developed in those countries and building different types of platforms there. So in other words, in the United States, we have real estate platform, a buyout platform, a growth capital platform, a hedge fund platform in certain hedge fund areas. We don't have those in, let's say, Asia or Latin America in all respects.

And so we could well do things where we build – take advantage of our brand name in a region and build more of a total alternative investment platform there as opposed to just having one or two funds, and that's an area of – that we've looked at. We are trying to be somewhat opportunistic, but the difficulty of being opportunistic in this business is that you can can't – to put together a fund overnight and recruit people and get – raise the fund, it takes a while. So you have to look at things one or two years down the road. We do have a number of things in the works now, as we do every year. Every year, we try to either come up with or develop a new fund or have a possible acquisition in certain areas where we think we could do the investments well.

But beyond that, I won't say we feel we're completely built out. And I would also say that we've number of things we're anxious to try to see whether we can build more teams in, but I'm not sure if I have answered your question.

<Q – Michael Carrier – Merrill Lynch, Pierce, Fenner & Smith, Inc.>: Yeah, that's helpful. Thanks.

Operator: Thank you. Our next question is from Matt Kelley of Morgan Stanley. You may begin.

<Q – Matt Kelley – Morgan Stanley & Co. LLC>: Good morning, guys. Thanks for taking my question. So just wanted to touch upon what you – you already discussed some of the exit methods that have been more prevalent recently. Just wanted to follow-up on that and ask from your perspective, what brings the strategic corporate buyer more into the market to buy your assets, especially in private equity now versus what we've seen so far.

<A – Bill Conway – The Carlyle Group>: I will take that one, David and Adena, if I can. I think that some of it maybe beginning to happen. You're beginning to see some of the bigger buyouts that have been announced lately, but maybe some buyers are beginning to say well, these things – these deals make sense. But interestingly Dell and Heinz, the two biggest ones really were to some extent almost more like a private equity buyer rather than a strategic buyer.

I think what happens is that a lot of strategic buyers, they may be still reeling from the 2008, 2009 situation. And we were all looking down abyss then and maybe they're afraid to take on debt to make these strategic investments. I expect that it will increase this year. The passage of time between now and 2008 and 2009 is part of it. I think people have become pretty convinced that the central banks are for a while going to keep the world awash in liquidity and not going to let bad things happen to the world.

I think also the two big engines, the U.S. and China are both likely to have I think pretty good years in 2013. So, that may bring them back. But as I said, it's a little bit of a mix blessing, because to some extent I like them staying quite on the sidelines and letting us accumulate the types of portfolios that maybe you can't accumulate when they're flush and spending it freely.

<Q – Matt Kelley – Morgan Stanley & Co. LLC>: That's helpful. And I guess this one is more for David. In terms of – you've talked a lot about in the past about increasing allocations from institutions, mainly defined benefit plans or that's one of the primary areas to alternatives. And you talked earlier in the call about retail high net worth. What's the bigger opportunity? When you guys think about it, is it providing more product to retail, liquids and potentially illiquids longer term and retail and high net worth or is it the increasing allocations from institutions?

<A – David Rubenstein – The Carlyle Group>: Well, all right. Large institutions in the United States, those are principally public pension funds. That's where most of the money for private equity has come from in terms of U.S. over the last 20, 30 years. Because they've had a denominator problem over the last couple of years, it's been hard for them to, I would say, really deploy even up to their allocation, many of them have been over their allocation.

As I indicated earlier in my remarks, those denominator problems are going away as the public markets have come back a bit. And so, we're beginning to see more the large public pension funds going up to their allocation limits, some are increasing their allocations to private equity because the rates of return have been pretty good.

I'd say that the bulk of – more money will come from public pension funds in the United States in the next couple of years for firms like us then from individual investors, but the individual investor velocity will be much greater. In other words, public pension funds are coming back, but their percentage increase is not going to be as high as the percentage increase we're going to be seeing from individual investors. And I do believe in time, the individual investors will be able to come into private equity in different ways then they are today.

And one thing I have mentioned publicly is that I do believe at some point, non-accredited investors, people today who are not allowed to get into private equity vehicles under our rules and regulations in this country will be allowed for some percentage of their money to come in. And so it will be the case at some point that somebody has a 401(k) program, but he is not or she is not an accredited investor will be able to put in my view some money into the private equity fund. That has not yet happened, but I think we're moving in that direction. When that happens, the trillions of dollars in 401(k) will or some percentage of it probably will go into alternatives in ways that we can't completely envision today, but that's a two or three or four year kind of phenomenon I believe.

<Q – Matt Kelley – Morgan Stanley & Co. LLC>: Okay. And then just one last one from me and then I'll jump back in. You talked about M&A a little bit too, so as you think about – you've been very active on that front, as you think about moving forward on platform build out, built versus buy, is it fair to assume that there is going to be more organic growth, less M&A, based on what you've already brought and what you have the brand name to build going forward?

<A – David Rubenstein – The Carlyle Group>: Well, I would say, we – obviously it's always less expensive in many ways to build something, because you're hiring people, you have to deploy capital; you are not getting earnings back on that for a while. And we have built Carlyle largely from recruiting people or growing people internally and then building a fund around it, but it takes four or five years before you realize the benefits of that. In something like NGP, we will be seeing cash earnings from that relatively quickly after the acquisition.

So, I don't think we have a mindset that we will do building versus buying or buying versus building. I suspect it will be a mix, and we just felt in the energy for example, we really wanted to kind of replace what we had with Riverstone and that's why we were very intent on building out this energy platform that we described. There are other areas that we are looking at, but we don't have anything set in motion now that we should buy a certain percentage of our new assets or should build a certain percentage. We don't have anything as formulaic as that or any kind of set policy. Bill, do you have any different view or Adena want to comment.

<A – Bill Conway – The Carlyle Group>: No, I think, David, you're right. Oftentimes, you're trading off cost versus time. And I think on energy, we wanted to move quickly with the investment in NGP and the other things that we said. I would expect that, for example, one area that we haven't touched on very much where we have been active in acquisitions and partnerships has been the GMS area or Global Market Strategies business. And there, we – early on we bought a number of CLOs. They were very nice accretive businesses. You didn't really have a lot of people, you knew the assets, underlying assets very well.

Then, we did the partnerships with Vermillion, Claren Road and ESG. And I think in the hedge fund world, what we've so far done is try to look for hedge funds that are pretty unique hedge funds as opposed to building out Fund Of Funds business, we said, what are particular assets classes that investors might find intriguing like a commodities hedge fund or a long short credit hedge fund or emerging markets hedge fund. And I wouldn't be surprised to see us continually look for acquisitions in that way.

And I think David is also right that you could see various geographic expansions. For example, there hasn't been successfully, I don't think so far, a CLO done in Europe in the last five years, whereas the United States market for CLOs last year, we did four of them. And I think we've about got one done already this year. We're looking at CLOs, perhaps, in Europe. And maybe over time, we'll be looking outside of Europe and the United States as well for CLO. So I think there'll be some geographic expansion of the platform. And a lot of that we'll probably do de novo as opposed to acquisitions

<A – David Rubenstein – The Carlyle Group>: And on the acquisitions front, as all of you who are on the phone know, large financial institutions that you probably work for, you've made acquisitions, and from time to time, they haven't been wonderful, let's say, in some cases. So when you make financial service industry acquisitions, you really have to be careful and know what you're doing.

Fortunately, all the ones we have done so far have worked out, and we're very happy with them and we thought we paid a price that was fair at the time, but we're very happy with the price we paid. So we are pretty cautious to make sure these things work, and you can't do an infinite number of them in any given year, because it's so difficult to find the right mix and so forth, and we also want to make sure that our culture becomes the culture that's the dominant culture overall with the acquisition. We don't really want to have our own culture kind of disrupted by an acquisition.

<Q – Matt Kelley – Morgan Stanley & Co. LLC>: Thanks guys.

Operator: Thank you. Our next questions is from Patrick Davitt of Autonomous Research. You may begin.

<Q – Patrick Davitt – Autonomous Research US LP>: Good morning, guys. You guys are uniquely positioned with the dedicated fund in Japan, and there's been a lot of conversation around that market finally opening up to foreign investment again. Curious to what extent you're seeing opportunities for capital deployment ramping up there, and to what extent that opportunity may merit another follow-on fund or could a broader Asia fund take care of that? Thanks.

<A – Bill Conway – The Carlyle Group>: David, let me take that one if I can start, and you can maybe talk about the fund side. But the investment side, Japan, I think, has been a great market for us. We have about 25 investment professionals there. They're all Japanese. They've been with us probably a decade or so. Their first fund had really great performance. I would say that one of the great situations is because for so long it did not have that much activity that that frankly it's one of those markets that it's a $5 trillion economy that hasn't been as competitive as other markets, and I hope my comments don't cause any of our other competitors to jump in, but I think that has been a plus.

One of the things that we did was in the last couple of years, we actually found some pretty interesting opportunities by buying companies in the public market in Japan where they were trading at very, very low multiples. Maybe they never should have been public or maybe they were just underappreciated for some reason. And in a private setting, we've been able to have them become good cash generators. We can take them back public, and of course, with the yen having moved 20% in 3 months, so it's gone from about ¥80 to about ¥95 or so, and it has caused the equity markets in Japan to ramp up quite a bit. The Japanese strategics have been generally unwilling to break themselves up, where they may have had various businesses and pieces of businesses, may have been unwilling to sell those.

I think for 5 years, I've been hearing that the Japanese market is going to become more open and more active and more open to private equity. I think the fact we've been there a long time and the fact that, generally, our funds are – half of the money comes from Japan has been – made us more Japanese in some ways, which has, perhaps, given us some bit of a head start there.

<A – David Rubenstein – The Carlyle Group>: All right. And let me just add a couple of points. When we went to Asia, we thought that Japan and the rest of Asia were really separate places, and we didn't feel comfortable having a combined Asia fund that had Japan in it, because we just thought you couldn't have, let's say, Chinese professionals doing deals in Japan or Japanese professionals doing deals in China as readily as we would like. And so, therefore, we've built the separate teams and we're very comfortable with that, and so we will do another Japan fund at some point and we will not merge it with our Asia fund. Our fourth Asia fund is in the market now, and it's doing quite well in terms of fundraising. It does not include Japan. It could co-invest in Japan, but it doesn't include Japan.

We're the only global private equity firm, I believe, that has a dedicated Japan buyout fund, and we think that has given us some distinction in Japan. And I think many people would say that we're one of the leading, if not the leading private equity or buyout firms in Japan. We like that market-leading position.

As Bill said, we've been hearing for a long time that the Japanese companies will finally begin to sell things when things don't work out. That has been a slow-moving process, because it's been traditionally considered a loss of face to sell to a financial buyer, and it really admitted a mistake. We think that is changing a bit, and our Japanese team is talking more about it changing. We've talked preliminarily to Japanese investors about a new fund, and we feel that there's a lot of interest in it. I don't know what the size will be, but probably about sometime this year, we would probably be looking at something new in Japan.

<Q – Patrick Davitt – Autonomous Research US LP>: Okay. Thanks. And on Bill's Europe commentary, I'm curious if you think there is some bias within your own portfolio either by country or industry that would show more improvement than maybe what the broader region is experiencing?

<A – Bill Conway – The Carlyle Group>: You know, I think – first of all, most people would say, gee whiz, if I'm going to Europe, I want to be in Germany and the Nordics. They're the strongest economies in Europe, and therefore, that's where we want to invest. And I understand that rationale, but I would say that – and maybe it is a function of my bias that we have five offices in Europe. So we're in London, Paris, Munich, Milan and Barcelona. And that gives us a view of the totality of Europe.

And what I would say is that the investment environment and the economic environment are different. That you can have a situation where, yes, the German economy is the strongest economy in Europe, yes, the Nordics are a great place to invest, great economies anyway, but that doesn't mean the investment opportunities are the same. I think sometimes out in the periphery, you have less competition. For example, at the end of 2011, we bought a cable TV business in Spain. I'd say we had – we were able to get good financing. The seller really needed the capital at the end of the year. We thought it was a pretty stable business with a good management team, very limited competition to acquire it.

So the long-winded answer would be that the investment environment can be different than the economic environment. And sometimes when there's uncertainty and trouble, you can move to the periphery and make some pretty good deals.

<A – David Rubenstein – The Carlyle Group>: And if could just add on Europe, many American firms have gone to Europe to do buyouts. Some of them have retreated a bit. Now the dominant investment players in Europe really have been the European indigenous firms. However, there are a few of us that still have dedicated European funds with dedicated European teams that are doing reasonably well, and we can – we will intend to continue. Our European of fund is in the market now, and I think it's being well received.

We think that Europe is a pretty attractive place, as Bill would say, to invest in many ways because prices have been beaten down. They're well below what they are in the United States in relative terms. So the fact that we see fewer American firms there with dedicated funds or fewer American groups there competing with us makes us feel a little bit better than maybe we did a few years ago.

<Q – Patrick Davitt – Autonomous Research US LP>: Okay. And I was – that's helpful. I was actually more referring to the money you have in ground already and the commentary around economic recovery?

<A – David Rubenstein – The Carlyle Group>: You mean the point that our fund has done better relative to how you think other funds or other companies doing.

<Q – Patrick Davitt – Autonomous Research US LP>: Right, exactly.

<A – David Rubenstein – The Carlyle Group>: Bill, you want to address that?

<A – Bill Conway – The Carlyle Group>: Yeah. Let me talk about that. Our European buyout fund, we have three big, three buyout funds, CP I which was fully invested and harvested actually. CP II which has – it was about – let's see, it's I think about $2.7 billion fund and it's a great fund. It's been in carry. And the third fund actually was one of the very strong appreciating funds in 2012. The fund appreciated pretty well during that period of time. I hope it will continue to do so. So the in ground has been – has had a good appreciation, in fact, the fund moved from being worth below par to being now worth well above par.

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

Operator: Thank you. Our next question is from Roger Freeman of Barclays. You may begin.

<Q – Roger Freeman – Barclays Capital, Inc.>: Hi, Good morning. Bill, you had – just on a high level, you said you had hoped that you'd invest more this year, and I was wondering if I could drill down on a couple of dynamics there. One, are you on a run rate on quantity or size of deals you're looking at to do that? And maybe what's the trend been sort of on what you've been sort of prospecting, 2012 versus 2011? And then two, companies have been talking about a lack of willing sellers, and I'm wondering how big of a factor that is. And were there deals last year you wanted to do, but there wasn't a receptive target, and if that changed, could that move the needle significantly?

<A – Bill Conway – The Carlyle Group>: Thank you. I would say that there are always are unwilling sellers, some of them are unwilling at any price and some of them just need a different number in order to become willing sellers. I think the big rally in the equity markets may create additional competition for us in the United States, because people may say I can now take my business to the public market as opposed to selling it privately and that will be a factor. Of course, on the other hand, we've got a big public portfolio and we're selling into that rally as well.

I would say one of the reasons I feel pretty confident that 2013 will be stronger than 2012 is the strong start we did get off to this year and a lot of that really was a function of 2012, but closed in 2013. I think we've already closed about $2 billion worth in Corporate Private Equity alone in the first couple of months of the year. DuPont closed, TCW. So, I feel that we're off to a good start. Right now actually the pipelines outside the United States feel a little stronger than the pipeline in, but that varies month-to-month frankly.

<Q – Roger Freeman – Barclays Capital, Inc.>: Okay. If strategics did more – get more aggressive, particularly with chief financing and bid valuations higher, does that make it tougher for you to achieve those objectives?

<A – Bill Conway – The Carlyle Group>: Yes, I mean, yes, but I say that not because I think it's going to be that much tougher, but just because of the relative obviousness of it. As I said before, I was – I've been surprised that they have not been more aggressive, particularly in an economy where there's been relatively low growth, let's say, in the U.S. economy, 1% or 2%, how are people going to get earnings growth? Well, the real way they – one of the ways they should be trying to do it is make acquisitions.

And frankly, look at Carlyle, the business, in Carlyle business, we grow organically. Yes, we have new funds, we do this, we do that, but we also grow by making acquisitions and investments. And I see, frankly, less companies that have done what we did. If they begin to do it, I think by definition, there will be more competition in the market.

<Q – Roger Freeman – Barclays Capital, Inc.>: Yeah. Okay. Then, I guess, on – with fundraising being more challenging than it's been in the past and recognizing your comments, David, it's easier than over the past few years, do you think the need for seeding, perhaps, even before going to market with a new strategy is increasing? And if so, do you think you can continue to source enough from partners to do that or is there eventually a need for a larger firm and capital base?

<A – David Rubenstein – The Carlyle Group>: I'm not sure I understood the question, is it...

<Q – Roger Freeman – Barclays Capital, Inc.>: Do you – we've heard from others that there is sort of competition for fundraising and...

<A – David Rubenstein – The Carlyle Group>: Right.

<Q – Roger Freeman – Barclays Capital, Inc.>: ...and particularly going with the new strategies, that investors want to see more money being put into deals by the GP or wherever that – however that's sourced, and potentially ahead of time already prefunding a fund and then going to market with it?

<A – David Rubenstein – The Carlyle Group>: Okay. There's – there are – let's put it this way, some people who don't have a track record of doing as much as we have done over the years of kind of building these new funds and then raising them as we're putting the team together have found it, I think, harder to get new areas off the ground. They don't have as much of a track record of getting new funds started and there has been a problem for some of them, I understand, doing that. And therefore, in some cases, they have used their balance sheet or other sources to get – to show they can do a deal in area A. And they'll do one, two, or three deals, use those three deals as evidence of their ability and go raise a fund.

In our case, because our investor base is pretty used to our doing this now, it's not that uncommon for us to come out with a new fund where we haven't done deals before. For example, in Peru, we just raised, I think, $308 million for Peru fund, and honestly, we haven't done a deal in Peru. But our investor base recognized that this is our model that we've done for many, many years, and so it hasn't been as big a problem for us. There's no doubt, though, when you're raising a new fund, if you do one or two deals while you're raising that fund, it can help if the deals are good, get the fund done. But I don't suspect that we will do too much of what you allude to, because I don't think we've found that to be as big a problem.

<A – Bill Conway – The Carlyle Group>: David, let me add to that if I can. I think there are kinds of two types of seeding here in my view of it. One is seeding the fund by the fundraising side, where are you going to get the money to make these investments and this investment strategy? And there, I would encourage you to look both at what Carlyle has done over the last years, but also what's happened in the market. And maybe 20 years ago, a general partner put up 0.1% of the capital, and that was all they had to do under the law to have it pre-qualified as a partnership and various other things.

Then over time, people wanted to see the general partners really investing in the business and the general partners were putting maybe 1% or 2% of the capital. I would say on the investing side, it's pretty typical today that Carlyle through our balance sheet and our partners puts in 5% to 10% of the capital of these funds being raised. So it's a different kind of seeding. It isn't so much – it's really a sign of our support for the deal. And frankly, sometimes, we don't have better places to invest than our own funds, and I would say that's general – generally the case.

The second kind of seeding is, frankly, the first deal that goes into a fund that's in the process of being raised. David may add to this, but it's been our general experience that people will like to see, [ph] well, what was that (1:28:35) first or second deal in the fund going to look like. It's fine to have read the offering circular about what certain kind of deals a fund is going to do and in size and management team and the opportunities and investing environment in place or area x. But it's really different when they can say, oh, that's the kind of deal you're going to do. I now understand. And therefore, sometimes, these two activities can kind of be self-reinforcing, where the investment seeding, that is the deals you do, reinforces the investors coming more into the fund.

<A – David Rubenstein – The Carlyle Group>: And in that regard, when we have done – when we are raising a fund and let's say it's new and the fund capital hasn't been raised adequately yet, we might off our balance sheet or through internal co-investment in effect bridge the equity needed to for the first deal in the fund that will be placed in that fund, but the fund hasn't yet closed. So, in that sense, we have "seeded it" because we've enabled the fund to do their first deal even though the funds hadn't really been raised yet.

<Q – Roger Freeman – Barclays Capital, Inc.>: Okay. That's really helpful color. Just lastly, David, you made a bunch – a number of interesting comments on the retail front. I was just wondering as you think about the buckets you're targeting maybe over the next five years, not even factoring in some of the changes that could may make with non-accredited investors, and what percentage of capital raising do you think those retail buckets could be? And then do you think that you'd have to enhance sort of the distribution platform over time, perhaps, even partner with a traditional manager with retail ties to kind of get at the total target audience?

<A – David Rubenstein – The Carlyle Group>: Private equity firms historically didn't have the internal fundraising teams. We were, of course, the first that really built a significant in-house team and other firms like ours have it now. But none of us who are in this space have the resources really and the inclination to build a large retail distribution network, of having 50, 100, 200 people who are really working on that market.

So in effect, all of us are more or less, I'll say, renting that by working out feeder fund arrangements with the kind of people that I discussed earlier, and I'm sorry if I didn't mention everybody's name. We [ph] have deal with everybody else in the field as well (1:30:54). I didn't mention Barclays. I didn't mention Bank of America. We do it with all the large organizations.

We are probably, and I think other firms will probably do the same thing. In effect, we will probably add more people to our firm who relate to those people, but we won't build an internal distribution network of hundreds of people. We might enhance it by a reasonable amount, and we are working on ways to do that, but we don't want to try to replicate the enormous amount of retail-related people or private wealth management people that a Goldman Sachs or JPMorgan or the equivalent have. And I think, probably, for the foreseeable future, we will, in effect, rent a lot of what we are doing within the retail market

<Q – Roger Freeman – Barclays Capital, Inc.>: Okay. Thanks.

Operator: Thank you. I'm showing no further questions at this time. I would like to turn the conference back over to Daniel Harris for closing remarks.

Dan F. Harris, Managing Director, The Carlyle Group LP (Corporate Private Equity)

Thanks for joining us today. We hope we were able to answer the questions you had. However, I'm around all day, if you have any remaining questions. Thank you for your time and interest in Carlyle, and we look forward to talking to you next quarter.

Operator: Ladies and gentlemen, this concludes today's conference. Thank you for your participation, and have a wonderful day.